

# **DIRECTORATE OF EDUCATION**

**GNCT of Delhi, Delhi Government**

## **SUPPORT MATERIAL (2021-2022)**

**Class : XII**

# **ECONOMICS**

Under the Guidance of

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### **MESSAGE**

I would like to congratulate the members of Core Academic Unit and the subject experts of the Directorate of Education, who inspite of dire situation due to Corona Pandemic, have provided their valuable contributions and support in preparing the Support Material for classes IX to XII.

The Support Material of different subjects, like previous years, have been reviewed/ updated in accordance with the latest changes made by CBSE so that the students of classes IX to XII can update and equip themselves with these changes. I feel that the consistent use of the Support Material will definitely help the students and teachers to enrich their potential and capabilities.

Department of Education has taken initiative to impart education to all its students through online mode, despite the emergency of Corona Pandemic which has led the world to an unprecedented health crises. This initiative has not only helped the students to overcome their stress and anxiety but also assisted them to continue their education in absence of formal education. The support material will ensure an uninterrupted learning while supplementing the Online Classes.

**(H. Rajesh Prasad)**

**UDIT PRAKASH RAI, IAS**  
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**MESSAGE**

The main objective of the Directorate of Education is to provide quality education to all its students. Focusing on this objective, the Directorate is continuously in the endeavor to make available the best education material, for enriching and elevating the educational standard of its students. The expert faculty of various subjects undertook this responsibility and after deep discussions and persistent efforts, came up with Support Material to serve the purpose.

Every year the Support Material is revised/ updated to incorporate the latest changes made by CBSE in the syllabus of classes IX to XII. The contents of each lesson/chapter are explained in such a way that the students can easily comprehend the concept and get their doubts solved.

I am sure, that the continuous and conscientious use of this Support Material will lead to enhancement in the educational standard of the students, which would definitely be reflected in their performance.

I would also like to commend the entire team members for their contributions in the preparation of this incomparable material.

I wish all the students a bright future.

(UDIT PRAKASH RAI)  


**Dr. RITA SHARMA**  
Additional Director of Education  
(School/Exam)



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Directorate of Education  
Old Secretariat, Delhi-110054  
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D.O. No. PA/Addl-DE/s-4/31

Dated: 29.06.2021

### **MESSAGE**

It gives me immense pleasure to present the revised edition of the Support Material. This material is the outcome of the tireless efforts of the subject experts, who have prepared it following profound study and extensive deliberations. It has been prepared keeping in mind the diverse educational level of the students and is in accordance with the most recent changes made by the Central Board of Secondary Education.

Each lesson/chapter, in the support material, has been explained in such a manner that students will not only be able to comprehend it on their own but also be able to find solution to their problems. At the end of each lesson / chapter, ample practice exercises have been given. The proper and consistent use of the support material will enable the students to attempt these exercises effectively and confidently. I am sure that students will take full advantage of this support material.

Before concluding my words, I would like to appreciate all the team members for their valuable contributions in preparing this unmatched material and also wish all the students a bright future.

  
(Rita Sharma)



# **DIRECTORATE OF EDUCATION**

**GNCT of Delhi, Delhi Government**

## **SUPPORT MATERIAL**

**(2021-2022)**

# **ECONOMICS**

**Class : XII**

**NOT FOR SALE**

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**PUBLISHED BY : DELHI BUREAU OF TEXTBOOKS**



**भारत का संविधान**  
**भाग 4क**  
**नागरिकों के मूल कर्तव्य**

**अनुच्छेद 51क**

**मूल कर्तव्य** – भारत के प्रत्येक नागरिक का यह कर्तव्य होगा कि वह –

1. संविधान का पालन करे और उसके आदर्शों, संस्थाओं, राष्ट्र ध्वज और राष्ट्रगान का आदर करें।
2. स्वतंत्रता के लिए हमारे राष्ट्रीय आंदोलन को प्रेरित करने वाले उच्च आदर्शों को हृदय में संजोए रखे और उनका पालन करे।
3. भारत की प्रभुता, एकता और अखंडता की रक्षा करे और उसे अक्षुण्ण रखे।
4. देश की रक्षा करे।
5. भारत के सभी लोगों में समरसता और समान भ्रातृत्व की भावना का निर्माण करे।
6. हमारी सामाजिक संस्कृति की गौरवशाली परंपरा का महत्त्व समझे और उसका निर्माण करे।
7. प्राकृतिक पर्यावरण की रक्षा और उसका संवर्धन करे।
8. वैज्ञानिक दृष्टिकोण और ज्ञानार्जन की भावना का विकास करे।
9. सार्वजनिक संपत्ति को सुरक्षित रखे।
10. व्यक्तिगत एवं सामूहिक गतिविधियों के सभी क्षेत्रों में उत्कर्ष की ओर बढ़ने का सतत प्रयास करे।
11. माता-पिता या संरक्षक द्वारा 6 से 14 वर्ष के बच्चों हेतु प्राथमिक शिक्षा प्रदान करना (86वां संशोधन)।



# CONSTITUTION OF INDIA

Part IV A (Article 51 A)

## Fundamental Duties

**Fundamental Duties :** It shall be the duty of every citizen of India —

1. to abide by the Constitution and respect its ideals and institutions, the National Flag and the National Anthem;
2. to cherish and follow the noble ideals which inspired our national struggle for freedom;
3. to uphold and protect the sovereignty, unity and integrity of India;
4. to defend the country and render national service when called upon to do so;
5. to promote harmony and the spirit of common brotherhood amongst all the people of India transcending religious, linguistic and regional or sectional diversities; to renounce practices derogatory to the dignity of women;
6. to value and preserve the rich heritage of our composite culture;
7. to protect and improve the natural environment including forests, lakes, rivers and wild life, and to have compassion for living creatures.
8. to develop the scientific temper, humanism and the spirit of inquiry and reform;
9. to safeguard public property and to adjure violence;
10. to strive towards excellence in all spheres of individual and collective activity so that the nation constantly rises to higher levels of endeavour and achievement.
11. who is a parent or guardian to provide opportunities for education to his child or, as the case may be, ward between the age of six and fourteen years.

## भारत का संविधान

### उद्देशिका

हम, भारत के लोग, भारत को एक (सम्पूर्ण प्रभुत्व—सम्पन्न समाजवादी पंथनिरपेक्ष लोकतंत्रात्मक गणराज्य) बनाने के लिए, तथा उसके समस्त नागरिकों को :

सामाजिक, आर्थिक और राजनैतिक न्याय,

विचार, अभिव्यक्ति, विश्वास, धर्म

और उपासना की स्वतंत्रता,

प्रतिष्ठा और अवसर की समता

प्राप्त करने के लिए,

तथा उन सब में,

व्यक्ति की गरिमा और (राष्ट्र की एकता

और अखंडता) सुनिश्चित करने वाली बंधुता

बढ़ाने के लिए

हम दृढ़संकल्प होकर इस संविधान को आत्मार्पित करते हैं ।

# THE CONSTITUTION OF INDIA

## PREAMBLE

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a **(SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC)** and to secure to all its citizens :

**JUSTICE**, social, economic and political,

**LIBERTY** of thought, expression, belief, faith and worship,

**EQUALITY** of status and of opportunity; and to promote among them all

**FRATERNITY** assuring the dignity of the individual and the **(unity an integrity of the Nation)**;

WE DO HEREBY GIVE TO OURSELVES THIS CONSTITUTION.

# **LIST OF MEMBERS WHO PREPARED SUPPORT MATERIAL FOR ECONOMICS**

## **Class XII**

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**Class XII**  
**Economics (code No. 030)**  
**Reduced Syllabus (2021 - 22)**

**Rationale**

Economics is one of the social sciences, which has great influence on every human being. As economic life and the economy go through changes, the need to ground education in children's own experience

becomes essential. While doing so, it is imperative to provide them opportunities to acquire analytical skills to observe and understand the economic realities.

At senior secondary stage, the learners are in a position to understand abstract ideas, exercise the power of thinking and to develop their own perception. It is at this stage, the learners are exposed to the rigour of the discipline of economics in a systematic way.

The economics courses are introduced in such a way that in the initial stage, the learners are introduced to the economic realities that the nation is facing today along with some basic statistical tools to understand these broader economic realities. In the later stage, the learners are introduced to economics as a theory of abstraction.

The economics courses also contain many projects and activities. These will provide opportunities for the learners to explore various economic issues both from their day-to-day life and also from issues, which are broader and invisible in nature. The academic skills that they learn in these courses would help to develop the projects and activities. The syllabus is also expected to provide opportunities to use information and communication technologies to facilitate their learning process.

**Objectives:**

- Understanding of some basic economic concepts and development of economic reasoning which the learners can apply in their day-to-day life as citizens, workers and consumers.
- Realisation of learners' role in nation building and sensitivity to the economic issues that the nation is facing today.
- Equipment with basic tools of economics and statistics to analyse economic issues. This is pertinent for even those who may not pursue this course beyond senior secondary stage.
- Development of understanding that there can be more than one view on any economic issue and necessary skills to argue logically with reasoning.

**ECONOMICS (code No. 030)**

**(2021-22)**

**CLASS XII - TERM -WISE CURRICULUM**

**TERM 1 - MCQ BASED QUESTION PAPER**

<b>TERM 1 - MCD BASED QUESTION PAPER</b>			
Theory : 40 Marks	Time : 90 Minutes	<b>Marks</b>	<b>Periods</b>
<b>Part A: Introductory Macroeconomics</b>			
• Money and Banking		6	8
• Government Budget and the Economy		6	15
• Balance of Payments		6	7
Sub Total		18	30
<b>Part B: Indian Economic Development</b>			
• Development Experience (1947-90) and Economic Reforms since 1991: <ul style="list-style-type: none"><li>• Indian Economy on the eve of Independence</li><li>• Indian Economy (1950-90)</li><li>• Liberalisation, Privatisation and Globalisation : An Appraisal</li></ul>		12	28
• Current challenges facing Indian Economy <ul style="list-style-type: none"><li>• Poverty</li><li>• Human Capital Formation</li><li>• Rural development</li></ul>		10	17
Sub Total		22	45
Total		40	75

### **Project Work (Part 1): 10 Marks**

Students would prepare only ONE project in the entire academic session, which is divided into 2 terms ie. Term I and Term II.

## **TERM I**

### **Part A: Introductory Macroeconomics**

#### **Unit 2: Money and Banking**

**8 Periods**

Money - meaning and supply of money - Currency held by the public and not demand deposits held by commercial banks.

Money creation by the commercial banking system.

Central bank and its functions (example of the Reserve Bank of India): Bank of issue, Govt. Bank, Banker's Bank, Control of Credit

#### **Unit 4: Government Budget and the Economy**

**15 Periods**

Government budget - meaning, objectives and components.

Classification of receipts - revenue receipts and capital receipts; classification of expenditure-revenue expenditure and capital expenditure.

Measures of government deficit - revenue deficit, fiscal deficit, primary deficit their meaning.

#### **Unit 5: Balance of Payments**

**7 Periods**

Balance of payments account - meaning and components.

Foreign exchange rate - meaning of fixed and flexible rates and managed Floating

### **Part B: Indian Economic Development**

#### **Unit 6: Development Experience (1947-90) and Economic Reforms since 1991**

**28 Periods**

A brief introduction of the state of Indian economy on the eve of independence. Indian economic system and common goals of Five Year Plans.

Main features, problems and policies of agriculture (institutional aspects and new agricultural strategy). industry (IPR 1956: SSI - role & importance) and foreign trade.

#### **Economic Reforms since 1991:**



Features and appraisals of liberalisation, globalisation and privatisation (LPG policy);  
Concepts of demonetization and GST

**Unit 7: Current challenges facing Indian Economy**

**17 Periods**

**Poverty**- absolute and relative; Main programmes for poverty alleviation: A critical assessment;

**Human Capital Formation**- How people become resource: Role of human capital in economic development;

**Rural development: Key issues** - credit and marketing - role of cooperatives; agricultural diversification:

<b>TERM - II SUBJECTIVE QUESTION PAPER</b>		
<b>Theory: 40 Marks</b>	<b>Time: 2 Hours</b>	
	<b>Marks</b>	<b>Periods</b>
<b>Part A: Introductory Macroeconomics</b>		
• National Income and Related Aggregates	10	23
• Determination of income and Employment	12	22
Sub Total	22	45
<b>Part B: Indian Economic Development</b>		
• Current challenges facing Indian Economy <ul style="list-style-type: none"> <li>• Employment</li> <li>• Infrastructure</li> <li>• Sustainable Economic Development</li> </ul>	12	18
• Development Experience of India - A Comparison with Neighbours <ul style="list-style-type: none"> <li>• Compare Development Experience of India and its Neighbours</li> </ul>	06	12
Sub Total	18	30
Total	40	75
<b>Project Work: 10 Marks</b>		

## **Term - II**

### **Part A: Introductory Macroeconomics**

#### **Unit 1: National Income and Related Aggregates**

**23 Periods**

What is Macroeconomics?

Basic concepts in macroeconomics, consumption goods, capital goods, final goods, intermediate goods. Flows: gross investment and depreciation.

Circular flow of income (two sector model); methods of calculating National income - value added or Product method, Expenditure method, Income method

#### **Aggregates related to National Income:**

Gross National Product (GNP), Net National Product (NNP), Gross Domestic Product (GDP) and Net Domestic product (NDP)- at market price, at factor cost, Real and Nominal GDP.

#### **Unit 3: Determination of Income and Employment**

**22 Periods**

Aggregate demand and its components.

Propensity to consume and propensity to save (average and marginal). Short run equilibrium output: Investment multiplier and its mechanism. Meaning of full employment and involuntary unemployment.

Problems of excess demand and deficient demand, measures to correct them - changes in government spending, taxes and money supply through Bank Rate, CRR, SLR, Repo Rate and Reverse Repo Rate Open Market Operations, Margin requirement.

### **Part B: Indian Economic Development**

#### **Unit 7: Current challenges facing Indian Economy**

**18 Periods**

**Employment:** Growth and changes in work force participation rate in formal and informal sectors; problems and policies

**Infrastructure:** Meaning and Types: Case Studies: Health: Problems and Policies- A critical assessment;

**Sustainable Economic Development:** Meaning, Effects of Economic Development on Resources and Environment, including global warming

#### **Unit 8: Development Experience of India:**

**12 Periods**

A comparison with neighbours

India and Pakistan

India and China

Issues: economic growth, population, sectoral development and other Human Development Indicators

### **Part C: Project in Economics**

**15 Periods**

Prescribed Books:

1. Indian Economic Development, NCERT
2. Macroeconomics, NCERT
3. Supplementary Reading Material in Economics, CBSE

### **Guidelines for Project Work: 20 Marks**

**(Economics (030))**

Only ONE Project is to be done throughout the session.

#### **1. The objectives of the project work:**

Objectives of project work are to enable learners to

- Probe deeper into personal enquiry, initiate action and reflect on knowledge and skills, views etc. acquired during the course of class XI-XII
- analyse and evaluate real world scenarios using theoretical constructs and arguments
- demonstrate the application of critical and creative thinking skills and abilities to produce an independent and extended piece of work.
- follow up aspects in which learners have interest
- develop the communication skills to argue logically

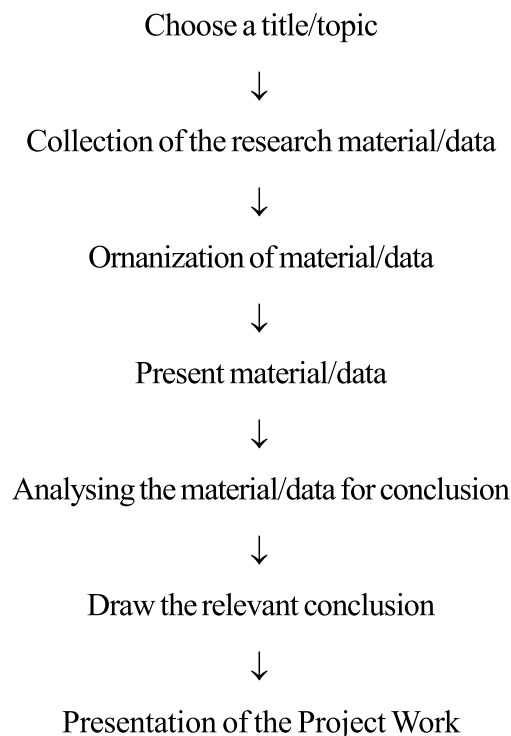
#### **2. Role of the teacher**

The teacher plays a critical role in developing thinking skills of the learners. A teacher should:

- help each learner select the topic after detailed discussions and deliberations of the topic
- play the role of facilitator to support and monitor the project work of the learner through the period
- Guide the research work in terms of sources for the relevant data,
- ensure that students must understand the relevance and usage of primary evidence and other sources in the projects and duly acknowledge the same;
- ensure that the research and give appropriate references used in doing the research work.
- educate learn plagiarism and the importance of quoting the source of the information to ensure of research work
- prepare the learner for the presentation of the project work.
- arrange a presentation of the project file.

### 3. **Steps involve in the conclusion of the project:**

**Students work upon the following lines as a suggested flow chart:**



The project work can be in the form of telling/debate/panel discussion, Power Point Presentation/Exhibition/Skit/albums/files/song and dance or culture show/story telling/debate/panel discussion, paper presentation and so on. Any of these activities can be performed as per the choice of the student.

**4. Expected Checklist for the Project Work:**

- Introduction of topic/title
- Identifying the causes, events, consequences and/ or remedies
- Various stakeholders and effect on each of them
- Advantages and disadvantages of situations or issues identified
- Short-term and long-term implications of strategies suggested in the course of research
- Validity, reliability, appropriateness and relevance of data used for research work and for presentation in the project file
- Presentation and writing that is succinct and coherent in project file.
- Citation of the materials referred to in the file in footnotes, resources section, bibliography etc.

**5. Term-Wise Assessment of Project Work:**

- Project Work has broadly the following phases: Synopsis/ Initiation, Data Collection, Data Analysis and Interpretation, Conclusion.
- The aspects of the project work to be covered by students can be assessed during the two terms.
- 20 marks assigned for Project Work can be divided in to two terms in the following manner:

**TERM-I PROJECT WORK (Part 1): 10 Marks**

The teacher will assess the progress of the project work in the term in the following manner.

Month	Periodic Work	Assessment Rubrics	Marks
1-3	Instructions about Project	Introduction, Statement of	5

July- September	Guidelines, Background reading Discussions on Theme and Selection of the Final Topic, Initiation/ Synopsis	purpose/ need and objective of the study, Hypothesis/ Research Question, Review of Literature, Presentation of Evidence, Key words, Methodology, Questionnaire, Data Collection	
4-5 October- November	Planning and organisation: forming an action plan, feasibility or baseline study, Updating/ modifying the action plan, Data Collection	Significance and relevance of the topic, challenges encountered while conducting the research.	5
October- November	Mid-term Assessment by internal examiner		10

**TERM- II - PROJECT WORK (Part 2): 10 Marks**

The teacher will assess the progress of the project work in the term II in the following manner:			
Month	Periodic Work	Assessment Rubrics	Marks
6-7 December- January	Contentdata analysis and interpretation.  Conclusimn, Limitations, Suggestions, Bibliography, Annexures and overall Presentation of the project.	Content analysis and its relevance in the current scenario.  Conclusion, Limitations, Bibliography, Annexures and Overall Presentation.	5

8 January/ February	Final Assessment and VIVA by both internal and external Examiners.	External/ Internal Viva based on the project.	5
		TOTAL	10

## 6. **Viva-Voce**

- At the end of the term each learner will present the research work in the Project File to the External and intern examiner.
- The questions be aske from the Research work/ Project File of the learner.
- The Internal Examiner should ensure that the study submitted by the learner is his/ her own original work.
- In case of any authenticity should be checked and verified.

## **Expected Checklist**

- Introduction topic/ title
- Identifying consequences and / or remedies.
- Various stall and effect on each of them
- Advantages of situations or issues identified
- Short-term sterniplications of economic strategies suggested in the course of re-search
- Validity riting that is succinct and coherent in project file
- Citation of referred to, in the file in foottnotes, resources section, bibliography

## **Mode of present/ submission of the Project:**

At the end of the terms, each learner will present the research work in the project file to the external examiner. The questions should be asked from the Research Work/ Project file of the Internal Examiner should ensure that the study submitted by the learner is his/ her work, in case of any doubt, authenticity should be checked and verified.

**Suggestive List of Projects:**

<b>Class XII</b>	
• Micro and Small Scale Industries	• Food Supply Channel in India
• Contemporary Employment situation in India	• Disinvestment policy of the government
• Goods and Services Tax Act and its Impact on GDP	• Health Expenditure (of any state)
• Human Development Index	• Inclusive Growth Strategy
• Self-help group	• Trends in Credit availability in India
• Monetary policy committee and its functions	• Role of RBI in Control of Credit
• Government Budget & its Components	• Trends in budgetary condition of India
• Exchange Rate determination - Methods and Techniques	• Currency War - reasons and repercussions
• Livestock - Backbone of Rural India	• Alternate fuel - types and importance
• Sarwa Siksha Abhiyan - Cost Ratio Benefits	• Golden Quadrilateral Cost ratio benefit
• Minimum Support Prices	• Relation between Stock Price Index and Economic Health of Nation
• Waste Management in India - Need of the hour	• Minimum Wage Rate - approach and Application
• Digital India-Step towards the future	• Rain Water Harvesting - a solution to water crises
• Vertical Farming - an alternate way	• Silk Route - Revival of the past



• Make in India - The way ahead	• Bumper Production- Boon or Bane for the farmer
• Rise of Concrete jungle-Trend Analysis	• Organic Farming - Back to the Nature
• Any other newspaper article and its evaluation on basis of economic principles	• Any other topic

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## Unit -I (CHAPTER - 1)

# NATIONAL INCOME AND RELATED AGGREGATES

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### Points to Remember

- **Consumption Goods:** Those final goods which are used by the consumers to satisfy human wants directly. All goods and services purchased by consumers are consumer goods.
- **Capital Goods:** Those final goods which are used for investment by the producers in production of goods and services. These goods are of durable nature and they increase capital assets of producer.
- **Final Goods:** Those goods which are purchased either for final consumption by consumers (consumers goods) or for investment by producers (capital goods). These are not for resale or for further processing.
- **Intermediate Goods:** Those goods and services which are purchased for as raw material for further production or for resale in the same year. These goods do not fulfill needs of mankind directly. Services used by the producers are intermediate goods, e.g. Service of Lawyers, Mechanics, Chartered Accountants, Raw Material etc.
- **Investment:** Value of addition made to the physical stock of capital during a period of time (financial year) is called investment. It is also called capital formation.
- **Depreciation:** Means fall in value of fixed capital goods due to normal wear and tear, expected obsolescence and efflux of time. It is also known as consumption of fixed capital. Depreciation can be calculated by dividing the value of fixed capital by its expected life in years.
- **Gross Investment:** Total addition made to physical stock of capital during a period of time. It included depreciation. It is also known as Gross capital formation.
- **Net Investment:** Net addition made to the real stock of capital during a period of time. It excludes depreciation. Net Investment

= Gross investment - Depreciation.

- **Stock :** Variables No correction to be made here whose magnitude is measured at a particular point of time are called stock variables, e.g., Wealth, assets, money, Inventory etc. A stock variable is nothing but an accumulated sum of flows.
- **Flow :** Variables whose magnitude is measured over a period of time are called flow variable. Eg. National income, change in stock etc.
- **Circular flow of income :** It refers to continuous flow of goods and services and money income between firms and households in two sector economy. It is circular in nature. It has neither any end nor any beginning point. Real flow shows the flow of produced goods and services and factor services between firms and households. Money flow shows the flow of consumption/ investment expenditure and factor payments between firms and households.
- **Leakage :** It is the amount of money which is withdrawn from circular flow of income. e.g. Taxes, Savings and Imports.
- **Injection:** It is the amount of money which is added to the circular flow of income. e.g., Govt. Exp. Investment and Exports
- **Economic Territory :** Economic (or domestic) Territory is the geographical territory administrated by a Government within which persons, goods and capital circulate freely.

**Scope of Economic Territory :**

- (a) Political frontiers including territorial waters and airspace.
  - (b) Embassies, consulates, military bases etc. located abroad.
  - (c) Ships and aircraft operated by the residents between two or more countries.
  - (d) Fishing vessels, oil and natural gas rigs operated by residents in the international waters.
- **Normal Resident of a Country :** is a person or an institution who normally resides in a country and whose centre of economic interest lies in that country.
  - **Factor Income :** Income earned by the factors of production (Labour, Land, Capital and Entrepreneurship) for rendering factor services in the production process, e.g., Rent, Interest, wages and profit.

- **Transfer payments:** refers to income received without rendering any productive service in return. They are one sided payments made without getting anything in return e.g., old age pension, taxes, scholarships etc.
- **Capital gain :** An increase in the value of capital assets or financial assets over the time that gives it a higher worth than the purchase price. The gain is not realized until the asset is sold.
- **Compensation of employees :** Payment to labour factor (employees and workers) in cash or kind for providing factor services during the production of goods and services. It includes salary, wages, bonus, pension, contribution by employer in social security schemes etc.
- **Operating Surplus :** During the operation of production money left after the payment of compensation of Employees is called operating surplus. It is the sum of Rent, Interest and Profit.
- **Subsidies :** A subsidy is an amount of money given directly to firms by the government to encourage production and consumption. It reduce the market price.
- **Value of Output:** Market value of all goods and services produced by an enterprise during an accounting year. Value Output = Sales + Change in Stock.
- **Value added :** It is the difference between value of output of a firm and value of intermediate goods bought from the other firms during a particular period of time. Value added = value of output- intermediate consumption.

#### DOMESTIC AGGREGATES

- **Domestic Income ( $NDP_{FC}$ ):** It is the factor income accruing to owners of factors of production for supplying factor services within domestic territory during an accounting year.  
 $NDP_{FC} = GDP_{MP} - \text{Depreciation} - \text{NIT}.$
- **Gross Domestic Product at Market Price ( $GDP_{MP}$ ):** is the market value of all the final goods and services produced by all producing units located in the domestic territory of a Country during an accounting year.
- **Net Domestic Product at Market Price ( $NDP_{MP}$ ) :**  $NDP_{MP} = GDP_{MP} -$

Depreciation (Consumption of fixed capital)

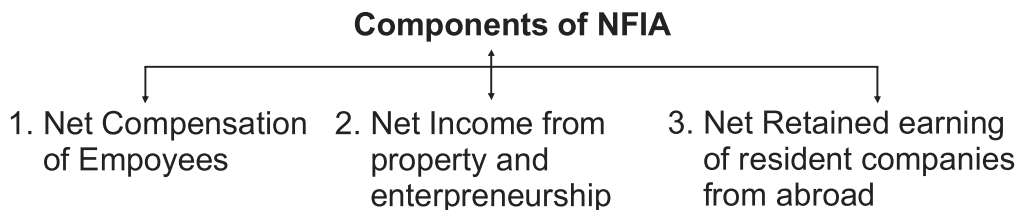
### **NATIONAL AGGREGATES**

- **Gross National Product at Market Price ( $GNP_{MP}$ )** is the market value of all the final goods and services produced by normal residents (in the domestic territory and abroad) of a country during an accounting year.  $GDP_{MP} + NFIA = GNP_{MP}$
- **National Income ( $NNP_{FC}$ )** : It is the sum total of all factors incomes earned by normal residents of a country in the form of wages, Rent, Interest and profit during an accounting year in domestic economic territory as well as abroad.

$$NNP_{FC} = NDP_{FC} + NFIA = \text{National Income.}$$

#### **Some Important Relations**

- Gross = Net + Depreciation (consumption of fixed capital)
- National = Domestic + NFIFA (Net factor income from abroad)
- Market Price = Factor Cost + NIT (Net Indirect Tax)
- Net Indirect Tax (NIT) = Indirect Tax - Subsidies
- Net Factor Income from Abroad (NFIFA) = It is difference between factor income received/earned by normal residents of a country and factor income paid to nonresidents of the country.



#### **Methods of estimation of National Income**

##### **1. Value Added Method (Product Method) :**

Gross Value Added at Market Price ( $GVA_{MP}$ )

= Sales + change in stock - Intermediate Consumption.

$$= \text{GDP}_{\text{mp}} = \Sigma \text{GVA}_{\text{mp}} \text{ of all sectors}$$

OR

= Value of output - Intermediate consumption

$$\text{NVA}_{\text{fc}} = \text{GDP}_{\text{MP}} - \text{Depreciation} - \text{NIT}$$

■  $\text{National Income} = \text{NNP}_{\text{FC}} = \text{GDP}_{\text{mp}} - \text{Depreciation} + \text{NFIFA} - \text{NIT}$

**Steps to be followed :**

1. Write Sales value (Add sales of all sectors if given sector wise)
2. Add : Change in stock (Closing stock - opening stock if given separately).
3. Subtract: Intermediate consumption (Capital goods are not intermediate good).

You have reached  $\text{GDP}_{\text{mp}}$

$$\text{National Income (NNP}_{\text{FC}}) = \text{GDP}_{\text{MP}} - \text{Depreciation} + \text{NFIA} - \text{NIT}$$

## 2. **Income Method (Factor Income distribution method):**

Domestic Income ( $\text{NDP}_{\text{FC}}$ ) = Compensation of Employees + Operating Surplus + Mixed Income

$$\text{National Income (NNP}_{\text{FC}}) = \text{NDP}_{\text{FC}} + \text{NFIA}$$

**Steps to be followed :**

1. Write compensation of Employees (if not given add salary, wages, bonus, contribution by employer in social security schemes).
2. Add : Operating Surplus (If not Given add interest, Rent & Royalty and Profit).
3. Add : Mixed Income of self employed. You have reached  $\text{NDP}_{\text{FC}}$

$$\text{National Income (NNP}_{\text{FC}}) = \text{NDP}_{\text{FC}} + \text{NFI}_{\text{FA}}$$

## 3. **Expenditure Method :**

$$\text{GDP}_{\text{MP}} = C + G + I + (X-M)$$

**Steps to be followed :**

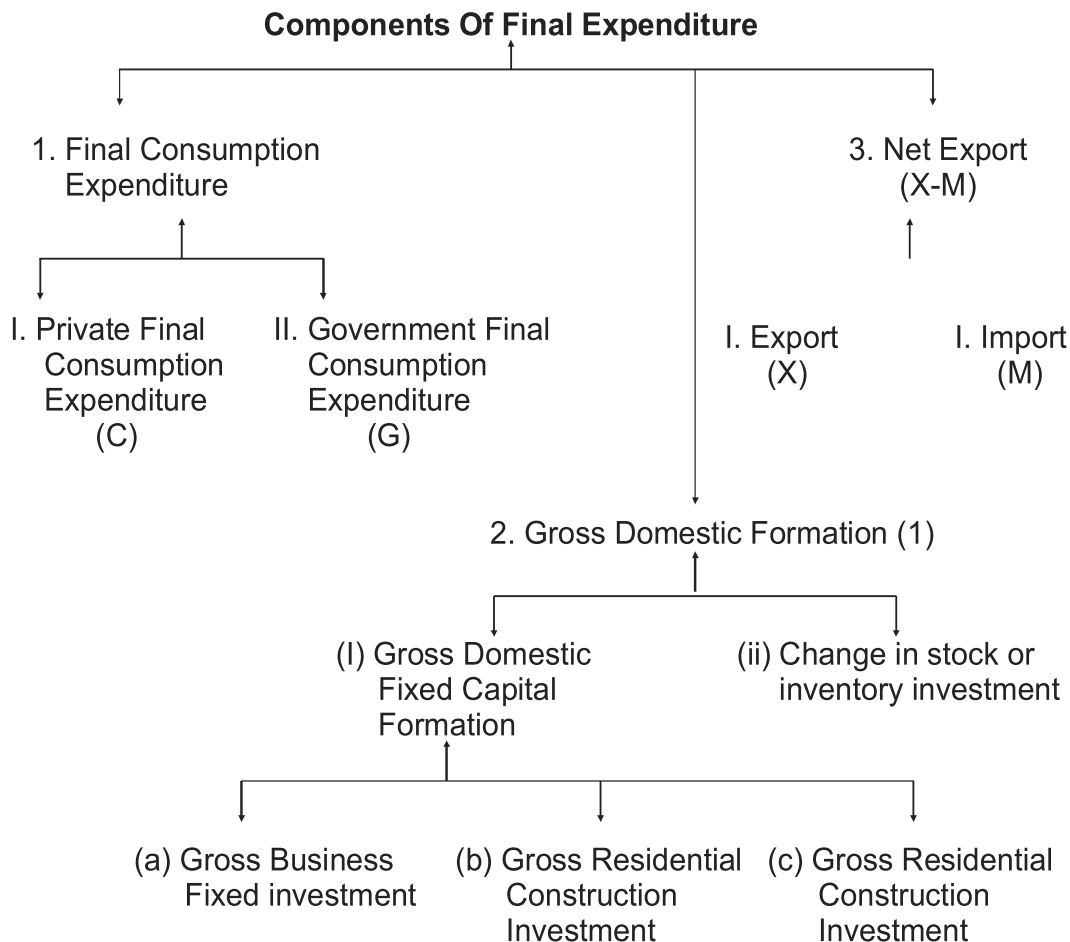


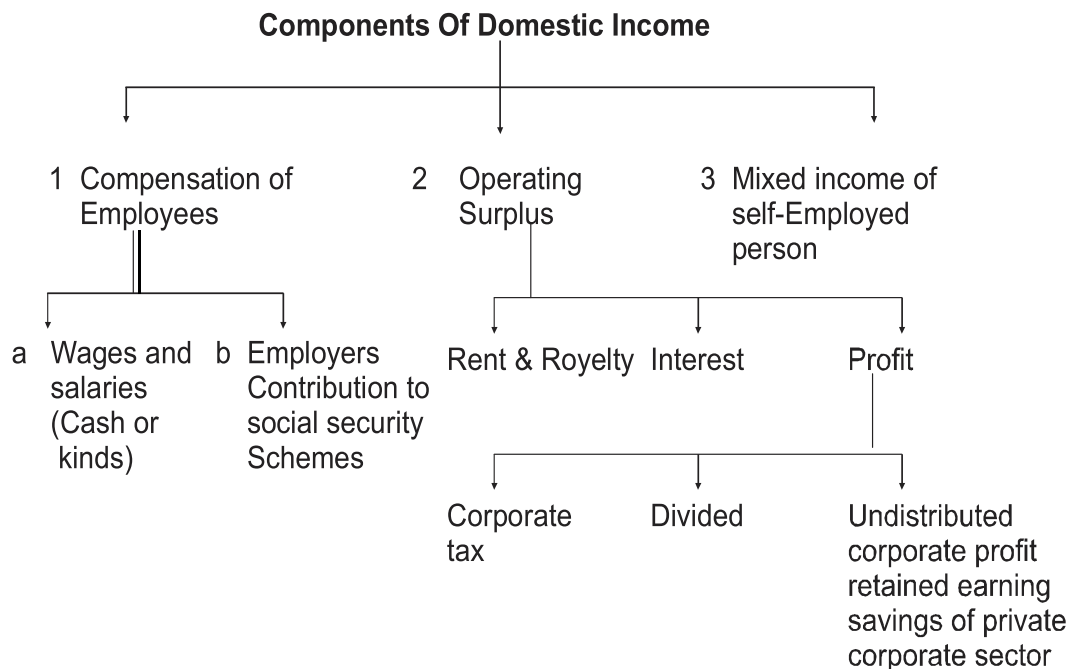
1. Write Private Final Consumption Expenditure
2. Add : Government Final Consumption Expenditure
3. Add : Gross Domestic Capital Formation
4. Add : Net Exports (Export - Imports)

You have reached at  $GDP_{MP}$

$$\text{National Income (NNP}_{FC}) = GDP_{MP} - \text{Depreciation} + \text{NFIA} - \text{NIT}$$

- **Problem of Double Counting :** Counting the value of a commodity more than once while estimating national income is called double counting. It leads to overestimation of national income. So, it is called problem of double counting.





- **GDP and Welfare :** In general Real GDP and welfare are directly related with each other. A higher GDP implies that more production of goods and services. It means more availability of goods and services. But more goods and services may not necessarily indicate that the people were better off during the year. In other words, a higher GDP may not necessarily mean higher welfare of the people.
- **Real GDP :** When the goods and services are produced by all producing units in the domestic territory of a country during an accounting year and valued at base year's prices or constant price, is called real GDP or GDP at constant prices. It changes only by change in physical output not by change in price level. It is called a true indicator of economic development.
- **Nominal GDP :** When the goods and services are produced by all producing units in the domestic territory of a country during an accounting year and valued at current year's prices or current prices, is called Nominal GDP or GDP at current prices. It is influenced by change in both physical output and price level. It is not considered a true indicator of economic development.
- **Conversion of Nominal GDP into Real GDP**

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

Price index plays the role of deflator deflating current price estimates into constant price estimates. In this way it may be called GDP deflator.

- **Welfare:** Mean material well being of the people. It depends on many economic factors like national income, consumption level quantity of goods etc and non- economic factor like environmental pollution, law and order etc. The welfare which depends on economic factor is called economic welfare and the welfare which depends on non- economic factor is called non- economic welfare. The sum total of economic and non- economic welfare is called social welfare. The limitations in taking GDP as welfare measure are as follows.

1. **Externalities:** Externalities refer to benefits or harms of an activity caused by a firm or an individual, for which they are not paid or penalized. For example, environmental pollution caused by industrial plants is a negative externality and building a flyover is a positive externality
2. **Composition of GDP:** GDP does not exhibit the structure of the product. If the increase in GDP is mainly due to increased production of war equipment's and ammunitions, then such an increase cannot improve welfare in economy.
3. **Distribution of GDP :** When GDP is unevenly distributed, increase in GDP does not increase welfare. It increases Income of rich people only.
4. **Non-monetary exchanges :** Many activities in an economy are not evaluated in monetary terms, they are not included in GDP, due to non availability of data. However, such activities influence the economic welfare of people of the economy.

Finally. It can be concluded that GDP may not be taken as a satisfactory measure of economic welfare due to above mentioned limitations, yet it does reflect some index of economic welfare.

<b>PRECAUTIONS IN MAKING ESTIMATES OF NATIONAL INCOME</b>
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1. **Value added (Production) method :**

- (a) Avoid double counting
- (b) Do not include sale of second hand goods.
- (c) Self-consumed output must be included.

**2. Income Method**

- (a) Avoid transfer income
- (b) Avoid capital gain
- (c) Include income from self-consumed output
- (d) Include free Services provided by the owners of the production units.

**3. Final expenditure Method**

- (a) Avoid intermediate expenditure
- (b) Do not include expenditure on second hand good and financial assets
- (c) Include expenditure on self use of own produced final products.
- (d) Avoid transfer expenditure

**National Income and related aggregates**

**Very short answer questions (1 Mark)**

1. Identify which of the following is an intermediate goods? (Choose the correct alternative)
  - (a) Car purchased by a taxi driver for taxi use
  - (b) payment to an electrician by a school
  - (c) Computers purchased by an IT services firm
  - (d) Gas stove purchased by a restaurant
2. An annual allowance for wear and tear of capital goods is called..... (Fill up the blank with correct alternative)
  - (a) capital allowance
  - (b) maintenance reserve

- (c) devaluation  
(d) depreciation
3. National Income is the sum of factor income accruing to: (Choose the correct alternative)  
(a) Nationals  
(b) Economic territory  
(c) Residents  
(d) Both residents and non-residents
4. A resident' of a country is one (Choose the correct alternative)  
(a) who was born in that country  
(b) who lives in that country  
(c) who is the citizen of that country  
(d) who lives, earn, spend and accumulates in that country
5. Identify the correct pair from the following column I and II:  
(Choose the correct ternative)
- | Column I              | Column II                        |
|-----------------------|----------------------------------|
| A. Consumption goods  | i. Recreation Services           |
| B. Capital goods      | ii. Fan purchased by household   |
| C. Final goods        | iii. Wood purchased by carpenter |
| D. Intermediate goods | iv. Machine purchased by a firm  |

**Alternatives:**

- (a) A-i (b) B-ii (c) C-iii (d) D-iv
6. Which of these is not a flow?  
(a) Income (b) Saving  
(c) Consumption (d) Assets

7. Which of the following is not a Capital goods?
- (a) Car Taxi (b) Desks in School  
(c) Car purchased by household (d) Gas stove in a restaurant
8. Which of the following is an intermediate goods?
- (a) Services provided by a lawyer to a firm  
(b) Television purchased by Household  
(c) Machinery purchased by a firm  
(d) Computers in school
9. Which of the following is not depreciation?
- (a) Normal wear and tear.  
(b) Decrease in the price of machinery.  
(c) Expected obsolescence.  
(d) Consumption of fixed capital.
10. Which of the following is an example of leakage?
- (a) Savings (b) Investments  
(c) Government Expenditure (d) Exports
11. Which of the following is not included in Domestic Economic territory of India?
- (a) Territorial waters  
(b) Branches of foreign banks situated in india.  
(c) Indian Embassies located abroad.  
(d) Foreign Embassies located at new Delhi.
12. Which of the following is a transfer payment.
- (a) Salary  
(b) Scholarship  
(c) Bonus
-

- (d) Contribution by employers in social security schemes
13. Which of these is not a part of Operating surplus ?
- (a) Bonus (b) Rent
- (c) Interest (d) Dividend
14. Which of the following is not correct about income method?
- (a) Transfer income is included in income method.
- (b) Income from self- consumed output is included.
- (c) Capital gain is avoided in income method.
- (d) Compensation of Employees included
15. Which of the following is not an example of Externalities
- (a) Increase in the pollution due to increase in industrial plants
- (b) Depreciation in domestic currency due to higher imports
- (c) Saving of petrol due to Construction of Flyover at crossing.
- (d) Depletion of ground water level due to excessive mining in the area.
16. Indian embassy situated abroad is a part of our..... territory (Choose the correct alternative)
- (a) geographical (b) economic
- (c) political (d) national
17. 'When goods and services produced in a year are valued at current year's prices. it is called ? (Choose the correct alternative)
- (a) Real GDP (b) Domestic income
- (c) Nominal GDP (d) Definated GDP
18. Identify which of the following is true? (Choose the correct alternative)
- (a)  $GNP_{mp} > GDP_{mp}$  when  $NFIA < 0$  ( $NFIA$  = Net factor income from abroad)
- (b)  $GNP_{mp} > GDP_{mp}$  when  $NFIA = 0$

- (c)  $GNP_{mp} > GDP_{mp}$  when  $FIFA < FITA$
- (d)  $GNP_{mp} > GDP_{mp}$  when  $NFIFA > 0$
- 19: Identify which of the following is not a transfer payment? (Choose the correct alternative)
- (a) Indirect taxes (b) Subsidy
- (c) Scholarship (d) None of the above
20. Identify which of the following is not a component of NFIA- (Choose the correct alternative)
- (a) compensation of employees from abroad
- (b) income from property and entrepreneurship from abroad
- (c) expenditure of goods and services purchased from abroad
- (d) retained earnings of resident companies from abroad.
21. Identify, which one of the following is not a component of Gross Domestic fixed Capital formation? (Choose the correct alternative)
- (a) Gross Public Investment
- (b) Inventory investment
- (c) Gross business fixed investment
- (d) Gross residential construction investment
22. **Read the following statements - Assertion (A) and Reason (R). Choose one of the correct alternatives given below:**
- Assertion (A): Expenditure on imports has to be subtract while calculating GDP through expenditure method
- Reason (R): Value of goods and services produces imported from abroad has been added in the GDP of the country of origin.
- Alternatives:**
- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)



- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
- (c) Assertion (A) is true but Reason (R) is false.
- (d) Assertion (A) is false but Reason (R) is true

**Answr of 1 mark questions**

- |         |         |         |         |         |
|---------|---------|---------|---------|---------|
| 1. (b)  | 2. (d)  | 3. (c)  | 4. (d)  | 5. (a)  |
| 6. (d)  | 7. (c)  | 8. (a)  | 9. (b)  | 10. (a) |
| 11. (d) | 12. (b) | 13. (a) | 14. (a) | 15. (b) |
| 16. (b) | 17. (c) | 18. (d) | 19. (d) | 20. (c) |
| 21. (b) | 22. (a) |         |         |         |

<p align="center"><b>SHORT ANSWER TYPE QUESTION</b></p> <p align="center"><b>(3-4 MARKS)</b></p>
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**1. Calculate gross value added of factor cost:**

(i) Units of output sold (units)	1000
(ii) Price per unit of output (Rs.)	30
(iii) Depreciation (Rs.)	1000
(iv) Intermediate cost (Rs.)	12000
(v) Closing Stock (Rs.)	3000
(vi) Opening Stock (Rs.)	2000
(vii) Excise duty (Rs.)	2500
(viii) Sales Tax (Rs.)	3500

Ans.  $GVA_{FC} = (i \times ii) + (v - vi) - (iv) - (vii + viii)$

$$= (1000 \times 30) + [3000 - 2000] - 12000 - [2500 + 3500]$$

$$= \text{Rs. } 13000$$

**2. Calcualte Net Value added at factor cost:**

(i) Consumption of Fixed Capital (Rs.)	600
(ii) Import Duty (Rs.)	400
(iii) Output sold (units)	2000
(iv) Price per unit of output (Rs.)	10
(v) Net change in stock (Rs.)	(-50)
(vi) Intermediate cost (Rs.)	10000
(vii) Subsidy (Rs.)	500

Ans.  $NVA_{FC} = (iii \times iv) + v - vi - ii + vii - i$   
 $= (2000 \times 10) + (-50) - 10000 - 400 + 500 - 600$   
 $= \text{Rs. } 9450.$

**3. Find Net Value added at market price :**

(i) Output sold (units)	800
(ii) Price per unit of output (Rs.)	20
(iii) Excise duty (Rs.)	1600
(iv) Import duty (Rs.)	400
(v) Net Change in Stock (Rs.)	(-500)
(vi) Depreciation (Rs.)	1000
(vii) Intermediate Cost (Rs.)	8000

Ans.  $NVA_{mp} = (i \times ii) + v - vii - vi$   
 $= (800 \times 20) + (-500) - 8000 - 1000$   
 $= \text{Rs. } 6500.$

4. Assuming real income to be Rs. 200 Crore and price index to be 135, Calculate nominal income.

Ans.  $\text{Real Income} = \frac{\text{Nominal income}}{\text{Price index}} \times 100$

$$\text{Nominal income} = \frac{200 \times 135}{100} = \text{Rs. } 270 \text{ Cr.}$$

5. Given nominal income to be Rs. 375 Crore and price index 125 calculate real income.

Ans. 
$$\text{Real Income} = \frac{\text{Nominal Income}}{\text{Price Index}} \times 100$$

$$= \frac{375 \times 100}{125}$$

Real Income = Rs. 300 Crore.

6. If the real gross product is Rs. 200 and the nominal gross product is Rs. 210. calculate the price index (base=100)

Ans. 
$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

$$\text{Price index} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100 = \frac{210}{200} \times 100$$

Price Index = 105

7. Giving reasons classify the following into intermediate products and final products:

- (i) Computer purchased by a school.
- (ii) Cold drinks purchased by a school canteen.

- Ans. (i) It is final product because it is purchased for final investment  
(ii) These are intermediate products because these are taken for resale in the same year.

8. Giving reasons, explain how should the following be treated while estimating national income.

- (i) Family members working free on the farm owned by the family.

- (ii) Payment of interest on borrowings by general government.
- Ans. (i) Imputed salaries of these members will be included in national income.
- (ii) It will not be included in national income because it is non-factor payment as it is considered that general government borrows only for consumption purpose.
9. Giving reasons, explain how should the following be treated While estimating national income.
- (i) Payment of pocket money by parents.
- (ii) Interest free loan given by employer to employee.
- Ans. (i) Not included, as it is transfer payment from parents to children.
- (ii) Included, as it is treated in national income because it is part of compensation of employees in kinds.
10. Explain the basis of classifying goods into intermediate and final goods. Give suitable examples.
- Ans. Goods which are purchased by a production unit from other production units and meant for resale or for using up completely during the same year are called intermediate goods. For example: raw material.
- Goods which are purchased for consumption and investment are called final goods.
- For Example : Purchase of machinery for installation in factory.
11. Giving reason classify the following into intermediate and final goods,
- (i) Machine Purchased by a dealer of machine,
- (ii) A car purchased by a household.
- Ans. (i) It is an intermediate good because it is meant for resale in the market.
- (ii) It is a final good because it is meant for final consumption.
12. How will you treat the following in estimating national income of India? Give reasons for your answer.
- (i) Value of bonus shares received by shareholders of a company.

- (ii) Interest received on loan given to a foreign company in India.
- Ans. (i) It is not included in national income because it is the return of financial capital and not of the goods and services.
- (ii) It is included in the national income as interest is a factor income and a part of domestic income.
13. Government spends on child immunization programme. Analyse its impact on gross domestic product and welfare of the people.
- Ans. Government expenditure on child immunization programme, raises GDP because it is government's final consumption expenditure. It also raises welfare of the people because child immunization programme improves health and thus raises efficiency of the people.
14. Sale of petrol and diesel cars is rising particularly in big cities. Analyse its impact on gross Domestic Product and welfare.
- Ans. Final sales of cars raise GDP, because they are final products. Cars provide convenience in transportation but at the same time it causes traffic jams, air pollution and noise pollution reducing the welfare of the people. Pollution thus, has had bad effects on the health of the people.
15. Why does change in the inventory of a firm is treated as investment?
16. Differentiate between final goods and intermediate goods?
17. Why are services used by firms always considered as intermediate goods?
18. Explain 'Distribution of GDP' as a limitation to use GDP as welfare index.
19. What is depreciation? How do we calculate depreciation?
20. Differentiate between national income at current prices and national income at constant prices. Which of the two reflects the growth of economy and why?
21. Explain 'externalities' as a limitation in using GDP as welfare measure.
22. Why do we deduct aggregate imports expenditure incurred by the economy, while calculating GDP with expenditure method?
23. Explain 'non-monetary exchanges' as a limitation in using GDP as welfare index.

24. Nominal GDP of a country is 1650 during a given year and GDP deflator for that year is 1.5. Calculate Real GDP.

**Long Answer type questions (6 Marks)**

1. How will you treat the following while estimating national income of India? Give reasons.
- (a) Divident received by an Indian from his investment in shares of a foreign company.
  - (b) Money received by a family in India from relatives working abroad.
  - (c) Interest received on loans given to a friend for purchasing a car
  - (d) Divident received by a foreigner from investment in shares of an Indian company.
  - (e) Profit earned by a branch of an Indian Bank in Canada
  - (f) Scholarship given to Indian students studying in India by a foreign company.
  - (g) Fees paid by students to school.
  - (h) Profits earned by branch of a Foreign Bank in India.
  - (i) Interest paid by an individual on a loan taken to buy a car
  - (j) Expenditure on machines for installation in a factory.
  - (k) Government expenditure on street lighting.
  - (l) Increase in prices of the shares of a company.
  - (m) Interest received by an Indian resident from firms abroad,
  - (n) Expenditure incurred by a foreign tourist in the country.
  - (o) Construction of a new house.
  - (p) Rent paid by embassy of Japan in India to an Indian resident,
  - (q) Imputed rent of self occupied house
  - (r) Interest received on debentures.
  - (s) Financial help received by flood victims.

- (t) Furniture purchased by household.
- Ans. (a) It is factor income from abroad so will be included in national income.
- (b) It is transfer receipts, so it is not included in national income.
- (c) Not included in National Income, because it is a non-factor receipt as it is used for consumption.
- (d) Not included as Factor income to abroad.
- (e) It is a part of NFIA and will be included in national income.
- (f) It is transfer receipts, so it is not included in national income.
- (g) It is included in national income because it is a part of the private/final consumption expenditure of the house hold.
- (h) Not included in national income because it is part of factor income to abroad.
- (i) Not included because it is a non-factor income as loan is not used for production but for consumption.
- (j) Included because it results in flow of income through productive activities.
- (k) Includes, because it is final consumption expenditure by government.
- (l) Not included, because it is capital gain and nothing to do with production.
- (m) Included, as it is the part of factor income from abroad.
- (n) Included, as it is produced within domestic territory of country.
- (o) Included, because it is currently produced output
- (p) included as it is paid to an Indian resident out side domestic territory of a country. It will be included as factor income from abroad.
- (q) Included, as a part of rent as it is payment to self for housing services.
- (r) Included, because it is a factor earning
- (s) Not included as it is a transfer payment.
- (t) Included, because it is a private final consumption expenditure.

2. How will you treat the following while estimating domestic factor income of India? Give reasons.

- (1) Remittances from non-resident Indian to their families in India.
- (ii) Rent paid by the embassy of France in India to a resident Indian.
- (iii) Profit earned by branches of Foreign Bank in India.
- (iv) Payment of salaries to its staff by embassy located in India
- (v) Interest received by an Indian resident from firms abroad
- (vi) Scholarships given by the Government of India.

Ans. (i) Not included as it is a transfer payment

(ii) Not included because French embassy in India does not fall within the domestic territory of India.

(iii) Included because it falls within the domestic territory of India.

(iv) Not included as an embassy located in India does not fall within the domestic territory of India.

(v) Not included in domestic income as it does not fall within the domestic territory of India.

(vi) Not included, as it is transfer payment.

3. Giving reasons explain how should the following be treated in estimating gross domestic product at market price?

- (i) Fees to a mechanic paid by a firm
- (ii) Interest paid by an individual on a car loan taken from a bank.
- (iii) Expenditure on purchasing a car for use by a firm.

Ans. (i) Fees paid to mechanic by a firm is not Included because it is an intermediate cost of the firm and to avoid double earning.

(ii) Interest paid by an individual is not included because the loan is taken to meet consumption expenditure and therefore interest paid on such a loan is not a factor payment

(iii) Expenditure on purchase a car by a firm is included because it is an investment expenditure, a final expenditure.



### NUMERICAL EXERCISE

1. Calculate “Sales” from the following data : (Rs. in Lakh)
- |       |                                |       |
|-------|--------------------------------|-------|
| (i)   | Net value added at factor cost | 560   |
| (ii)  | Depreciation                   | 60    |
| (iii) | Change in Stock                | (-)30 |
| (iv)  | Intermediate cost              | 1000  |
| (v)   | Exports                        | 200   |
| (vi)  | Indirect taxes                 | 60    |
2. Calculate  $NVA_{FC}$  from the following data (Rs. Crore)
- |        |                                    |     |
|--------|------------------------------------|-----|
| (i)    | Susbidy                            | 40  |
| (ii)   | Sales                              | 800 |
| (iii)  | Depreciation                       | 30  |
| (iv)   | Exports                            | 100 |
| (v)    | Closing stock                      | 20  |
| (vi)   | Opening stock                      | 50  |
| (vii)  | Intermediate purchases             | 500 |
| (viii) | Purchases of machinery for own use | 200 |
| (ix)   | Import of raw material             | 50  |
3. From the following information about a firm in an economy calculate  $GVA_{MP}$  of the firm.
- |       |                                 |             |
|-------|---------------------------------|-------------|
|       |                                 | (Rs. Crore) |
| (i)   | Domestic Sales                  | 300         |
| (ii)  | Exports                         | 100         |
| (iii) | Production for self-consumption | 50          |
| (iv)  | Purchases from firm X           | 110         |

(v)	Purchases from firm Y	70
(vi)	Imports of raw materials	30
(vii)	Change in stock	60
4.	Calculate (a) $NNP_{FC}$ by expenditure method and (b) $NNP_{FC}$ by value added method :	(Rs. Crore)
(i)	Gross Domestic capital formation	250
(ii)	Net Export	50
(iii)	Private final consumption expenditure	900
(iv)	Value of output	
•	Primary sector	400
•	Secondary sector	300
•	Tertiary sector	100
(v)	Value of intermediate consumption	
•	Primary sector	900
•	Secondary sector	800
•	Tertiary sector	400
(vi)	Consumption of fixed capital	80
(vii)	Indirect Tax	100
(viii)	Government final consumption expenditure	100
(ix)	Subsidy	10
(x)	Net factor income from abroad	(-) 20
5.	From the following data calculate National Income by income and expenditure method	(Rs. Crore)
(i)	Government final consumption expenditure	100
(ii)	Subsidies	10

(ii)	Rent	200
(iv)	Wages and Salaries	600
(v)	Indirect Taxes	60
(vi)	Private final consumption expenditure	800
(vii)	Gross domestic capital formation	120
(viii)	Social security contribution by employers	55
(ix)	Royalty	25
(x)	Net factor income paid to abroad	30
(xi)	Interest	20
(xii)	Net domestic capital formation	110
(xiii)	Profit	130
(xiv)	Net Export	70

6. Calculate 'Intermediate consumption' from the following data :

(Rs. Lakh)

(i)	Value of output	200
(ii)	Net value added at factor cost	80
(iii)	Sales tax	15
(iv)	Subsidy	5
(v)	Depreciation	20

7. Calculate (a)  $GDP_{MP}$  (b) Factor income earned from Abroad:

(Rs Crore)

(i)	$GNP_{FC}$	2800
(ii)	Profit	500
(iii)	Export	40

(iv)	Compensation of Employees	1500
(v)	Change in Stock	50
(vi)	Net Indirect Tax	250
(vii)	Net domestic capital formation	650
(viii)	Gross domestic fixed capital formation	700
(ix)	Net current transfers from rest of the world	90
(x)	Factor income paid to abroad	120
(xi)	Interest	400
(xii)	Rent	300

8. Calculate (a) Domestic Income (b) Compensation of employees.

(Rs. Crore)

(i)	Net factor income from abroad	-20
(ii)	Net exports	10
(iii)	Net indirect taxes	50
(iv)	Rent and royalty	20
(v)	Consumption of fixed capital	10
(vi)	Private final consumption expenditure	400
(vii)	Corporate tax	10
(viii)	Interest	10
(ix)	Net domestic capital formation	50
(x)	Dividends	22
(xi)	Government final consumption expenditure	100
(xii)	Undistributed profits	5
(xiii)	Mixed income	23

9. Calculate Net National Product at Market Price

	(Rs. Crore)
(i) Net current transfers to abroad	10
(ii) Private final consumption expenditure	500
(iii) Current transfers from government	30
(iv) Net factor income to abroad	20
(v) Net exports	(-)20
(vi) Net indirect tax	120
(vii) National debt interest	70
(Viii) Net domestic capital formation	80
(ix) Income accruing to government	60
(x) Government final consumption expenditure	100
10. Calculate value of output from the following data :	

	(Rs. Crore)
(i) $NVA_{FC}$	100
(ii) Intermediate consumption	75
(iii) Excise duty	20
(iv) Subsidy	5
(v) Depreciation	10
11. Calculate $GDP_{FC}$ and factor income to abroad from following data:	

	(Rs. Crore)
(i) Compensation of employees	800
(ii) Profit	200
(iii) Dividends	50
(iv) Gross National Product at Market price	1400
(v) Rent	150

(vi)	Interest	100
(vii)	Gross Domestic fixed capital formation	200
(viii)	Net Domestic capital formation	200
(ix)	Change in stock	50
(x)	Factor income from abroad	60
(xi)	Net indirect taxes	120

12. Given the following data, find the value of “Gross Domestic Capital formation” and "Operating surplus".

	Particulars	(Rs Crore)
a)	National Income	22,100
b)	Wages and Salaries	12,000
c)	Private final consumption expenditure	7,200
d)	Net Indirect Taxes	700
e)	Gross domestic capital formation	?
f)	Depreciation	500
g)	Government final consumption expenditure	6,100
h)	Mixed income of self employed	4,800
i)	Operating Surplus	?
j)	Net Exports	3,400
k)	Rent	1,200
l)	Net factor income from abroad	(-) 150

13. Given the following data, Calculate the ‘change in stock’ and ‘Rent’.

Sr. No	Particular	(Rs Crore)
1	Current transfers from rest of the world	700
2	Private final consumption expenditure	1150

3	Net national product at factor cost	2060
4	Profit	200
5	Net domestic fixed capital formation	90
6	Mixed Income	440
7	Net indirect taxes	120
8	Net imports	40
9	Consumption of fixed capital	2 50
10	Government final consumption expenditure	650
11	Net factor income from abroad	80
12	Compensation of employees	1050
13	Interest	180
14.	Given the following data. Calculate the 'Intermediate Cost' and Interest	

Sr. No	Particular	Amount (Crore Rs)
1	Current transfers from rest of the world	700
2	Net national product at factor cost	2060
3	Profit	200
4	Mixed Income	440
5	Net indirect taxes	120
6	Net imports	40
7	Consumption of fixed capital	250
8	Sales	2750
9	Net factor income from abroad	80
10	Compensation of employees	1050
11	Rent	150
12	Change in stock	250

### Solution of Numerical Exercise

1. Sales  $= (i) - (iii) + (iv) + (ii) + (vi)$   
 $= 560 - (-30) + 1000 + 60 + 60$   
 $= \text{Rs. 1710 Lakh}$
2.  $NVA_{FC} = \text{Sales} + \Delta S - IC - NIT - \text{Depr.}$   
 $= (ii) + (v - vi) - (vii) + (i) - (iii)$   
 $= 800 + (-30) - 500 + 40 - 30$   
 $= \text{Rs. 280 lakh.}$
3.  $GVA_{MP} = \text{Sales} + \text{Change in stock} - IC$   
 $= [(i) + (ii) + (iii)] + (vii) - [(iv) + (v) + (vi)]$   
 $= (300 + 100 + 50) + 60 - [110 + 70 + 30]$   
 $= \text{Rs. 300 crore.}$
4.  $NNP_{FC}$  (Expenditure Method)  
 $= (i) + (ii) + (iii) + (viii) - (vii) + (ix) - (vi) + (x)$   
 $= 250 + 50 + 900 + 100 - 100 + 10 - 80 + (-20)$   
 $= \text{Rs. 1110 Cr.}$   
 $NNP_{FC}$  (Value added method)  
 $= (iv) - (v) - (vi) - (vii) + (ix) + (x)$   
 $= (900 + 800 + 400) - (400 + 300 + 100) - 80 - 100 + 10 + (-20)$   
 $= \text{Rs. 1110 Cr.}$
5. National Income  $NNP_{FC}$  (Income Method)  
 $= (iv) + (viii) + (iii) + (ix) + (xi) + (xii) - (x)$   
 $= 600 + 55 + 200 + 25 + 20 + 130 + (-30)$   
 $= \text{Rs. 1000 Cr.}$   
National Income (Exp. Method)



$$\begin{aligned}
&= (\text{vi}) + (\text{i}) + (\text{vii}) + (\text{xv}) - (\text{vii} - \text{xiii}) - (\text{v} - \text{ii}) - (\text{x}) \\
&= 800 + 100 + 120 + 70 - 10 - 50 - 30 \\
&= \text{Rs. } 1000 \text{ Cr.}
\end{aligned}$$

6. Intermediate consumption

$$\begin{aligned}
&= \text{Value of output} - \text{NVA}_{\text{FC}} - \text{NIT} - \text{Depreciation} \\
&= 200 - 80 - (15 - 5) - 20 \\
&= 200 - 80 - 10 - 20 \\
&= \text{Rs. } 90 \text{ Lakh.}
\end{aligned}$$

7. (a)  $\text{NDP}_{\text{FC}} = (\text{iv}) + (\text{ii}) + (\text{xi}) + (\text{xii})$

$$\begin{aligned}
&= 1500 + 500 + 400 + 300 \\
&= 2700
\end{aligned}$$

$$\begin{aligned}
\text{GDP}_{\text{MP}} &= \text{NDP}_{\text{FC}} + \text{depreciation} + \text{NIT} \\
&= 2700 + [(\text{viii} + \text{v}) - \text{vii}] + (\text{vi}) (\because \text{dep.} = \text{GDCF} - \text{NDCF}) \\
&= 2700 + [(700 + 500) - 650] + 250
\end{aligned}$$

$$\text{GDP}_{\text{MP}} = \text{Rs. } 3050 \text{ Cr.}$$

(b) Factor Income from abroad (FIFA)

$$\begin{aligned}
\text{GNP}_{\text{FC}} &= \text{GDP}_{\text{MP}} - \text{NIT} + \text{NFIA} \\
2800 &= 3050 - 250 + \text{NFIA} \\
2800 &= 2800 + (\text{FIFA} - \text{FITA}) \\
0 &= \text{FIFA} - 120 \\
\text{FIFA} &= \text{Rs. } 120 \text{ cr.}
\end{aligned}$$

8. (a) Domestic Income = (ii) + (vi) + (ix) + (xi) - (iii)

$$\begin{aligned}
&= 10 + 400 + 50 + 100 - 50 \\
&= \text{Rs. } 510 \text{ Cr.}
\end{aligned}$$

(b) Compensation of employees

$$\begin{aligned}
&= \text{Domestic Income} - (\text{iv}) - (\text{viii}) - (\text{vii}) - (\text{x}) - (\text{xii}) - (\text{xiii}) \\
&= 510 - 20 - 30 - 10 - 22 - 5 - 23 \\
&= \text{Rs. 400 Cr.}
\end{aligned}$$

$$\begin{aligned}
9. \quad \text{NNP}_{\text{MP}} &= (\text{ii}) + (\text{viii}) + (\text{vii}) + (\text{v}) - (\text{iv}) \\
&= 500 + 100 + 80 + (-20) - (20) \\
&= \text{Rs. 640 Cr.}
\end{aligned}$$

$$\begin{aligned}
10. \quad &\text{Value of output} \\
&\text{NVA}_{\text{FC}} = \text{VO} - \text{IC} - \text{NIT} - \text{Depreciation} \\
&\text{VO} = \text{NVA}_{\text{FC}} + \text{IC} + \text{NIT} + \text{Depreciation} \\
&= 100 + 75 + (20 - 5) + 10 \\
&\text{VO} = \text{Rs. 200 Cr.}
\end{aligned}$$

$$\begin{aligned}
11. \quad (a) \quad \text{GDP}_{\text{FC}} &= (\text{i}) + (\text{ii}) + (\text{v}) + (\text{vi}) + [(\text{vii} + \text{ix}) - \text{viii}] \\
&= 800 + 200 + 150 + 100 + [(200 + 50) - 200] \\
&\text{GDP}_{\text{FC}} = \text{Rs 1300 Cr. } [\because \text{Dep} = \text{GDCh} - \text{NDCh}]
\end{aligned}$$

$$\begin{aligned}
(b) \quad &\text{Factor income to abroad} \\
&\text{GNP}_{\text{MP}} = \text{GDP}_{\text{FC}} + \text{NIT} + \text{NFIA} \\
1400 &= 1300 + 120 + (\text{FIFA} - \text{FITA}) \\
1400 &= 1300 + 120 + 60 - \text{FITA} \\
1400 - 1480 &= - \text{FITA} \\
\text{Rs. 80 Cr.} &= \text{FITA}
\end{aligned}$$

## Unit -II

### MONEY & BANKING

---

#### **Money:**

Money is any object that is generally accepted as medium of exchange; measures of value, a store of value; and , a standard of deferred payment.

According to the official definition of R. B. I (Reserve Bank of India); "Money can be defined as the sect of liquid financial assets. Which could impact on aggregate economic activity".

#### **Supply of Money:**

The money supply is the total value of money available in an economy at a point of time. The money supply is also known as the money stock. It is a stock variable of economy.

There are several ways to measure “money supply”. but standard measures ususally include currency in circulation and demand deposits that can be used almost as easily as currency.

$$M_s = C + DD$$

Where ‘C’ denotes the currency in circulation or currency hold by public and ‘DD’ known as demand deposits. The both are controlled and regulated by RBI.

1. **Currency in Circulation:** Currency in circulation includes the coins, notes (government notes & bank notes) and bills that circulate in an economy and held by the public.
2. **Demand deposits:** These are the amounts held in accounts in which payment are payable through cheques with commercial banks. They are called demand deposits because the banking institution must give the deposit holder his money “On demand” when a check is written or a debit card is used.

**Demand deposits** are closely related to currency because these are **chequable** deposits. Hence demand deposits are also known as **chequable deposits**.

**Money Creation (Credit Creation) by the commercial banking system:**  
Money creation in one of the most important activities of commercial banks.

Through the process of money creation, commercial banks are able to create credit, which is in far excess of the initial deposits.

### **Central bank and its functions (example of the Reserve Bank of India)**

**Central bank:** A central bank is an apex financial institution that is responsible for overseeing the monetary system and policy of a nation. The Reserve bank of India (RBI) is India's central bank. It was established on 1 April 1935. The RBI was nationalised on January 1, 1949.

### **Functions of Reserve Bank**

1. **Bank of Issue of Notes:** The Reserve Bank has a monopoly for printing the currency notes in the country. It has the sole right to issue currency notes of various denominations except one rupee note (Which is issued by the Ministry of Finance). The Reserve Bank of India has adopted the Minimum Reserve system for issuing/ printing the currency notes. Since 1957, it maintains gold and foreign exchange reserve of Rs, 200 Cr. of which at least Rs. 115 Cr. Should be in gold and remaining in the foreign currencies/ foreign exchange reserves & foreign securities.
2. **Govt. Bank or Banker to the Government:** The second important function of the Reserve Bank is to act as the Banker , Agent and adviser to the Government of India and states. It performs all the banking functions of the state and Central Government and it also tenders useful advice to the government on matters related to economic and monetary policy. It also manages the public debt of the government.
3. **Banker's Bank:-** The Reserve Bank performs the same function for the other commercial banks as the other banks ordinarily perform for their customers. RBI lends money to all the commercial banks to the country.

### **Tools of credit control by central Bank**

1. Cash Reserve Ratio (CRR)
2. Statutory liquidity Ratio (SLR)
3. Repo Rate
4. Reverse Repo Rate

5. Bank Rate
6. Open Market Operations
7. Margin Requirements.

**Very short answer or MCQ type Questions**  
**(1 - Marks)**

1. Money is a medium of
  - (a) Communication
  - (b) Barter
  - (c) Exchange
  - (d) Speculation
2. Supply of money in India is regulated by-
  - (a) Govt. of India
  - (b) Reserve Bank of India
  - (c) Finance Ministry
  - (d) Commercial Banks
3. Supply of money refers to the quantity of money in the economy-
  - (a) Flow of money during a calendar year
  - (b) Flow of money during a financial year
  - (c) Stock of money as on 31 march, only
  - (d) Stock of money as on any point of time
4. Money supply is equal to
  - (a) Money seved in post office savings bank only
  - (b) Total stock of money held by government.
  - (c) Total stock of money circulating in an economy
  - (d) Total flow of money circulating in an economy.
5. Supply of money refers to .....
  - (a) Currency held by the police

- (b) Currency held by Reserve Bank of India (RBI)
  - (c) Currency held by the public and demand with commercial bank
  - (d) Currency held by by government
6. The process of money creation of credit creation is done by
- (a) Ministry of finance      (b) World bank
  - (c) Central bank              (d) Commercial bank
7. What do you mean by credit creation by commercial banks?
- (a) It is the process of loan creation
  - (b) It is the process of creation of foreign exchange
  - (c) It is the process of total withdrawal creation
  - (d) It is the process of total deposit creation
8. Central bank is an
- (a) Apex bank                  (b) International bank
  - (c) Regional bank              (d) Commercial bank
9. One of the measures of money supply is
- (a) demand deposit          (b) fixed deposit
  - (c) time deposit                (d) recurring deposit
10. An example of flow concept is
- (a) money creation            (b) money supply
  - (c) demand deposit          (d) currency in circulation
11. The credit creation is a function of central bank.                      True/False
12. The 'State bank of India' is a Banker to the Government              True/False
13. The 'Central bank of India' is a commercial bank                      True/False

**Short Answer type questions**

**(3-4 marks)**

1. What do you mean by money supply and its components?
2. Define the money multiplier and explain with suitable numerical example.
3. Explain the function of central bank as Govt. Bank or banker to the Government.
4. How the RBI play a role of issue of notes/currency for economy of India?
5. Calculate the value money multiplier and the total deposit created if initial deposit is Rs. 5000 crores and LRR is 10%.
6. If total deposits created by commercial banks are Rs.12,000, LRR is 25%, Calculate initial deposit.

**III. Long Answer type Questions (6 - Marks)**

1. What do you mean sby credit creation or money creation? Explain the process of Money creation by the commercial banks with the help of anumerical example.
2. Explain any two functions of RBI as a central bank.
3. Describe any two of following.
  - i) Money supply
  - ii) Money multiplier
  - iii) Issue of bank note or currency system in India.

## Chapter-III

### Unit -3

#### Determination of Income & Employment

---

##### Points of Remember

- **Aggregate Demand (AD):** AD refers to total value of all final goods and services that are planned to be bought by all the sectors of the economy at a given level of income during a period of time. AD represents the total expenditure on goods and services in an economy during a period of time.

- **Components of Aggregate demand are :**

- (i) Household consumption expenditure (C).
- (ii) Investment expenditure (I)
- (iii) Govt, consumption expenditure (G).
- (iv) Net export (X-M).

Thus,  $AD = C + I + G + (X-M)$

In two sector economy  $AD = C + I$ .

- **Aggregate supply (AS)** refers to total value of all final goods and services that are planned to be produced by all the producing units in the economy during a given period of time. It is also the value of total output available in an economy during a given period of time. Aggregate supply is always equal to National Income in two sector economy.

$$AS = C + S$$

- Aggregate supply represents the national income of the country.  $AS = Y$  (National Income)
- **Consumption function** shows functional relationship between income and consumption.

$$C = f(Y)$$

where C = consumption expenditure



$Y$  = National income

$f$  = Functional relationship

Equation of consumption function

$$C = \bar{C} + MPC.Y$$

$\bar{C}$  = Autonomous Consumption.

■ **Autonomons Consumption:**

$\bar{C}$  does not does not change with a change in income. Consumption expenditure at zero level of income is called autonomous Consumption.

■ Propensity to consume is the tendency to spend on goods and services. It is of two types:

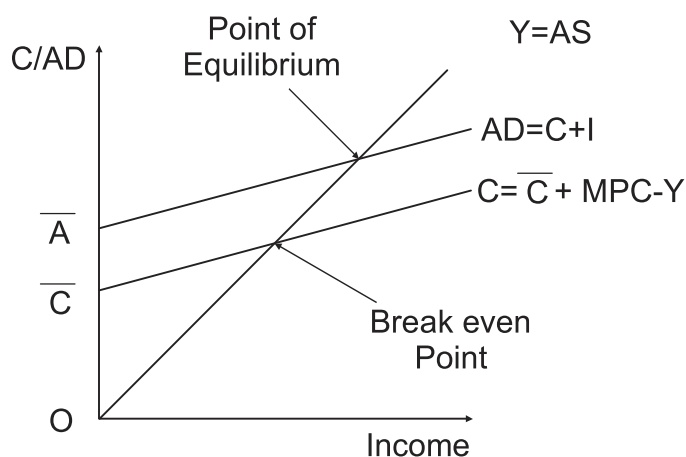
(a) Average propensity to consume (APC)

(b) Marginal propensity to consume (MPC)

■ Average propensity to consume (APC): It refers to the ratio of consumption expenditure to the corresponding level of income.

$$APC = \frac{\text{Consumption}(C)}{\text{Income}(Y)} = \frac{C}{Y}$$

Break even point  $C = Y$



■ **Important Points about APC**

- (i) **APC is more than 1:** as long as consumption is more than national income. It means before the break-even point,  $APC > 1$ ,
- (ii) **APC = 1**, at the break-even point, consumption is equal to national income.  $C < Y$
- (iii) **APC is less than 1:** beyond the break-even point. Consumption is less than national income.  $C < Y$
- (iv) **APC falls** with increase in income.
- (v) **APC can never be zero :** because even at zero level of national income, there is autonomous consumption.

- **Marginal Propensity to Consume (MPC):** Marginal propensity to consume refers to the ratio of change in consumption expenditure to change in income.

$$MPC = \frac{\text{Change in Consumption}}{\text{Change in Income}} = \frac{\Delta C}{\Delta Y}$$

■ **Important Points about MPC**

- **Value of MPC varies between 0 and 1:** But if the entire additional income is consumed, then  $\Delta C = \Delta Y$ , making  $MPC = 1$ . However, if entire additional income is saved then  $\Delta C = 0$ , making  $MPC = 0$ .
- **Savings function** refers to the functional relationship between saving and national income.

$$S = f(Y)$$

Equation of savings function

$$S = -\bar{C} + MPS.Y$$

where S = savings

Y = National Income

f = Functional relationship

- Propensity to save is the tendency to save a part of Income . It is of two types:

(i) Average Propensity to Save (APS)

(ii) Marginal Propensity to Save (MPS)

- **Average Propensity to Save (APS) :** Average propensity to save refers to the ratio of savings to the corresponding level of income.

$$APS = \frac{\text{Savings}}{\text{Income}} = \frac{S}{Y}$$

- **Important Point about APS**

1. APS can never be 1 or more than 1 : As saving can never be equal to or more than income.

$$Y = C + S, C \neq 0$$

2. **APS can be zero :** At break even point  $C = Y$ , hence  $S = 0$ .
3. **APS can be negative :** At income levels which are lower than the break-even point, APS can be negative when consumption exceeds income.
4. APS rises with increase in income.

- **Marginal Propensity to save (MPS):** Marginal propensity to be save refers to the ratio of change in savings to change in total income. It can't be negative.

$$MPS = \frac{\text{Change in Savings}}{\text{Change in income}} = \frac{\Delta S}{\Delta Y}$$

- **MPS varies between 0 and 1, but**

(i) If the entire additional income is saved. In such a case,  $\Delta S = \Delta Y$ , then  $MPS = 1$ ,

(ii) If the entire additional income is consumed. in such a case  $\Delta S = 0$ , then  $MPS = 0$ .

- **Relationship between APC and APS**

The sum of APC and APS is equal to one. it can be proved as under we know:

$$Y = C + S$$

Dividing both sides by Y, we get

$$\frac{Y}{Y} = \frac{C}{Y} + \frac{S}{Y}$$

$$1 = APC + APS$$

$$APC = 1 - APS \text{ or } APS = 1 - APC$$

because income is either used for consumption or for savings.

### ■ **Relationship between MPC and MPS**

The sum of MPC and MPS is equal to one. It can be proved as under:

$$\Delta Y = \Delta C + \Delta S$$

Dividing both sides by  $\Delta Y$ , we get

$$\frac{\Delta Y}{\Delta Y} = \frac{\Delta C}{\Delta Y} + \frac{\Delta S}{\Delta Y}$$

$$1 = MPC + MPS$$

$$\left[ \because \frac{\Delta C}{\Delta Y} = MPC, \frac{\Delta S}{\Delta Y} = MPS \right]$$

$MPC + MPS = 1$  because total increase in income is either used for consumption or for savings.

- Capital Formation / Investment refers to increase in the stock of capital goods during a financial year.
- The investment expenditure is classified under two heads :
  - (i) Induced investment
  - (ii) Autonomous investment.
- **Induced Investment** : Induced investment refers to the investment which depends on the profit expectations and is directly influenced by income level (**only for reference**).
- **Autonomous Investment** : Autonomous investment refers to the investment which is not affected by changes in the level of income and is not induced solely by profit motive. It is income inelastic.

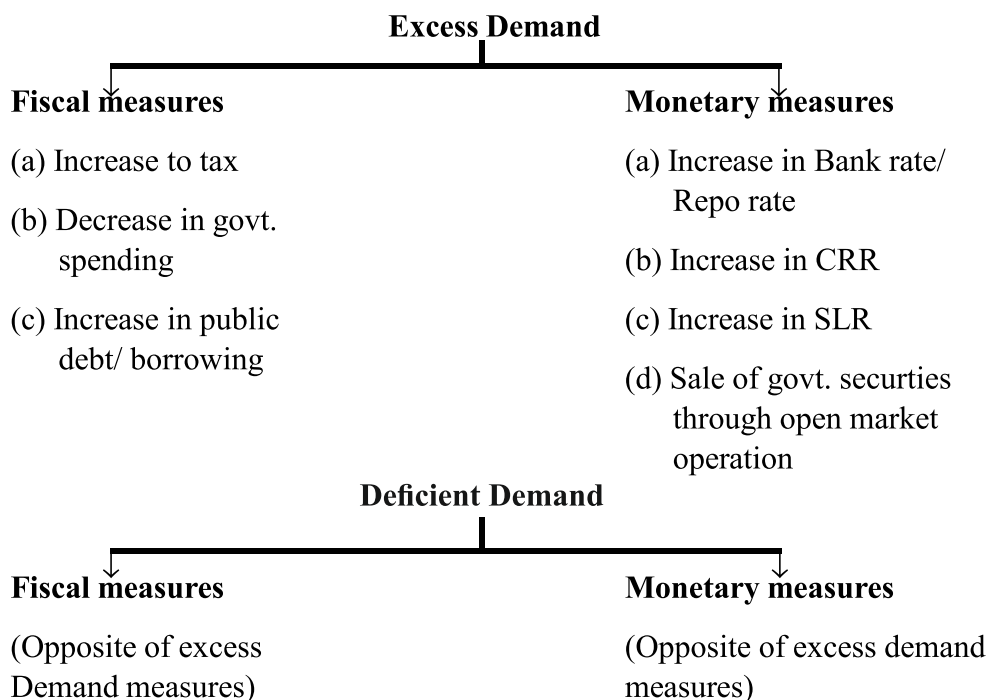
- **Ex-Ante Savings** : Ex-ante savings refers to amount of savings which all the household intended to save at different levels of income in the economy at the beginning of period. It is also known as planned savings.
- **Ex-Ante Investment**: Ex-ante investments refers to amount of investment which all the firms plan to invest at different levels of income in the economy at the beginning of the period. It is also known as planned investment.
- **Ex-Post Savings** : Ex-post savings refer to the actual or realised savings in an economy during a financial year at end of the period.
- **Ex-Post Investment** : Ex-post investment refers to the actual or realised investment in an economy during a financial year at the end of the period.
- **Autonomous consumption**: The component of consumption expenditure which is not affected by changes in income.
- **Equilibrium level of income** is determined at the point where  $AD = AS$  or  $S = 1$ . But it cannot always be at full employment level also It can be at less than full employment level or over full employment level.
- **Full employment** is a situation when all those who are able and willing to work at prevailing wage rate, get the opportunity to work.
- **Voluntary unemployment** is a situation where person is able to work but not willing to work at prevailing wage rate.
- **Involuntary unemployment** is a situation where worker is able and willing to work at prevailing wage rate but does not get work.
- **Investment multiplier (K)** is the ratio of change in income ( $\Delta Y$ ) due to change in investment ( $\Delta I$ ).

$$K = \frac{\Delta Y}{\Delta I} \quad \text{or} \quad K = \frac{1}{1 - MPC} \quad \text{Or} \quad K = \frac{1}{MPS}$$

- Value of Investment multiplier lies between 1 to infinity.
- **Excess demand** refers to a situation when aggregate demand exceeds aggregate supply corresponding to full employment.
- **Deficient Demand** refers to a situation when aggregate demand falls short of aggregate supply corresponding to full employment.

- **Inflationary gap** is the gap by which actual aggregate demand is more than the level of aggregate demand required to establish full employment. It is the magnitude of excess
- **Deflationary gap** is the gap by which actual aggregate demand is less than the level of aggregate demand required to establish full employment. It is the magnitude of deficient aggregate demand.
- **Ex- ante Consumption:** Ex - ante refers to the planned consumption at certain level of national income in an economy.
- **Induced consumption:** This refers to that level of consumptions which directly depends on the level income.

#### Measures to correct excess demand of deficient demand



#### Multiple Choice Questions

1. Which of the following is correct for MPS.

- (a)  $0 \leq \text{MPS} \leq 1$  (b)  $\text{MPS} = 1 - \text{MPC}$
- (c)  $\text{MPS} = \frac{1}{\text{Investment Multiplier}}$  (d) All of the above
2. The consumption curve intersects Y axis above point of origin because
- (a) The value of MPC is never negative
- (b) Consumption expenditure increases with income
- (c) Consumption expenditure is never zero
- (d) None of the above
3. The value of investment multiplier is
- (a)  $\frac{1}{1 - \text{MPC}}$  (b)  $\frac{1}{\text{MPC} - 1}$
- (c)  $\frac{1}{\text{MPS} - 1}$  (d)  $\frac{1}{1 - \text{MPS}}$
4. Net export is zero when
- (a) Savings = Investment (b) Export = Import
- (c) Income = Expenditure (d) All of the above
5. In which of the following case the value of investment multiplier will be highest
- (a)  $\text{MPC} = \text{MPS}$  (b)  $\text{MPC} < \text{MPS}$
- (c)  $\text{MPC} > \text{MPS}$  (d)  $\text{MPC} = 0$

**Fill in the blanks**

6. MPC is the ratio of change in.....to change in.....
7. If  $\text{MPC} = \text{MPS}$ , the investment multiplier, k is equal to.....
8. The government should.....its expenditure in order to correct the situation of excess demand, (increase/decrease)
9. The consumption curve is parallel to X axis when MPC equals.....

10. APC is equal to.....at break even point of income.

**True or False**

11. Savings curve and consumption curve can never be parallel to each other
12. A PC can never be equal to APS.
13. MPC and investment multiplier are inversely related
14. APS is zero at break even point of income.
15. A PC falls with increase in income.
16. The minimum value of investment multiplier is zero
17. Consumption curve never intersects X axis.

**CBSE Latest Format Questions**

18. Read the following statements Assertion (A) and Reason (R). Choose the correct alternative from given below

**Assertion (A)** APS is always less than 1.

**Reason (R)** APC can never be zero.

**Alternatives**

- a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)
- c) Assertion (A) is true, but Reason (R) is false
- d) Assertion (A) is false, but Reason (R) is true
19. Read the following statements Assertion (A) and Reason (R). Choose the correct alternative given below

Assertion (A) Inflationary gap is the horizontal distance between AD curve and  $45^\circ$  line at full employment level of income.

Reason (R) Govt, uses contractionary fiscal policy to correct inflationary gap.



### Alternatives

- a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
  - b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)
  - c) Assertion (A) is true, but Reason (R) is false
  - d) Assertion (A) is false, but Reason (R) is true
20. Read the following paragraph carefully and answer the questions on the basis of the same.

Union finance minister has said that the government will increase investment by spending extra 250 billion rupees (\$ 3.41 billion) on roads, ports and defence projects. It will offer 120 billion rupees in interest free 50-year loans to state governments for spending on infrastructure before March 31, 2021. The minister said that all these measures are likely to create an additional demand of 730 billion rupees (\$9.96 billion). The govt, will also allow its employees to spend tax-exempt travel allowances on goods and services.

Hindustan Times 12 October 2020

- i. The above measures of government falls under.....
    - (a) Contractionary fiscal policy
    - (b) Expansionary fiscal policy
    - (c) Contractionary monetary policy
    - (d) Expansionary monetary policy
  - ii. What is the expected impact of above policy on future national income?
  - iii. What is the expected impact of above policy on govt debt?
21. Read the following paragraph carefully and answer the question on the basis of the same.

Finance Minister Nirmala Sitharaman on Thursday announced a fresh set of relief and stimulus measures for the economy worth Rs.1.19 lakh crore, including a scheme to boost re employment chances of formal sector

employees who lost their jobs amidst the COVID-19 Pandemic

The measures, announced a day after the Reserve Bank of India (RBI) said the country had entered into a technical recession in the first half of 2020-21, include a Rs. 65,000 crore additional outlay for providing fertiliser subsidies to farmers.

The Hindu, 12 November 2020

- i. The stimulus package is expected to
  - a. Increase aggregate demand
  - b. Increase aggregate supply
  - c. Generate employment
  - d. All of the above
- ii. Which sector of the economy has received over half of the share of this stimulus package
  - a. Primary sector
  - b. Secondary sector
  - c. Tertiary sector
  - d. None of the above
- iii. To overcome the situation of technical recession that occurred in first half of 2020-21, the government should.....the tax rates, (increase/decrease)

---

**Answer to objective questions**

---

- |           |                |                          |
|-----------|----------------|--------------------------|
| 1. (d)    | 2. (c)         | 3. (a)                   |
| 4. (b)    | 5. (c)         | 6. (Consumption, income) |
| 7. (2)    | 8. (decrease ) | 9. Zero                  |
| 10. One   | 11. False      | 12. False                |
| 13. False | 14. True       | 15. True                 |
| 16. False | 17. True       | 18. (a)                  |

19. (c)                      20. (i) (b)                      20. (ii) (Rise in income)  
 20. (iii) Rise in Govt. Debt. in short term    21. (i) (a)  
 21. (ii) (a)                      21. (iii) decrease

<p><b>SHORT ANSWER TYPE QUESTIONS</b></p> <p><b>(3-4 MARKS)</b></p>
---

1. In an economy the MPC is 0.75. Investment expenditure in the economy increase by Rs. 75 Crore. Calculate total increase in national income.

Ans.  $K = \frac{1}{1 - MPC} = \frac{1}{1 - 0.75}$

$K = 4$

$K = \frac{\Delta Y}{\Delta I}$

$4 = \frac{\Delta Y}{75}$

$\Delta Y = 4 \times 75 = \text{Rs. 300 crore}$

2. An economy is in equilibrium. Its consumption function is  $C = 300 + 0.8Y$  and investment is Rs. 700 find national income.

Ans.  $C = 300 + 0.8Y$

$Y = C + I$

$Y = 300 + 0.8Y + 700$

$0.2Y = 1000$

$Y = 5000$

National Income = Rs. 5000

3. Explain the distinction between voluntary and involuntary employment.

Ans. Voluntary unemployment is a situation where person is able to work but not willing to work at prevailing wage rate. Involuntary unemployment is a situation where worker is able and willing to work at prevailing wage rate but does not get work.

4. Explain the relationship between investment multiplier and MPC?

Ans.  $K = 1/(1 - MPC)$ , it shows direct relationship between MPC and the value of multiplier. Higher the proportion of increased income spent on consumption, higher will be value of investment multiplier.

5. Saving curve of an economy makes a negative intercept of Rs. 30 crores and 20% of the increased income is saved. Give savings and consumption function.

Ans.  $\bar{C} = \text{Rs.30 Crore}$

$$MPS = 0.2$$

∴ Savings function is

$$S = -\bar{C} + MPS.Y$$

$$= -30 + 0.2Y$$

$$MPC = 1 - 0.2 = 0.8$$

Hence, consumption Function is -

$$C = \bar{C} + MPC.Y$$

$$C = 30 + 0.8Y$$

<b><u>Long Answer Type Questions</u></b>
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<b><u>(6 Marks)</u></b>
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1. Explain the role of the following in correcting deficient demand in an economy.

(a) Open Market Operation

(b) Bank Rate

2. Explain the role of the following in correcting 'Excess Demand in an Economy'.

1. Bank Rate

2. Open Market Operation
3. Explain the role of following in correcting the deflationary gap in an economy.
  1. Govt. Expenditure
  2. Cash Reserve Ratio
4. Explain the role of margin requirements for correcting the deflationary gap.
5. in an economy 75% of the increase in income is spent on consumption. Investment increased by Rs. 1000 Crore Calculate.
  1. Total increase in income
  2. Total increase in consumption expenditure.

Ans.  $MPC = 75\% = 75/100 = 3/4$ .

$$MPS = 1 - 3/4 = 1/4, K = 4$$

$$1. \Delta Y = \Delta I \times K$$

$$\Delta Y = 1000 \times 4$$

$$= \text{Rs. 4000 crore}$$

$$2. MPC = \frac{\Delta C}{\Delta Y}$$

$$0.75 = \frac{\Delta C}{4000}$$

$$0.75 \times 4000 = \Delta C$$

$$\Delta C = \text{Rs. 3000 Crores}$$

6. In an economy equilibrium level of income of Rs. 1200 Crores. The ratio of MPC to MPS is 3 : 1. Calculate the additional investment needed to reach a new equilibrium level of income of Rs. 2000 crores.

Ans.  $MPC = \frac{3}{4} = 0.75$

$$K = 1/(1-MPC) = 1/(1-0.75) = 4$$

$$\Delta Y = 2000 - 1200 = 800 \text{ Crores}$$

$$K = \Delta Y / \Delta I$$

$$\Delta I = \text{Rs. } 200 \text{ crores}$$

7. Assuming that increase in investment is Rs. 1,000 crore and marginal propensity to consume is 0.9, explain the working of multiplier.

Ans. Investment multiplier simply the multiplier is measured as a ratio between change in output income and change in investment.

$$(K) = \frac{\text{Change in Income}(\Delta Y)}{\text{Change in Investment}(\Delta I)}$$

Also, there is a direct relationship between investment multiplier and marginal propensity to consume (MPC): Multiplier can also be estimated by using the following formula.

$$K = \frac{1}{1 - MPC}$$

So, If  $MPC = 0.9$ , then

$$K = \frac{1}{1 - 0.9} = \frac{1}{0.1} = 10$$

Now, If the investment increase by Rs. 1,000 crore, then increase in income can be computed by substituting the values in the following formula.

$$K = \frac{\Delta Y}{\Delta I} \Rightarrow 10 = \frac{\Delta Y}{1000}$$

$$\Rightarrow \text{Change in income } (\Delta Y) = \text{Rs. } 10,000 \text{ crore.}$$

So, if investment increase by Rs. 1,000 crore and  $MPC = 0.9$ , then in such an instance, income will increase by Rs. 10,000 crore.

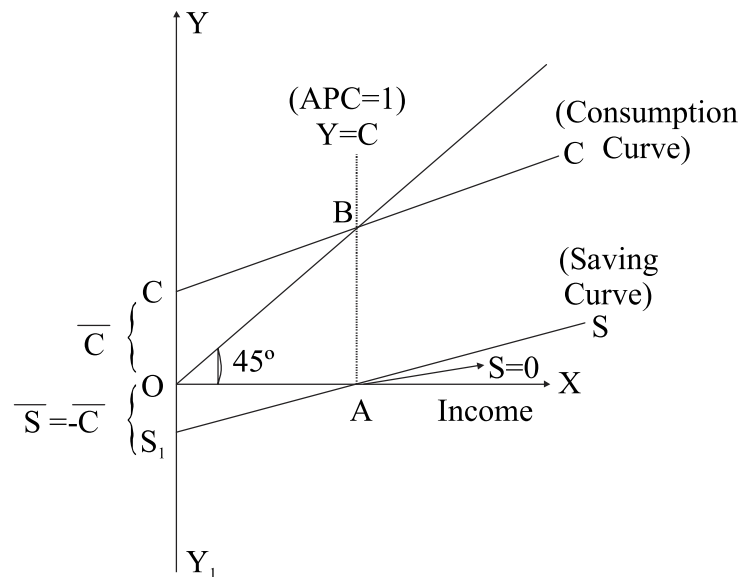
8. Explain the steps taken in derivation of the savings curve from the given consumption curve. Use diagram.

Ans. Consumption and savings are the two components of income. i.e,  $Y = C + S$ .

At all income levels total of consumption and savings is equal to income. This means consumption and income are complementary to one another. If consumption curve is known then savings curve can easily be made.

**Steps:**

1. Draw a line at  $45^\circ$  from the origin.
2. This will intersect consumption curve CC at point B, Consumption (C) = Income (Y) at point B.
3. Draw a line segment from Pt. B which is perpendicular to X - axis, foot of the perpendicular meets x - axis at point A. Savings is zero at point A.
4. Now take a point  $S_1$  on the negative on y-axis such that  $OS_1$  equal OC, So  $S_1$  is the initial point of savings.
5. In the last, draw a line from  $S_1$  to A, and extend it upto S. Thus  $SS_1$  is the required savings curve.

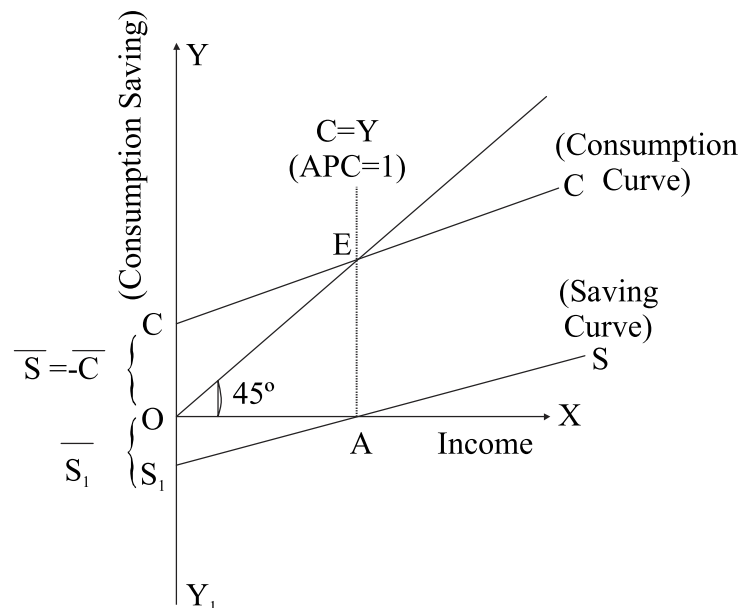


9. Explain the steps taken in derivation of the saving curve from the given consumption curve. Use diagram

Ans. From the saving curve  $S_1S$ , consumption curve can be drawn.

**Steps:**

1. First of all, draw a line at  $45^\circ$  from the origin.
2. Take a point C on the y-axis positive intercept such that  $OS_1 = OC$  Thus C is the initial point of the consumption curve.
3. Point B on the x-axis represents zero saving Draw a perpendicular from B point which intersect As line at E . At Po.r E. consumption (C) = Income (Y).
4. In the last, draw a line connecting C and point E Thus CC is the required consumption curve.



**SHORT ANSWER TYPE QUESTIONS**

**3 MARKS**

1. Given reasons, state whether the following statements are true or false.
  - (i) When marginal propensity to consumer is zero, the value of investment multiplier will also be zero.



- (ii) Value of average propensity to save can never be less than zero.
2. Find equilibrium national income from the following : autonomous consumption - Rs. 100, marginal propensity to consume = 0.80. investment = Rs. 50.
  3. Calculate APS and MPC from the following table :
 

Income(Rs. 000):	0	100	200	300	400
Consumption (Rs. 000):	40	120	200	280	360
  4. Complete the table
 

Income (Rs.)	MPC	Savings	APS
0	-	-90	-
100	0.6	-	-
200	0.6	-	-
300	0.6	-	-

**LONG ANSWER TYPE QUESTIONS**  
(6 MARKS)

1. Why must aggregate demand be equal to aggregate supply at the equilibrium level of income and output? Explain with the help of a diagram?
2. Explain the equilibrium level of income with the help of saving and investment curves. If planned saving exceeds planned investment, what changes will bring about the equality between them?
3. Explain the working of multiplier with the help of a numerical example.
4. When planned investment is more than planned savings, what will be its impact on income and employment. Explain with the help of diagram.
5. Distinguish between excess demand and deficient demand.

6. In an economy  $S = -50 + 0.5Y$  is the saving function (when  $S$  = Savings and  $Y$  = national income) and investment expenditure is 700.  
Calculate.
- Equilibrium level of national income
  - Consumption expenditure at equilibrium level of national income.
7. In an economy consumption function  $C = 75 + 0.9y$  and investment expenditure of Rs. 400 crore. Calculate :
- Equilibrium level of income
  - Savings at equilibrium level of national income.
8. Given below is the consumption function in an economy.  
 $C = 100 + 0.5 Y$   
With the help of a numerical example show that in this economy, as income increases APC will decrease.
9. Draw a straight line saving curve from the given consumption curve, explaining the steps of derivation. Show a point on the consumption curve at which APC is equal to 1.
10. Briefly explain the concept of under employment equilibrium with the help of diagram. How increase in investment helps in achieving, full employment equilibrium?
11. In an economy, aggregate Demand is less than aggregate supply. Explain the changes that will take place in this economy. State one fiscal measure to correct the situation.
12. The value of marginal propensity to consume is 0.6 and initial income in the economy is Rs. 100 crore. Prepare a schedule showing income, consumption and savings. Also show the equilibrium level of income by assuming Autonomous Investments of Rs. 800 Crores.
13. If MPC in the economy is 0.8. Complete the following table.

Income	Consumption	Saving	Investment	AD	AS
(Rs.)	(Rs.)	(Rs.)	(Rs.)	(C+I)	(C+S)
(Y)	(C)	(S)	(I)		
0		-60	40		
100			40		
200			40		
300			40		
400			40		
500			40		
600			40		
700			40		

14. In an economy total autonomous spending  $\bar{A}(\bar{C} + \bar{I})$  is Rs. 50 and MPS is 0.2. Equilibrium level of income is Rs. 4000 crore, find planned AD and also explain that economy is in equilibrium?
15. As a result of increase in investment by Rs. 100 Crore, national income rises by Rs. 500 crore. Find out marginal propensity to consume and value of investment multiplier.
16. We know that value of investment multiplier directly depends upon MPC. More MPC means more value of investment multiplier. It leads to more generation of national income Why does under developed economy grow slowly even though there is more MPC? Explain.

#### ANSWER OF 3 MARKS QUESTIONS

2. Given,  $\bar{C} = 100$ ,  $MPC = 0.8$

$$I = 50$$

At equilibrium

$$Y = AD = C + I$$

$$Y = \bar{C} + MPC.Y + I$$

$$Y = 100 + 0.8 \times Y + 50$$

$$Y (1 - 0.8) = 150$$

$$Y = 150/0.2 = \text{Rs. 750 crores.}$$

3.	Income	Consumption	MPC	APS
	(Rs. 1000)	Expenditure	( $\Delta C/\Delta Y$ )	(S/Y)
	0	40	-	-
	100	120	0.8	-0.2
	200	200	0.8	0
	300	280	0.8	0.067
	400	360	0.8	0.1
4.	Income	MPC	Savings	APS
	0	-	-90	-
	100	0.6	-50	-0.5
	200	0.6	-10	-0.05
	300	0.6	30	0.1

### **6 MARKS QUESTIONS**

6. Given  $S = -50 + .5Y$  and  $I = 700$

(i) At equilibrium

$$S = I$$

$$\text{So, } -50 + .5Y = 700$$

$$.5Y = 750$$

$$Y = \frac{750}{.5} = 1500$$

(ii)  $Y = C + S$

$$C = Y - S$$

$$= 1500 - 700 \text{ (as } I = S)$$

$$= 800$$

7. Here  $C = 75 + .9Y$

$$\text{and } I = 400$$

So,  $S = -75 + .1Y$

(i) at equilibrium

$$I = S$$

$$-75 + .1Y = 400$$

$$.1Y = 475$$

$$Y = \frac{475}{.1} = 4750, Y = 4750$$

(ii) at equilibrium

$$S = I$$

$$\text{So savings} = 400$$

13.	Income	Consumption	Saving	Investment	AD	AS
	(Y)	(C)	(S)	(I)	(C+I)	(C+S)
	0	60	-60	40	100	0
	100	140	-40	40	180	100
	200	220	-20	40	260	200

300	300	0	40	340	300
400	380	20	40	420	400
500	460	40	40	500	500
600	540	60	40	580	600
700	620	80	40	660	700

14. Given  $MPS = 0.2, Y = 4000$   
 $MPC = 0.8 \quad C = \bar{C} + 0.8Y$   
 $AD = C + I$  Given  
 $= \bar{C} + 0.8Y + \bar{I} \quad [\bar{C} + \bar{I} = \bar{A} = 50]$   
 $= \bar{A} + 0.8Y$   
 $AD = 50 + 0.8Y$   
 $AD = 50 + 0.8 \times 4000$   
 $= 3250$

In Equilibrium

$$AS = AD$$

$$Y = AD$$

$$4000 \neq 3250$$

Economy will not be in equilibrium because AD is not equal to AS.

15.  $K = \frac{\Delta Y}{\Delta I} = \frac{500}{100} = 5$

$$K = 5$$

$$K = \frac{1}{1 - MPC}$$

$$5 = \frac{1}{1 - \text{MPC}}$$

$$5 - 5\text{MPC} = 1$$

$$5 = 1 + 5 \text{ MPC}$$

$$5 - 1 = 5 \text{ MPC}$$

$$4 = 5 \text{ MPC}$$

$$\text{MPC} = \frac{4}{5} = 0.8$$

$$\text{MPC} = \mathbf{0.8}.$$

## CHAPTER-4

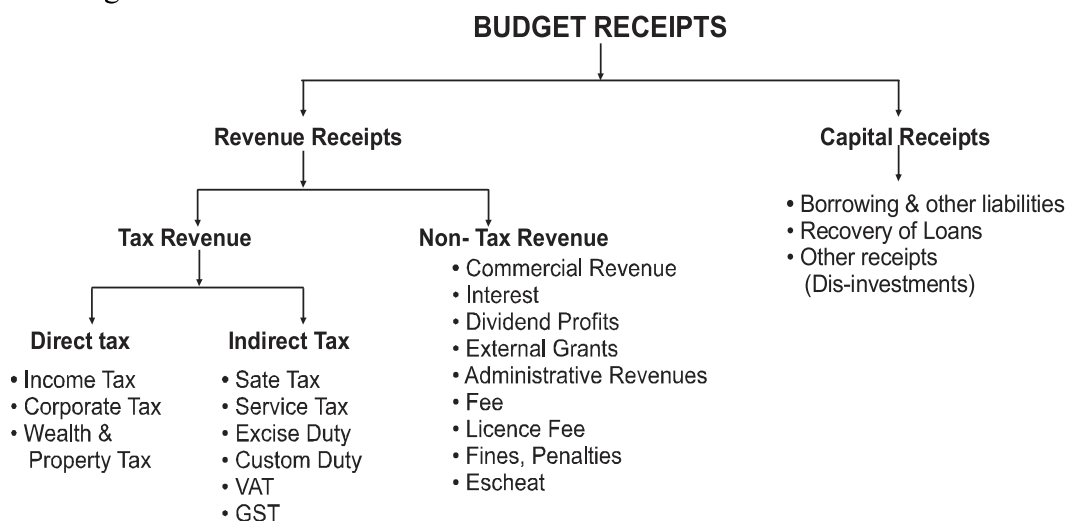
### Unit -IV

## GOVERNMENT BUDGET AND THE ECONOMY

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### Points to Remember:

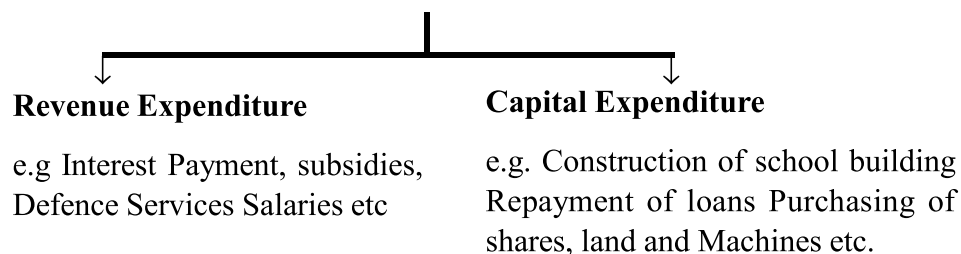
- **Budget** is an annual financial statement showing the expected receipt and expenditure of Govt, for the coming fiscal or financial year.
- **Main objectives of budget are .**
  - (i) Re-allocation of resources.
  - (ii) Re-distribution of income and wealth
  - (iii) Economic Stability
  - (iv) Management of Public enterprises.
- There are two components of budget:
  - (a) Revenue budget      (b) Capital budget
- **Revenue Budget** consists of revenue receipt and revenue expenditure of the government.
- **Capital budget** consists of capital receipts and capital expenditure of the government.





- **Direct Tax :** When Government imposes a tax on a person and paid by the same person is called direct tax. Its burden cannot not be shifted to others. For example : Income Tax, Property Tax.
- **Indirect Tax :** When Government imposes a tax on a person but partially or wholly paid by other person is called indirect tax. Its burden can be shifted to others. For example : Sales Tax, Exci duty VAT. GST.
- **Revenue Receipts :**
  - (i) Neither creates liabilities for government.
  - (ii) Nor causes any reduction in assets.
  - (iii) Recurring in nature.
- **Capital Receipts :**
  - (i) Either creates liabilities of the government.
  - (ii) or reduces assets of the government.
  - (iii) Non-recurring in nature.

### **BUDGET EXPENDITURE**



- **Revenue Expenditure :**
  - (i) Neither creates assets
  - (ii) Nor reduces liabilities
  - (iii) Recurring Nature
- **Capital Expenditure :**
  - (i) Either creates assets
  - (ii) Nor reduces liabilities.
  - (iii) Non-recurring Nature

- Revenue deficit is the excess of total revenue expenditure over total revenue receipts of the government.

**Revenue Deficit** = Total revenue expenditure > Total revenue receipts

- Implications of Revenue Deficit are :

- (i) It leads to repayment burden in future without investment.
- (ii) It shows wasteful expenditures of Govt. on administration.
- (iii) It increase the burden of taxes.

- **Fiscal Deficit** = Fiscal deficit is the excess of the government total expenditure over total receipts excluding borrowing.

**Fiscal Deficit** = Total expenditures - Total Receipts excluding borrowing.

- **Implications of Fiscal Deficits are :**

- (i) It leads to inflationary pressure.
- (ii) A country has to face debt trap.
- (iii) It reduces future growth and development.

- **Primary Deficit** = By deducting Interest payment from fiscal deficit we get primary deficit.

**Primary Deficit** = Fiscal deficit - Interest payments.

**EXAM. ORIENTED QUESTIONS WITH ANSWER**  
**VERY SHOT ANSWER QUESTION (1 MARKS)**

**Multiple Choice Questions (1 Marks)**

- An example of a direct tax is-
 

(a) GST	(b) VAT
(c) Income Tax	(d) Sales Tax
- Direct tax is the tax which is imposed on
 

(a) Corporations	(b) Sales of goods
------------------	--------------------

- (c) Production of Goods (d) Services Providers
3. Which of the following is not a revenue receipts for government?
- (a) Disinvestment (b) Income Tax
- (c) Fee & Fines (d) Profits & dividends of PSUs
4. The policy useful to reduce inequalities of income is the
- (a) Industrial Policy (b) Population policy
- (c) Budgetary policy (d) Foreign policy
5. budgetary policies are implemented by
- (a) Foreign Ministry (b) Finance Ministry
- (c) Reserve Bank of India (d) Commercial Banks
6. Capital Receipts are these which.....
- (a) create new assets for government
- (b) create Liability for the government
- (c) do not create assets for government
- (d) do not create liability for the government
7. Disinvestment is a
- (a) Capital Expenditure (b) Revenue expenditure
- (c) Capital Receipt (d) Revenue Receipt
8. Total interest payment on government borrowings is not a part of -
- (a) Primary Deficit (b) Revenue Deficit
- (c) fiscal Deficit (d) Budgetary Deficit

**Fill in the blanks (1 marks.)**

9. Custom duty is a/an.....tax.
10. Goods and services tax is a/an.....tax

**True/ false type questions.**

11. The budget speech is given by the finance Minister.

12. Central excise duty is direct tax

**Answer Key**

- 1-c, 2-a, 3-a, 4-c, 5-b, 6-b, 7-c, 8-a  
9- Indirect, 10-Indirect, 11-Ture, 12- False

**QUESTIONS WITH ANSWERS**

**3-4 MARKS**

- Q.1. Explain the ‘redistribution of income’ objective of a government budget.

**OR**

Explain how the government budget can help in a fair distribution of income in the economy.

- Q.2. Explain the “Reallocation of resources” objective of a government budget.  
Q.3. Distinguish between revenue receipts and capital receipts with the help of example:  
Q.4. Distinguish between Revenue Expenditure and Capital Expenditure with the help of example:  
Q.5. Distinguish between Direct and Indirect Tax :  
6. What is meant by fiscal deficit. Write its implications.  
7. What is revenue deficit ? State its implications.  
8. Calculate (1) Revenue deficit (2) Fiscal Deticit (3) Primary Deficit by following Data :

(Rs. Crore)

1.	Capital Receipts other than borrowings	95
2.	Revenue Expenditure	100
3.	Interest payment	10
4.	Revenue Receipts	80
5.	Capital Expenditure	110

Ans. 1. Revenue deficit = Revenue expenditure - Revenue Receipts

$$= 100 - 80 = \text{Rs. 20 Crore.}$$

2. Fiscal Deficit = (Revenue Expenditure + Capital Expenditure) - Revenue Receipts - Capital receipts net of borrowings

$$= 100 + 110 - 80 - 95 = \text{Rs. 35 Crore.}$$

3. Primary deficit = Fiscal Deficit - Interest Payment

$$= 35 - 10 = \text{Rs. 25 Crore.}$$

9. Find (a) fiscal deficit (b) primary deficit.

<u>Items</u>	<u>In Rs. Crore</u>
(i) Revenue expenditure	70,000
(ii) Borrowings	15,000
(iii) Revenue Receipts	50,000
(iv) Interest Payments	25% of Revenue deficit

**Sol.** Revenue Deficit = Revenue exp - Revenue Rec

$$= 70,000 - 50,000$$

$$= 20,000 \text{ crore}$$

Interest Payment = 25% of Revenue deficit

$$= 25 \times 20,000$$

$$100$$

$$= 5,000 \text{ crore}$$

(a) Fiscal Deficit = Borrowings

$$= 15,000 \text{ crore}$$

(b) Primary Deficit = Fiscal Deficit - Interest Paymen

$$= 15000 - 5000 = 10,000 \text{ crore}$$

**UNIT-V**  
**CHAPTER - 5**  
**BALANCE OF PAYMENT**

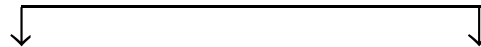
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**Points to Remember**

- ❑ The balance of payment is a comprehensive and systematic record of all economic transaction between normal residents of a country and rest of the world during an accounting year.

In other words BOP is a record of inflows and outflows of foreign exchange.

**ACCOUNTS OF BALANCE OF PAYMENTS**



**Current Account**

The current account records exports and imports of goods country and services and unilateral transfers.

**Components of**

**Current Account**

1. (Import and export of goods) (Visible items).
2. (Import and export of services) (Invisible items).
3. Unilateral transfers

**Capital Account**

It records all such transactions between normal residents of a and rest of the world which cause change in assets and liabilities during an accounting years.

**Components of**

**Capital Account**

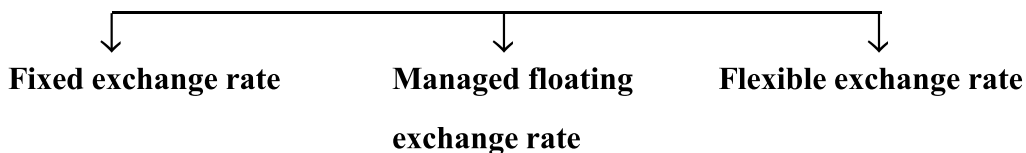
1. Foreign Direct investment and portfolio investment.
2. Foreign loans
3. Change in foreign exchange reserve.

- ❑ The components of current account do not cause a change in assets or Liabilities

status of the residents of a country or its Government.

- ❑ The components of Capital accounts cause change in assets or Liability status of the residents and the Government of a country.
- ❑ Balance of trade is the net difference of import and export of all visible items between the normal residents of a country and rest of the world.
- ❑ **Autonomous items** are those items of balance of payment which are related to such transaction as are determined by the motive of profit maximisation and not to maintain equilibrium in balance of payments. These items are generally called 'Above the Line items' in balance of payment.
- ❑ **Accommodating items** refers to transactions that take place because of other activity in Balance of payment. These transactions are meant to restore the Balance of payment identity. These items are generally called 'Below the Line items'.
- ❑ **Deficit of BOP Account:** When total inflows of foreign exchange on account of autonomous transaction are less than total outflows on account of such transaction then there is a deficit in BoP.
- ❑ **Foreign Exchange Rate:** Foreign exchange rate refers to the rate at which one unit of currency of a country can be exchanged for the number of units of currency of another country.

#### SYSTEM OF EXCHANGE RATE



- ❑ **Fixed Exchange Rate :** In fixed exchange rate system, the rate of exchange is officially fixed or determined by Government or Monetary Authority of the country.
- ❑ **Flexible or Floating Exchange Rate :** In a system of flexible exchange rate (also known as floating exchange rates), the exchange rate is determined by the forces of market demand and market supply of foreign exchange.

The demand of foreign exchange has inverse relation with flexible exchange rate. If flexible exchange rate rises the demand of foreign exchange falls and Vice versa.

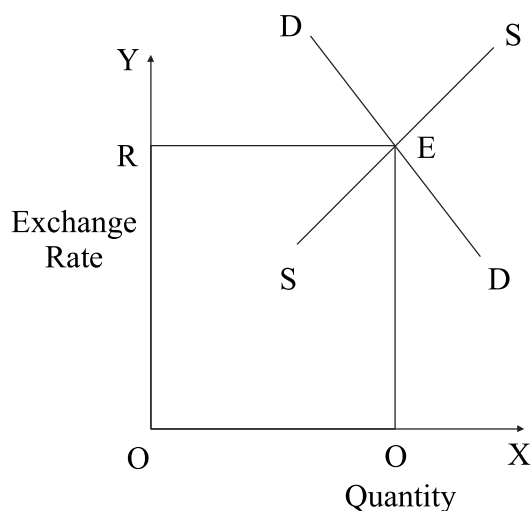
### **SOURCE OF DEMAND FOREIGN EXCHANGE**

- (a) Imports & direct purchase from row
- (b) Investment abroad
- (c) Speculation
- (d) Tourism visits to rest of the world

### **SOURCES OF SUPPLY OF FOREIGN EXCHANGE.**

- (a) Exports & Direct Purchases by Foreign Tourists
- (b) Foreign Investments
- (c) Remittances Received from Abroad
- (d) Speculation.

- ❑ **Determination of Equilibrium Foreign Exchange Rate:** Equilibrium foreign exchange rate is the rate at which demand and supply of foreign exchange are equal. Under free market situation, it is determined by market forces i.e., demand for and supply of foreign exchange. There is inverse relation between demand for foreign exchange and exchange rate. There is direct relationship b/w supply of foreign exchange and exchange rate. Due to above reasons demand curve is downward sloping and supply curve is upward sloping curve. Graphically, intersection of demand curve and supply curve determine the equilibrium foreign exchange rate (i.e.).





- ❑ **Devaluation of a Currency :** When government or monetary authority of a country officially lowers the external value of its domestic currency (in respect of all other foreign currency) is called devaluation of a currency. It takes place by government order under fixed exchange rate system.
- ❑ **Revaluation of a currency :** When government or monetary of a country officially raises the external value of its domestic currency (in respect of all other foreign currency) is called revaluation. It takes place by government order under fixed exchange rates system.
- ❑ **Currency depreciation** there is a fall in the value of domestic currency, in terms of foreign currency due to change in demand and supply of the currency under flexible exchange rate system.
- ❑ **Currency appreciation,** there is a rise in the value of domestic currency in terms of foreign currency due to change in demand and supply of the currency under flexible exchange rate system.
- ❑ **Managed floating system** is a system in which the central bank allows the exchange rate to be determined by market forces but intervenes at times to influence the rate. When central bank finds the rate is too high, it starts selling foreign exchange from its reserve to bring down it. When it finds the rate is too low. It starts buying to raise the rate.

**It is also known as DIRTY FLOATING**

Read the following headline and answer Q 1 & 2 on the basis of the same.

Rupee settles 6 paise down at 71.34 against US dollar.

1. The above news implies that rupee has ----- (depreciated/appreciated) against the US dollar.
2. This change in the value of the rupee unit leads to ----- (increase/decrease) in demand for dollar.
3. Import of machine will be entered on ----- side of ----- account of BOP.
  - (a) Credit, Capital
  - (b) Debit, Capital
  - (c) Credit, Current

- (d) Debit, Current
4. Exports are a part of ----- account of the BOP (Capital/Current)
  5. Devaluation of a currency refers to fall in the value of the currency due to demand and supply forces in the foreign exchange market (True/False)
  6. Other name of managed floating is -----.
  7. A surplus in BOT means
    - (a) Total Imports > total exports
    - (b) Total exports > total imports
    - (c) Visible imports > visible exports
    - (d) Visible exports > Visible imports
  8. Following is not a source of demand for foreign exchange.
    - (a) Imports
    - (b) Tourism to ROW
    - (c) Borrowing
    - (d) Investment abroad.
  9. Exchange rate and supply of foreign exchange are positively related. (True/False)
  10. Automomens receipts = Rs.500 crore  
 Automomous payments = Rs. 710 crore.  
 Then, Official Reserve Transactions = -----
  11. Positive official Resource Transactions implies (impluse/deficial) in BOP.
  12. Following is not a part of Current account of BOP
    - (a) Export of goods
    - (b) Foreign Direct Investment
    - (c) Export of services
    - (d) Import of Goods.

13. If Balance of Trade is showing a deficit of Rs.400 and visible imports are Rs.1200, How much are visible exports?
- (a) 1600
  - (b) 1000
  - (c) 800
  - (d) 400
14. A Surplus in BOT always implies a surplus in BOP (True/False)
15. Identify the correct statement
- (a) Current account includes visible trade
  - (b) A deficit in BOP means net increase in foreign exchange reserves of an economy
  - (c) Borrowings are included on debit side of capital account
  - (d) Unilateral transfers are a part of capital account
16. ORT (Official Reserve Transactions) is an (autonomous/accommodating) item.

### **ANSWER KEY**

- 1. Depreciated
- 2. Decrease
- 3. (d) Debit, Current
- 4. Current
- 5. False
- 6. Dirty floating
- 7. (d)
- 8. (c)
- 9. True
- 10. Rs.210 crore

11. Deficit
12. (b)
13. c
14. False
15. (a)
16. Accomodating

<b>SHORT ANSWER QUESTIONS</b> <b>(3-4 Marks)</b>
---

1. Explain the effect of depreciation of domestic currency on exports.
2. 'Devaluation and depreciation of currency are the same thing defend or refute the statement with valid reasons.'
3. 'Rate of exchange and supply of foreign currency are positively related' Give reasons.
4. How does giving incentives for exports influence foreign exchange rate? Explain.
5. When is BOP said to be in deficit? Explain the role of official reserve transactions in this regard.
6. Distinguish between Autonomous and Accommodating items of the BOP. Give examples.
7. Study the data given below and calculate.
  - (a) Balance of trade
  - (b) Balance on Current Account
  - (c) Balance of Payment.
  - (d) Comment on the status of BOP of this economy.

Item	(Rs.)
1. Export of Good	1500
2. Export of Services	2000
3. Import of Goods	2400
4. Import of Services	2600
5. Capital receipts	5200
6. Capital Payments	4500
7. Net transfers from Abroad	500
8. Differentiate between fixed and flexible system of exchange rate.	
9. Explain managed floating. How is it different from flexible exchange rate system?	

**LONG ANSWER QUESTIONS**

**(6 Marks)**

1. Why does demand for foreign exchange rise when exchange rate falls? Explain.
2. Explain 3 sources of demand and 3 sources of supply of foreign exchange.
3. Explain the working of managed floating.

**SOLUTION TO Q7 (Numerical)**

(a) Balance of Trade

$$= (1) - (3)$$

$$= 2400 - 1500 = \text{Rs.}900$$

**UNIT - 06**

**DEVELOPMENT EXPERIENCES (1947 - 90) AND ECONOMIC REFORMS SINCE 1991**

1. Indian Economy On The Eve Of Independence
2. Indian Economy (1950 - 90)  
(Common Goals of Five Years Plan : Development During Planning Era)
3. Economic Reforms Since 1991

**UNIT - 07**

**CURRENT CHALLENGES FACING INDIAN ECONOMY**

4. Poverty
5. Rural development
6. Human Capital Formation
7. Employment
8. Infrastructure
9. Sustainable Economic Development

**UNIT - 08**

**DEVELOPMENT EXPERIENCE OF INDIA**

10. A comparison with neighbours:
  - (a) India and Pakistan
  - (b) India and China

**UNIT - VI**  
**CHAPTER - 1**  
**INDIAN ECONOMY ON THE EVE OF INDEPENDENCE**

**Introduction**

The structure of India's present day economy is not just of current making; it has its roots steeped in history. Before British colonization, India was known as "Sone ki Chidiya" or "The Golden Bird". The sole purpose of the British colonial rule in India was to reduce the country to being a raw material supplier for Great Britain's own rapidly expanding modern industrial base. An understanding of the exploitative nature of this relationship is essential for any assessment of the kind and level of development which the Indian economy has been able to attain over the last seven decades.

**Features of Indian economy**

India had an independent economy before the advent of the British rule.

- agriculture was the main source of livelihood for most people.
- India was particularly well known for its handicraft industries in the fields of cotton and silk textiles, metal and precious stone works etc.
- Worldwide high standards of craftsmanship were seen in all imports from India.

The economic policies pursued by the colonial government in India were concerned more with the protection and promotion of the economic interests of their home country than with the development of the Indian economy. Such policies brought about a fundamental change in the structure of the Indian economy transforming the country into supplier of raw materials and consumer of finished industrial products from Britain. On the eve of independence, Indian economy had the following features:

**1. Low level of National income and per capita income and its growth rate:**

There was no official body in India to prepare National Income estimate before Independence, the same was prepared by some eminent personalities in their personal capacity. Dadabhai Naoroji, called the Grand Old Man of India, was the pioneer in this field. He prepared the first estimates of National income in 1876. The first person to adopt a scientific procedure in estimating the national

income was Dr. V.K.R.V. Rao in 1931. Among the notable other estimators..... William Digby, Findlay Shirras, and R.C. Desai etc. In 1947-48, per capita income was Rs.280. The average annual growth rate of national Income and per capita income in India were 2.0% and 0.5% approximately.

2. **Backwardness of Agricultural Sector:** Before 1947, over 95% of the country's income came from its agricultural activity. About 85 percent of the country's population lived mostly in villages and derived livelihood directly or indirectly from agriculture. Agricultural productivity became low due to under cultivation, forced commercialization agriculture (neel farming, chaibagan, etc), and various systems of land settlement as zamindari, ryotwari and malhalwart. Particularly, under the zamindari system which was implemented in the then Bengal Presidency comprising parts of India's present-day eastern states, the profit accruing out of the agriculture sector went to the zamindars instead of the cultivator. Due to partition the India's part of Bengal had Jute producing land and East-Pakistan had Jute Mills.
3. **Low Industrial Base Slow Industrial Growth:-** Before the British period, India's well-known industry was the handicraft and textile industry. India was well-known for its industries in cotton and silk textiles as well. And in addition, Indians were excellent in metal and precious stonework as well. When the Britishers came, they were followers of de-industrialization in India. The primary motive of the colonial government behind this policy of systematically de-industrialising was two fold-
  - (1) To reduce India to the status of a mere exporter of important raw materials for the upcoming modern industries in Britain.
  - (2) To turn India into a sprawling market for the finished products of those industries so that their continued expansion could be ensured to the maximum advantage of their home country - Britain.

(3) The decline of the indigenous handicraft industries created...

  1. Massive unemployment in India
  2. New demand in the Indian consumer market.
  3. Deprived of the supply of locally made goods.
  4. Increase imports of cheap manufactured goods from Britain.



1. Industry confined to cotton and jute textile mills.
2. iron and steel industries came up. Tisco was incorporated in 1907
3. Other industries included sugar, cement, paper etc. which came up during Second World War.
4. operation of the public sector was very limited in the industrial sector
5. there was a lack of basic and heavy industries.

**(4) Foreign trade characteristic:**

- (a) Net exporter of raw material likes, silk, Cotton, Wool, Sugar, Neel, Patson, unit etc and importer of finished goods.
- (b) Britain had monopoly control on foreign trade.
- (c) Drain of wealth from India.

Though there was expect surplus, the money was used for meeting administrative expenses of the British Government.

**5. Adverse Devographic condition**

- (a) The first regular consus of India was conducted in 1881.
- (b) 1921 is known as Great Divide in population growth rate. Before 1921, India was in the first stage of demographic transition. The second stage started after 1921.

**(5) Adverse demographic condition:-**

- (c) High death rate - 45 per thousand.
- (d) High infrant mortality rate ; 218 per thousand.
- (e) Mass illitaracy - 16% literate.
- (f) Low life expectancy - 32 years
- (g) Low standard of living - people used to spend 80% to 90% of their income on basic needs.
- (h) Lack of public health facilities.

**(6) Underdeveloped infrastructure:-**

Absence of good roads, electricity generation, health, education and communication. However some efforts have been made to develop basic infrastructure like roads, railways, ports, water transport, post and telegraph by the British rulers. The main motive was not to provide basic amenities to the Indian people but for their colonial interest.

**(7) More Dependency on primary sector occupation structure:-**

- (a) Largest share of work force i.e. 72% of total work force was engaged in agriculture and allied sector.
  - (b) 10% work force in manufacturing 18% workforce were engaged in service sector.
- **Some positive side - effects of the British Rule in India.**
    - (a) To provide transport facilities. largely in terms of railways.
    - (b) Development of ports.
    - (c) Provision of post and the telegraph services.
    - (d) British govt. left a base of a strong and efficient administrative set up.
    - (e) Political and economic integration of the country.
    - (f) Evolution of Banking and monetary system.
  - **Some negative side effects of the British Rule in India:-**
    - (a) Decline of Indian handicraft industry.
    - (b) Net exporter of raw material and importer of finished goods.
    - (c) Britain had monopoly control on foreign trade.
    - (d) Forced commercialisation of agriculture.

## **QUESTION BANK**

### **ONE (1) MARKS QUESTIONS:-**

- (1) What do you mean by infant mortality rate?
- (2) What is meant by commercialisation of agriculture?
- (3) What was the infant mortality rate of Indian during British rule?
- (4) State the life expectancy in Indian during British rule?
- (5) What does the export surplus mean?
- (6) The British official census in India occurred in which year?
- (7) Which industries were adversely effected dur to partition?
- (8) Give the name of one economist who estimated India's per capita income during colonial period?
- (9) At the time of independence literacy rate was?
- (10) What percentage of India's working population was engaged in secondary sector during British rule?

### **THREE & FOUR (3 & 4) MARKS QUESTIONS:-**

- (1) Mention four features of India's agriculture on the eve of information.
- (2) How would you explain the drain of wealth during the British rule?
- (3) Discuss occupational structure of Indian economy at the time of Independence.
- (4) State three main features of Indian economy at the time of independence.
- (5) Mention the state of Indian Industries on the eve of independence.
- (6) Explain positive effects of introduction of railways by colonial Govt. in India.

### **SIX (6) MARKS QUESTIONS:-**

- (1) What are the main causes of India's agricultural stagnation during the colonial

period?

- (2) Give a quantitative appraisal of India's demographic profile during the colonial period.
- (3) Critically appraisal some o the shortfalls the industrial policy pursued by the British colonial rule.
- (4) Discuss positive countribution of british in India if any.

### **VERY SHORT ANSWER QUESTIONS (1 Mark)**

1. Read the following statements Assetion (a) and Reason (R) choose the correct alternative given below.

Assertion (A): Indian became exporter of raw material and importe of finished goods during colonial period.

Reason (R): The trade policies followed by the British affected the composition, structure and volume of foreign trade.

#### **Altenatives:**

- (a) Both Assertion (A) and Reason (R) are true and (R) is correct explanation of (A)
  - (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)
  - (c) (A) is true but (R) is false
  - (d) (A) is false but (R) is true.
2. Assertion (A): Agriculture in India during colonial rule was stagnant and backward

Reason (R): About 85% of Indian population was dependent on agriculture during British rule.

#### **Alternatives:**

- (a) Both (A) and (R) are true and (R) is the correct explanation for (A)
  - (b) Both (A) and (R) are true and (R) is not the correct explanation for (A)
  - (c) (A) is true but (R) is false

(d) Both (A) and (R) are false.

"Being a colonial country India had to pay a large sum from England's industrialisation scheme. India was forced to supply raw material for triggering industrial revolution with great rapidity in England. India was then forcibly transformed from being a country of combined agriculture and manufacture into an agricultural colony of British manufacturing capitalism.

Based on the article above, answer the Q 3 - 5

3. During colonial rule India was forced to export ..... (raw material/ finished good)
4. Colonial led to decline of .....(steel/Handicraft) industry in India
5. Rapid industrialisation in England forced ----- (commercialisation/ modernisation) of agriculture in India
6. TISCO was set up in which year?
  - (a) 1901
  - (b) 1900
  - (c) 1853
  - (d) 1907
7. The first official census of India was conducted in
  - (a) 1891
  - (b) 1781
  - (c) 1881
  - (d) 1901
8. Which of the following is a cash crop?
  - (a) Rice
  - (b) Wheat
  - (c) Jute
  - (d) Jowar
9. The demographic profile of India on the eve of independence showed
  - (a) High poverty
  - (b) High mortality rate
  - (c) High illiteracy
  - (d) All of the above
10. The British developed infrastructure in India to develop Indian economy. (True/False)

**Answer Key**

1. (a)
2. (b)
3. raw material
4. Handicraft
5. commercialisation
6. (d)
7. (c)
8. (c)
9. (d)
10. false.

#### **ANSWERS OF ONE MARK QUESTIONS**

- (1) Infant mortality rate means number of deaths of children below the age of one year per thousand.
- (2) Commercialisation of agriculture means production of crops for sale in the market rather than for self-consumption.
- (3) Infant mortality rate 218 per thousand.
- (4) Life expectancy was 32 years.
- (5) When export of a country is more than import.
- (6) 1881
- (7) Jute and Textile industries.
- (8) Prof. V.K.R.V. Rao and Dada Bhai Nauroji
- (9) 16%
- (10) 10%

**UNIT - VI**  
**CHAPTER - 2**  
**INDIAN ECONOMY (1950-1990)**

**Five Year Plans**

After independence of India, the leaders had to decide to choose a better economic system which will suit and promote the interests of the masses of India. Nehru and the other leaders of independent India sought an alternative to the extreme types of capitalism and socialism practiced in the world elsewhere. They formed an economic system which combined the best of both capitalism and socialism i.e. mixed economy in 1948 with First Industrial Policy of India.

The government would plan for the economy while encouraging the private sector to be a part of the plan effort Planning Commission was set up in 1950 and the Prime Minister was its chairperson. With the setting up of the planning commission, the era of five year plans had begun.

• **Common Goals of Five Years Plans**

Any five plan should have strategic and specific goals which it should aim to fulfill. The common goals of the five year plans are:

- (i) Growth
  - (ii) Modernisation
  - (iii) Self reliance
  - (iv) Equity
- (i) **Growth:** Growth refers to the increase in the production capacity of our country i.e. more production of goods and also the increase of services within the country. This means a large stock of productive capital or a large quantity of supporting services like transport and banking or an increase in the efficiency of the productive capital and services of the country.
- (ii) **Modernisation:** In order to increase the production of goods and services, the producers have to use new technology. Adoption of new technology is modernisation. For example, farmers can use a new hybrid seed variety instead

of the old ones to increase crop yield. Modernisation just not refer to just adoption of new technology. It also refers to changes in the thinking and social outlook of the people of our country. Giving equal rights to women is an example of modernisation. In a traditional society, women are restricted to do only household chores, whereas in a modern society they are given opportunities to work in all the sectors like banking, schools, factories etc. This kind of modernisation makes a society more civilized and prosperous.

(iii) **Self Reliance:** The economic growth and modernisation of a nation can be promoted in two ways:

- (i) Using resources imported from other countries.
- (ii) Using its own resources

The first seven five year plans stressed and gave a lot of weightage to self reliance meaning avoiding import of goods which can be produced in our country itself. This policy was considered essential in a bid to reduce our dependence on other nations, mostly for food. A newly independent nation would obviously stress on the need for self reliance. It was also feared that a dependence on foreign nations would make our sovereignty vulnerable.

(iv) **Equity:** All the above three mentioned goals by themselves would not lead to the betterment of the standard of living of the people of a nation unless there is equality. If modernisation, growth and self-reliance does not reach the poorer sections of a country then only the rich would enjoy the benefits of economic prosperity. So apart from modernity, growth and self-reliance, every Indian should be able to meet his or her basic needs like food, clothing, housing, education and healthcare, Inequality in the distribution of wealth and economic prosperity had to be reduced.

Planning is current Scenario

1. Planning commission was replaced by NITI Aayog (National Institution for Transforming India) on 1 January 2015
2. Its objectives are
  - (a) to work as think tank of India
  - (b) To promote cooperative federalism



- (c) to promote sustainable development
- (d) To ensure decentralisation in policy making.

## I - AGRICULTURE

In 1951, about 59 percent of national income was generated in the agriculture sector. About three-fourths of India's total population found their livelihood in agriculture. During the colonial rule, there was neither growth nor equity in the agriculture sector. Therefore planners gave top priority to the agricultuer sector.

- **Role of agriculture sector**

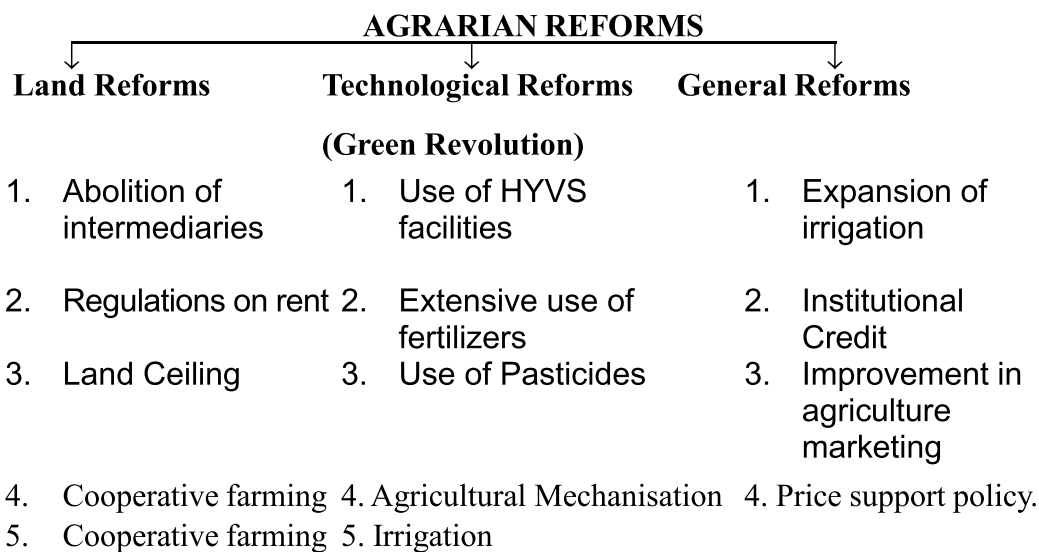
1. Largest Share in national income
2. Largest Share in employment
3. Base of industrial development
4. Important role in the Foreign Trade.
5. Major part of household consumption.

- **Problems of Indian agriculture**

Indian agriculture face a number of prolems which are stated below:

Problems of Indian Agriculture		
General Problems	Institutional Problems	Technical Problems
1. Social Problems	1. Defective Tendency of/land reforms	1. Obsolete Techniques of production
2. Pressure of population on land	2. Lack of credit Availability	2. Cropping pattern
3. Subsistence farming	3. Marketing facilitie	3. Lack of irrigation facilities
4. Land degradation	4. Size of land holdings	4. Illiteracy
5. Crop losses		

- **Agricultural policies and programmes during 1950-50**



- **Green Revolution**

**The New agricultural strategy** was put into practice for the first time in India in the kharif season of mid-sixty. This was termed as 'High-Yielding Varieties programme' (HYVP) as the basic element of this strategy was the application of HYVP. The programme was introduced in the form of a 'Package Programme'.

**Phases of Green Revolution-**

- (a) First Phase - mid 1960s upto mid 1970s.
- (b) Second Phase - mid 1970s upto mid 1980s.

- **Features of Green Revolution**

- 1. Use of High Yielding Varieties of Seeds (HYVS).
- 2. Use of chemical fertilizers.
- 3. Adequate irrigation facilities.
- 4. Use of pesticide.

- **Effects of Green revolution**

- 1. Marketable Surplus = Total Production - Self Consumption.
- 2. Attaining marketable surplus.

3. Buffer stock of food grains.
4. Benefits to low income groups.

- **Drawbacks of Green revolution**

1. Confined to food crops and limited area of country.
2. Limited coverage
3. Inequality among farmers. Big farmers received greater benefits.

- **Subsidies to the farmer**

It means supply of certain inputs to the farmers at lower than the market rate.

- **In favour of subsidies**

1. Most farmers in India are poor and will not be able to afford the required inputs without subsidies.
2. Elimination of subsidies will increase the inequality between rich and poor farmers.

- **Against the subsidies**

1. The purpose of subsidies has been served so it should be phased out.
2. Subsidy does not benefit the target group it only benefits the farmers in the prosperous regions.

## **II - Industry**

- **Importance of Industry**

1. Employment generation
2. Development of agriculture
3. Exploitations of resources
4. Productivity of labour
5. High potential for growth
6. Key to high volume of exports
7. Leads to self- sustaining development

8. Promotion of regional balances.
  - **Industrial policy of 1956 (Industrial Policy Resolution)**
    1. Classification of Industries - This policy classified industries into three categories.
      - (a) The first category included 17 industries which would be exclusively owned by the state, i.e. Public Sector. **(Schedule A)**
      - (b) The second category included 12 industries in which the private sector could supplement the effort of the state. But the state takes the sole responsibility for starting new units. **(Schedule B)**
      - (c) The third category consisted of the remaining industries which were to be in the private sector, i.e. Open for all public or private sector. **(Schedule C)**
    2. Industrial Licensing - Private sector was kept under state control through a system of license. No New industry was allowed unless License was obtained from the government.
    3. Development of small scale industries.
    4. Emphasis on industrial development.
    5. Technical Education and training.
  - **Role of Public sector**
    1. Creation of strong industrial base.
    2. Development of the infrastructure.
    3. Development of the backward areas.
    4. To mobilise savings and earn foreign exchange.
    5. To prevent concentration of economic power.
    6. To promote equality of income and wealth distribution.
    7. To generate employment, i.e. Job creation.
    8. To promote import substitution.
  - **Role of Small Scale Industries**
    1. Labour intensive technique.
-

2. Self employment
3. Less capital intensive.
4. Low import, i.e. Import substitution.
5. Export promotion
6. Equal distribution of income
7. De-centralisation of industries.
8. Seed beds for large scale industries.
9. Sustaining agricultural development.

• **Problems of Small Scale Industries**

1. Problems of finance.
2. Shortage of raw material.
3. Difficulties in marketing.
4. Outdated machines and equipments.
5. Underutilised export potential.
6. The Bureaucratic hurdles.
7. Competition from large scale industries.

**III-Trade Policy : Import Substitution Policy**

India adopted import substitution policy for a large part of the period 1950-90. The policy of import substitution is commonly called an Inward looking trade strategy. Government made use of two ways to protect goods produced in India from imports-

- (a) Tariff - It refers to taxes levied on imported goods.
- (b) Quotas - It refers to imposing the maximum limit on the imports of a commodity by a domestic producer.

• **Reasons For Import Substitution**

- (1) Industries of development countries, like India are not in a position to compete against the goods produced by more developed economies.

- (2) To save scarce foreign exchange for the import of essential goods.

**Objective Type Questions (1 Marks)**

- (1) Which institution replaced planning commission?
- (a) Finance commission
  - (b) Labour commission
  - (c) Five Year Plan
  - (d) NITI Aayog
- (2) When was planning commission established?
- (a) 15 March 1951
  - (b) 15 March 1950
  - (c) 1 April 1950
  - (d) 26 January 1950
- (3) The full form of NITI is
- (a) National Institute for Transforming India
  - (b) New India from Traditional India
  - (c) National Institution for Transforming India
  - (d) National Initiative for Transforming India
- (4) The period of first Five Year Plan was
- (a) 1950 - 1955
  - (b) 1951 - 1956
  - (c) 1947 - 1952
  - (d) 1949 - 1954
- (5) Who is regarded as the architect of Indian planning?
- (a) Pt. Jawahar Lal Nehru
  - (b) Planning Commission

- (c) Prasanta Chandra Mahalanobis
  - (d) Finance Minister
- (6) Which one is not a common objective of Five Year Plans in India?
- (a) Developing good relations with neighbouring countries
  - (b) Increase in national income of the country
  - (c) Reducing inequality
  - (d) Self reliance.
- (7) Ownership of resources is in private hands in \_\_\_\_\_ form of economic system. (capitalist/socialist)
- (8) Soviet union had \_\_\_\_\_ economic system. (capitalist/socialist).
- (9) P.C. Mahalanobis' birthday (29th June) is celebrated in India as
- (a) National Planning Day
  - (b) National Statistics Day
  - (c) National Policy Day
  - (d) International Statistics Day
- (10) Policy of import substitution was targeted to protect \_\_\_\_\_ industries. (Domestic/Imported)
- (11) Which is not a main problem of agriculture in India in 1950?
- (a) Low productivity
  - (b) Poor technology
  - (c) Monsoon dependence
  - (d) Over production
- (12) Which of the following is not part of land reforms in India
- (a) Land ceiling
  - (b) Import substitution
  - (c) Zamindari abolition

- (d) Land consolidation
- (13) New Agricultural Strategy is the other name of
- (a) Agriculture revolution
  - (b) Farm revolution
  - (c) Farmer revolution
  - (d) Green revolution
- (14) Green revolution is most successful in the crops of
- (a) Wheat and rice
  - (b) Wheat and potato
  - (c) Rice and coffee
  - (d) Rice and fish
- (15) Which is not one of the major initiative under Green Revolution
- (a) Use of pesticides
  - (b) Use of chemical fertilisers
  - (c) Better irrigation facilities
  - (d) Better transportation facility
- (16) The first phase of green revolution was between
- (a) 1960 - 1970
  - (b) 1965 - 1975
  - (c) 1970 - 1980
  - (d) 1975 - 1985
- (17) India imported food grains during early years of independence mainly from which country?
- (a) England
  - (b) Germany



- (c) USA
  - (d) Did not import
- (18) The share of agriculture sector in GDP is \_\_\_\_\_ than its share in occupational structure. (larger/smaller)
- (19) The licence policy aimed at
- (a) Regional equality
  - (b) Control on industrial output
  - (c) Either (a) or (b)
  - (d) Both (a) and (b)
- (20) Tariffs make imported goods cheaper (True/False)
- (21) Quotas put restrictions on imports which prevent the drain of foreign exchange reserves on the import of goods. (True/False)
- (22) "In the first seven plans, trade was characterised by what is commonly called an inward looking trade strategy."
- (a) Licensing
  - (b) Self reliance
  - (c) Mixed economy
  - (d) Import substitution
- (23) Read the following statements Assertion (A) and Reason (R). Choose the correct alternative from given below

**Assertion (A)** The economic justification of subsidies in agriculture is, at present, a hotly debated question.

**Reason (R)** Subsidy increases the effective price of farm inputs.

**Alternatives**

- (a) Both Assertions (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- (b) Both Assertions (A) and Reason (R) are true but Reason (R) is not the

correct explanation of Assertion (A)

(c) Assertion (A) is true, but Reason (R) is false.

(d) Assertion (A) is false, but Reason (R) is true.

(24) Match the following and select the correct option

i. First Five Year Plan Started	A	1955
ii. Karve Committee	B	1956
iii. TISCO	C	1951
iv. Industrial Policy	D	1907

Resolution

(a) i (C) ii (B) iii (A) iv (D)

(b) i (C) ii (D) iii (B) iv (A)

(c) i (A) ii (B) iii (C) iv (D)

(d) i (C) ii (A) iii (D) iv (B)

25. Match the following and select the correct option

i. Land Reforms	A	Seeds that give large proportion of output
ii. Subsidy	B	Chairperson of planning commission
iii. HYV seeds	C	The monetary benefit provided by government to producers and consumers
iv. Prime Minister	D	Improvements in the field of agriculture to increase productivity

(a) i (C) ii (B) iii (A) iv (D)

(b) i (C) ii (D) iii (B) iv (A)

(c) i (D) ii (C) iii (A) iv (B)

(d) i (A) ii (B) iii (C) iv (D)

### **Answers of objective Questions**

1. (d)            2. (b)        3. (a)        4. (b)        5. (c)        6. (a)    7. Capitalist
8. Socialist    9. (b)        10. Domestic    11. (d)        12. (b)    13. (d)
14. (a)            15.(d)        16. (b)        17. (c)        18. Smaller    19. (d)    20. False
21. true            22. (d)        23. (c)        24. (d)        25. (c)

**THREE & FOUR (3 & 4) MARKS QUESTIONS:-**

1. Discuss any three drawbacks of green revolution.
2. Discuss the role of small scale industries in the generation of employment.
3. Give three reasons why small scale industries should be encouraged in India?
4. Why there was a need for protection of small scale industries? State the steps undertaken by the government for their growth.
5. How were the industries classified according to IPR 1956?
6. Define Green revolution. Why was it implemented and how did it benefit the farmers?
7. Explain any three problems of Indian agriculture.
8. What do you mean by planning goal of self reliance?
9. Explain Growth with equity as a planning objective.

**SIX (6) MARKS QUESTIONS:-**

1. Critically appraise the development of agriculture between 1950 and 1990.
2. Explain the main features of the Industrial policy 1956.
3. Explain the problems of small scale Industry.
4. Explain any four objectives of planning committees.
5. "Subsidies put a huge burden on the government's finances, but are necessary for poor and marginal farmers" Comment.
6. Explain how import substitution can protect domestic industry.

## **CHAPTER - 3**

### **ECONOMIC REFORMS SINCE 1991**

#### **Need for Economic Reforms**

In the year 1991, India was facing an economic crisis relating of its external debt. The government was not able to repay the money it had borrowed from abroad.

- India was facing serious deficiency in her foreign trade balance and it was increasing.
- Since 1987-88 till 1990-91 it was increasing in such a rapid scale that by, the end of 1990-91 the amount of this deficit balance became 10,644 crores of rupees..
- At the same time the foreign exchange stock was also decreasing.
- In 1990 and 1991 the government of India had to take huge amount of loan from the IMF as compensatory financial facility.
- Even by mortgaging 47 tons of gold it had taken short term foreign loan from the Bank of England.
- At the same time, India was also suffering from inflation, the rate of which was 12% by 1991.
- The reasons of that inflation were the increase in the procurement price of the agricultural products for distribution, the increase in the amount of monetized deficit in the budget, increase of import cost and decrease in the rate of currency exchange and Administered price like.
- Thus India was facing trade deficit as well Fiscal Deficit. Hence the government of India had only two ways before it-
  1. To take foreign debt and to create favorable conditions within the country for increasing the flow of foreign exchange and also to increase the volume of export.
  2. The other was to establish fiscal discipline within the country and to make structural adjustment for the purpose.

#### **Main Features of Economic Reforms**

To get relief from such a grave problem the government of India had to introduce a package of reforms which included:

- To liberalise the industrial policy of the government.
- To invite foreign investment by privatization of industries.
- Abolishing the license system as a part of that liberalisation.
- To make the import-export policy of the country more liberal and so that the export of goods may become more easy and the necessary raw materials and instruments for both industrial development and production of exportable commodities may be imported and also to facilitate free trade by reducing the import duty.
- To decrease the value of domestic currency rupees in terms of dollar i.e. devaluation.
- To take huge amount of foreign debt from the IMF and the World Bank of rejuvenating the economic condition of the country and to introduce the structural adjustment in the economic condition of the country as a pre-condition of that debt.
- To reform the banking system and the tax structure of the country and
- To establish market economy by withdrawing and restricting government interference on investment.

### **Liberalisation, Privatisation and Globalisation (LPG) Policies**

The new model of economic reforms is commonly known as the LPG or Liberalisation, Privatisation and Globalisation model. The primary objective of this model was to make the economy of India the fastest developing economy in the globe with capabilities that helps it match up with the biggest economies of the world.

1. **Liberalisation:** Liberalisation refers to a relaxation of government policy. The economic liberalisation in India denotes the continuing financial reforms which began since July 24, 1991.
2. **Privatisation:** Privatisation refers to the participation of private ownership from the public sector (or government) to the private sector as well entities in business and services and transfer of ownership from the public sector (or government)

to the private sector as well.

3. **Globalisation:** Globalisation stands for the integration and consolidation of the various economies of the world.

Given below are the salient highlights of the Liberalisation, Privatisation and Globalisation Policy in India:

- Foreign Technology Agreements
- Foreign Investment
- MRTP Act, 1969 (Amended)
- Industrial Licensing Deregulation
- Beginning of privatization and disinvestment
- Opportunities for overseas trade
- Steps to regulate inflation
- Tax reforms
- Financial sector reforms
- Banking reforms
- Abolition of License-Permit Raj

### **An Appraisal of LPG Policies**

The concepts of liberalisation, privatisation and globalisation are actually closely related to one another. The advent of globalisation as a result of liberalisation, privatisation and globalisation has both positive and negative impacts on our economy.

While one group of people argue that globalisation provides greater opportunities, opens up new markets, promotes the use of better technology and increases the efficiency of production.

Another group of people feel it does not protect the domestic industries particularly in developing nations. From India's perspective, globalisation has improved our conditions of living and opened up employment in fields like entertainment, Information Technology (IT), Telecommunication, Travel and Hospitality.

### **Demonetisation**

Demonetisation is a process of stripping a currency unit of its status as a legal tender. demonetised currency notes no longer remain valid as legal currency. For example, Govt. India, demonetised rupees 500 and Rs.1000 currency notes on 8th November, 2016. The demonetization was mainly to curb black money.

### **Goods and Services Tax (GST)**

GST is a unified indirect tax system in India that came into effect from July 2017. GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at national level under which no distinction is made between goods and services for levying tax. Most of the indirect taxes have been submerged into GST. GST is expected to generate additional revenue for the government, reduce tax evasion and create 'one nation, one tax and one market'.

#### **Positive impacts of Economic Reforms**

1. High economic growth rate
2. Increase in Foreign investment
3. Increase in forex reserve
4. Controlled inflation
5. Changes in export structure
6. Changes in export direction
7. Establishment of consumer sovereignty

#### **Negative impacts of Economic Reforms**

1. Marginalization of agriculture
2. Jobless economic growth
3. Unequal income distribution
4. Profit oriented society
5. Negative impacts of privatization
6. Over exploitation of natural resources
7. Environmental degradation.

<b>Very short answer questions</b>
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<b>(1 Marks)</b>
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Q- 1: Identify which of the following is not a trade policy reforms?

- a. Removal of licensing procedures for imports.
- b. Removal of export and import duties.

c. Removal of quantitative restrictions on imports.

d. To provide Incentives to increase imports.

Q- 2: State whether true or false

Role of RBI was reduced from regulator to facilitator of financial sector under financial sector reforms.

Q- 3: Identify the incorrect pair from the following column I and II:

(Choose the correct alternative)

**Column I**

A. Direct taxes

B. Fiscal policy

C. Corporation tax

D. Indirect taxes

**Column II**

1. Taxes on incomes of individuals

2. Govt. taxation and public expenditure policy

3. Indirect tax levied on companies.

4. Taxes levied on commodities.

Alternatives:

(a) A-i

(b) B-ii

(c) C-iii

(d) D-iv

Q-4: Which of these is not an outcome of economic reforms?

a. Rapid increase in foreign direct investment and Foreign Exchange Reserve.

b. Removal of fertilizer subsidy as lead to increase in the cost of production.

c. India witnessed a rapid growth in GDP on a continual basis for two decades.

d. The tax reduction in the reform period resulted in increased in tax revenue

Q-5: Which of the following is an important feature of GST?



- a. One Nation, one tax and one account
- b. One Nation, one rate and one tax.
- c. One Nation one tax and one collection
- d. One Nation one tax and one market.

**Q-6: Read the following statements - Assertion (A) and Reason (R). Choose one of the correct alternatives given below:**

**Assertion (A):** Foreign exchange reserve has been increased from US\$ 6 billion in 1990 to about US\$ 321 billion in 2014-15.

**Reason (R):** Rupee was devalued against foreign currencies in 1991.

**Alternatives:**

- a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- b. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
- c. Assertion (A) is true but Reason (R) is false.
- d. Assertion (A) is false but Reason (R) is true.

**Q-7: Which of the following economic reforms were initiated by the government under liberalizations?**

- (a) Industrial Sector Reforms
- (b) Govt. expenditure reforms
- (c) Financial Sector reforms
- (d) Both (a) and (c)

**Q-8: Which of the following industries are reserved for the public sector?**

- (a) Defence Equipments
- (b) Energy Generation
- (c) Cement
- (d) Both (a) and (b)

Q-9: Reason for adoption of New Economic Reform was/were

- i. Poor performance of Public Sector
- ii. Economic growth rate was low
- iii. Deficit in Balance of Payment
- iv. Increasing Unemployment.
- v. Insufficient Foreign exchange reserve

Choose the correct alternative from the following:

- (a) i, ii, iii and iv
- (b) i and iii
- (c) i, iv and v
- (d) i, iii and v

Q-10: \_\_\_\_\_ means integrating the domestic economy with the world economy

- (a) Globalisation
- (b) Privatisation
- (c) Liberalisation
- (d) Disinvestment

Q11: \_\_\_\_\_ refer to transfer of assets or services function from public to private ownership.

- (a) Globalisation
- (b) Privatisation
- (c) Disinvestment
- (d) Liberalisation

Q-12: What makes India a preferred global outsourcing destination?

- i. High unemployment rate
- ii. Low wage rates
- iii. Skilled manpower

- iv. Absence of restrictions
- v. Better transportation facilities

Choose correct alternatives from the followings.

- (a) i, ii, iii and iv
- (b) ii and iii
- (c) ii, iii and iv
- (d) i, ii iii and v

Q13: Which of the following is not a tax reform.

- (a) Reduction in taxes
- (b) Reforms in Indirect taxes
- (c) Simplification of tax Process
- (d) Tax payers' reforms

Q-14: It refers to contracting out some of its activities to a third party which were earlier performed by the organisation.

- (a) Outsourcing
- (b) Employment
- (c) Unorganised sector
- (d) Organised sector

Q-15: The aim of Demonetization was to

- (a) Encourage the use of case in the economy
- (b) Curb black money
- (c) Unify the tax structure
- (d) Increase direct tax rates

16. Which of these tax has not been subsumed in GST (choose the correct alternative)

- (a) Octroi

- (b) Excise duty
- (c) Service tax
- (d) House tax

17. Which of the following statements is not true? (choose the correct alternative)

- (a) GST is a single comprehensive tax.
- (b) GST is a destination based consumption tax.
- (a) GST has facility of Output Tax Credit in the supply chain.
- (a) GST is the biggest tax reform in the country since independence.

<b>Answer Key 1 mark Questions</b>
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1-d	6-b	11-b	16-d
2-Ture	7-d	12-b	17-b
3-c	8-a	13-d	
4-d	9-d	14-a	
5-d	10-a	15-b	

**THREE & FOUR (3 & 4) MARK QUESTIONS:-**

1. Describe the economic reforms undertaken in 1991.
2. What were the needs of economic reforms for India?
3. What are the main features of economic reforms?
4. Given any three features of 'LPG - Policy'.
5. Write the 3-4 positive and negative impacts of LPG policy.

**Six (6) MARK QUESTIONS:-**

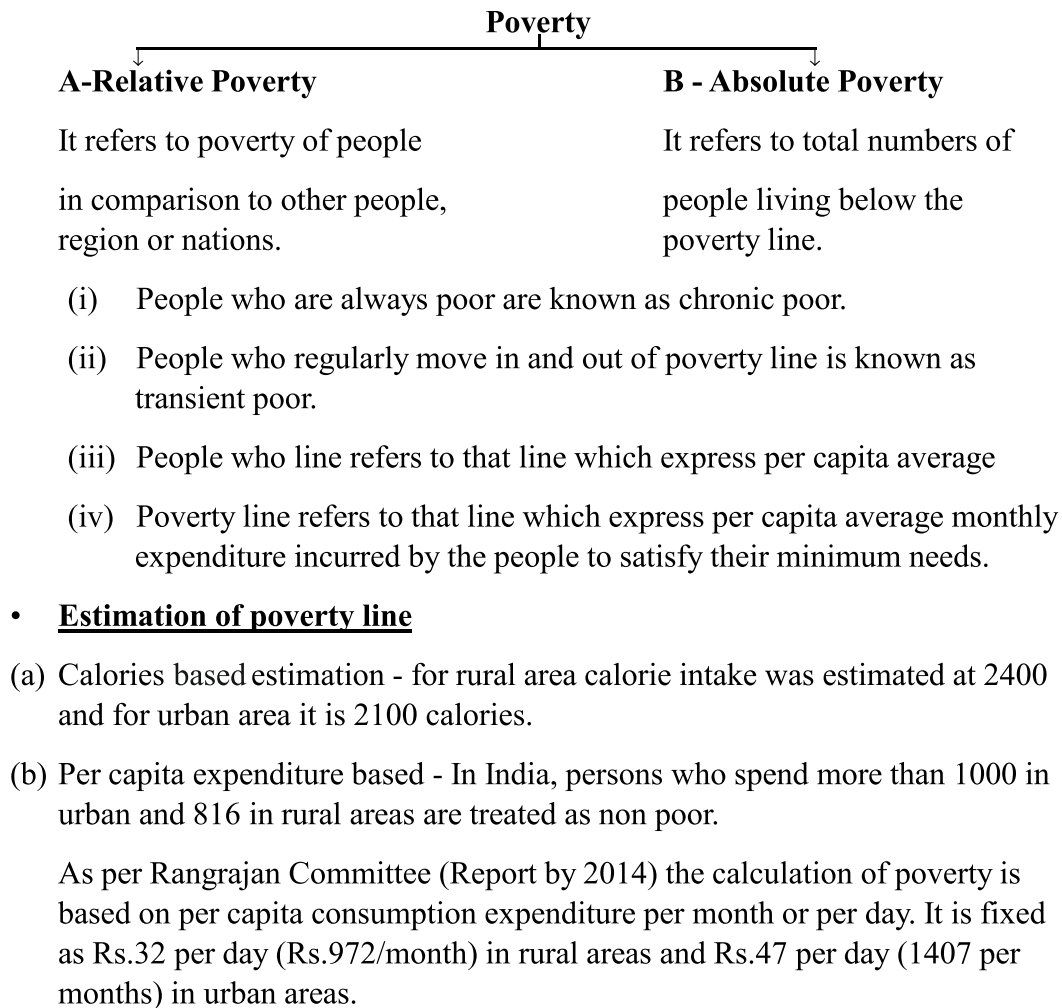
1. Why were reforms introduced in India in 1991?

2. Explain the changing role of the state in the Indian economy since 1991.
3. Explain the steps taken by economic reforms towards
  - (a) Liberalisation
  - (b) Privatisation
  - (c) Globalization
4. Evaluate the positive and negative impacts of LPG policy
5. India is then called the 'Outsourcing Destination' of the world. Discuss the prime reasons for this name given to India.
6. Discuss briefly any two major steps taken by the Government of India on 'Financial Sector' front under the Economic Reforms of 1991.
7. "Agriculture sector appears to be adversely affected by the economic reform process." Explain the given statement metropolitan cities leaving the remote and rural area underdeveloped. Consequently, there were wide regional disparities.

**UNIT-VII**  
**CHAPTER - 04**  
**POVERTY**

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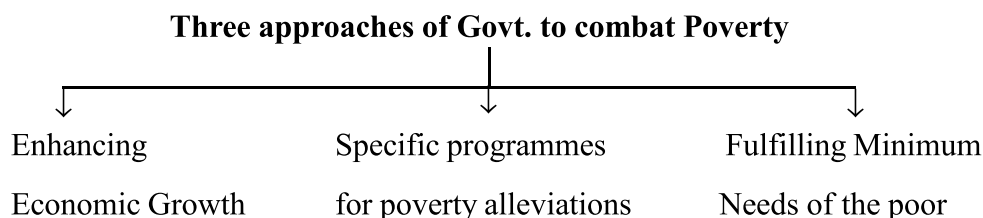
Poverty is the inability to fulfil the minimum requirement of life-food clothing, housing, education and wealth.



**Causes of poverty**

- (a) Low rate of economic growth

- (b) Rise in population
- (c) Unemployment
- (d) Inflation



### **Poverty Alleviation Programmes**

The poverty alleviation programmes in India can be categorized based on whether it is targeted for rural areas or urban areas. Most of the programmes are designed to target the rural poverty as prevalence of poverty is high in rural areas. Also targeting poverty is a great challenge in rural areas due to various geographic and infrastructure limitation. The programmes can be mainly grouped into (1) Wage employment programmes (2) Self-employment programmes (3) Food security programmes (4) Social security programmes (5) Urban poverty alleviation programmes.

Following, are some of the poverty alleviation policies introduced by the government.

1. **Mahatma Gandhi National Rural Employment Guarantee Act:** Also known as MNREGA, this is the flagship programme of Government directly touching lives of the poor and promoting inclusive growth. It aims at enhancing the general livelihood of the rural people by guaranteeing at least a 100 days of employment in a financial year to adults of the household who are willing to do unskilled labour. It was enforced on 2nd February 2006 and implemented in phases. Today it is indeed one of the largest employment generating scheme of the government.
2. **Sampoorna Grameen Rozgar Yojna:** SGRY was launched in the year 2001 by way of merging two ongoing schemes - EAS and IGSY. The objective was to provide additional food security and wage employment to the rural sector. It also helped in creating durable community assets for the rural people. The program targeted poor with special emphasis on women, SCs, STs and parents of children withdrawn from hazardous industries.
3. **National Food For Work Programme:** This programme was launched in November 2004 in 150 backward districts of the country that were identified by

the Planning Commission. The aim of this project was to offer additional sources for rural employment apart from SGRY to these 150 districts. This scheme was entirely sponsored by the Central Government. Since then the program has been merged with NREGA, identifying in total 200 districts to implement the scheme.

4. **Pradhan Mantri Sadak Yojna:** PMGSY launched on 25th December 2002 was a fully Central Sponsored Scheme. The objective of this scheme was to construct roads connecting the rural and urban centres through quality roads. This generated employment for rural labourers and lead to infrastructure development.
5. **Indira Awas Yogana:** This is the flagship housing secheme introduced by the Government in which states were to provide shelter to those below poverty line.

The objective behind initiating all these and many more similar schemes was to gradually rid the nation of the plague of poverty, once and for all. The schemes were designed in such a way as to offer not just financial health but means of employment by which the poor could continue to feed their family and gradually raised their standard of living. The schemes aim at a sustained development. While the schemes have benefited many poor people and helped change the face of several rural villages. But there is still a very long way to go before the country can be rid of poverty. Probably, things will get better in the coming future.

### **Question Bank**

#### **Objective Questions (1 Mark)**

1. The ratio that measures the number of people below poverty line known as
  - (a) Poverty count ratio
  - (b) Population count ratio
  - (c) Head count ratio
  - (d) None of the above
2. Who conducts the periodical sample survey to collect data used for determining the poverty line in India?
  - (a) CSO



- (b) NSSO
  - (c) NITI Aayog
  - (d) None of the above
3. Growth oriented approach of poverty alleviation in India assumes that:
- (a) Providing basic amenities to the poor like education and health facilities
  - (b) Direct Benefit transfer in the account of the poor
  - (c) Benefits of economic growth will benefit all sections of society including poor
  - (d) All of the above
4. Who is the first person to discuss the concept of poverty line in pre-independent India?
- (a) Dr. B. R. Ambedkar
  - (b) P. C. Mahalanobis
  - (c) Dadabhai Naoroji
  - (d) M. Vishveshvaraya
5. The people who never move above the poverty line are called
- (a) Churning poor
  - (b) Always poor
  - (c) Non Poor
  - (d) Occasionally poor
6. Which project has been launched to provide self-employment to educated unemployed youth in India?
- (a) Prime Minister Rozgar Yojana (PMRY)
  - (b) Jai Prakash Rozgar Guarantee Yojana (JPRGY)
  - (c) Sampoorna Gramin Rozgar Yojana (SGRY)
  - (d) Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)
-

7. Which among the following is not a cause of poverty in India?
- (a) Population Explosion
  - (b) Unemployment
  - (c) Inflation
  - (d) Equal distribution of land and income
8. Government has adopted which approach to reduce poverty in India
- (a) Growth Oriented Approach
  - (b) Poverty Alleviation Programme
  - (c) Both of the Above
  - (d) None of the Above
9. Which Committee has given recommendation for poverty estimation?
- (a) Tendulkar Committee
  - (b) Cheilliah committee
  - (c) Kelkar Committee
  - (d) None of the Above
10. The Planning Commission has determined the poverty line on the basis of recommended nutritional requirement of \_\_\_\_\_ calories per person per day for rural areas.
- (a) 972
  - (b) 2100
  - (c) 2200
  - (d) 2400
11. \_\_\_\_\_ is a cut off point on the line of income distribution which divides the population into poor and non-poor
- (a) Poverty curve
  - (b) Poverty point

- (c) Poverty line
  - (d) Poverty ratio
12. The incidence of poverty in India is higher in urban areas. (True/False)
13. Absolute poverty refers to the lack of basic necessities in life. (True/False)
14. Poverty in India is calculated by using per capita income data. (True/False)

Read the following paragraph carefully and answer the questions on the basis of the same.

Eradication of poverty remains a major challenge of planned economic development. Experiences of different states with economic growth and poverty reduction have been so varied that it is difficult to offer any general policy prescription. There are states that followed the path of high agricultural growth and succeeded in reducing poverty (Punjab and Haryana) and states that focused on human resource development and reduced poverty (Kerala). There have been states that implemented land reforms with vigour, empowered the panchayats, mobilised the poor and implemented poverty-alleviation programmes effectively (West Bengal) and states that brought about reduction in poverty by direct public intervention in the form of public distribution of food grains (Andhra Pradesh)

15. There is regional variation in poverty eradication in India. (True/False)
16. Which state focussed on improving literacy rate to eradicate poverty
- (a) Punjab
  - (b) West Bengal
  - (c) Andhra Pradesh
  - (d) Kerala
17. Punjab following the \_\_\_\_\_ to eradicate poverty
- (a) Poverty alleviation programme approach
  - (b) Minimum needs programme approach
  - (c) Growth oriented approach
  - (d) None of the above

Read the following paragraph carefully and answer the questions on the basis of the same.

As per the Suresh Tendulkar Committee report, the population below the poverty line in India was 354 million (29.6% of the population) in 2009-2010 and was 269 million (21.9% of the population) in 2011-2012. In 2014, the Rangarajan Committee said that the population below the poverty line was 454 million (38.2% of the population) in 2009-2010 and was 363 million (29.5% of the population) in 2011-2012

18. Poverty in India is higher according to the report of Tendulkar committee. (True/False)
19. What is the percentage of non-poor in India in 2011-12 according to Rangarajan Committee
  - (a) 70-5%
  - (b) 38.2%
  - (c) 29.5%
  - (d) 21.9%
20. What is the difference between the poverty rate reported by Tendulkar Committee and Rangarajan Committee in the year 2009-10
  - (a) 29-6%
  - (b) 38.2%
  - (c) 8.60%
  - (d) 29.5%

**Answers of objective Questions (1 Marks)**

- |           |          |         |         |           |          |         |
|-----------|----------|---------|---------|-----------|----------|---------|
| 1. (c)    | 2. (b)   | 3. (c)  | 4. (c)  | 5. (b)    | 6. (a)   | 7. (d)  |
| 8. (c)    | 9. (a)   | 10. (d) | 11. (c) | 12. False | 13. True |         |
| 14. False | 15. True | 16. (d) | 17. (c) | 18. False | 19. (a)  | 20. (c) |

**THREE & FOUR (3 & 4) MARKS QUESTIONS:-**

- (1) What is meant by poverty? Distinguish between absolute and relative poverty.
- (2) Briefly explain the three approaches adopted by the India Government to combat poverty.
- (3) Explain how rapid growth in population spreads poverty.
- (4) Comment on 'MGNREGA'.
- (5) How inequalities of income are responsible for poverty?
- (6) Explain the three main causes of poverty in India.
- (7) Why is calories based norm of poverty measurement considered inadequate?

**SIX (6) MARKS QUESTIONS:-**

- (1) Briefly explain the three dimensional attack on poverty adopted by the government.
- (2) Is there any relationship between unemployment and poverty?
- (3) Given the critical assessment of poverty alleviation programmes.
- (4) Explain briefly the causes for poverty.

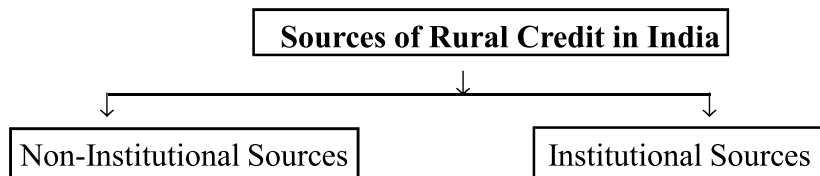
**UNIT - VII**  
**CHAPTER - 5**  
**RURAL DEVELOPMENT**

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Rural Development is a process of improving the standard of life and social economic welfare of the people living in rural areas.

**Key Issues in Rural Development:-**

- 1) Raising agricultural productivity per unit of land.
- 2) Improving agricultural marketing system that ensures remunerative price to the farmer for his produce.
- 3) Motivate the production of higher value crops.
- 4) Motivate agricultural diversification.
- 5) Diversification of production activity with a view to find alternative means of sustainable living other than crop-cultivation.
- 6) Provision of credit facilities in the rural areas.
- 7) To reduce the level of poverty in rural areas by farm and non-farm employment.
- 8) Promotion of organic farming.
- 9) To expand education and health facilities in rural areas.



I) Non-Institutional sources:- It includes money lenders, traders, commission agents, landlords, relatives and friends.

II) Institutional sources include :-

- 1) Co-operative credit societies - e.g. Amul, Mother Dairy etc.
- 2) SBI and other Commercial Banks.

- 3) Regional Rural Banks.
- 4) NABARD (National Bank for Agriculture and Rural Development)
- 5) Self Help Groups

### **Agricultural Marketing**

The term agricultural marketing includes all those activities where are mostly related to gathering, processing, grading, packaging storing, transportation and selling the agricultural produce.

### **Defects of Agricultural Marketing**

- 1) Inadequate storage facility.
- 2) Inadequate means of transport and communication.
- 3) Malpractice in a regulated markets.
- 4) Multiplicity of middlemen.
- 5) Lack of proper grading.
- 6) Lack of adequate institutional finance.
- 7) Lack of proper marketing facilities.

### **Measures adopted by the government to improve marketing system:-**

- 1) Regulated markets.
- 2) Provision of warehousing facilities.
- 3) Compulsory use of standard weights for measurement.
- 4) Subsidised transport.
- 5) Establishment of food corporation of India (FCI), central ware housing corporation etc. by the govt. to increase the capacity of storing.
- 6) Provision of Minimum Support Price (MSP).
- 7) Dissemination of marketing information. - use of IT

### **Diversification in agriculture activities:-**

It has two aspects:-

1) Diversification of crop production:- It refers to a system of multiple cropping rather than mono cropping. It has two advantages:-

a) It lowers the risk of farmer on account of monsoon failure.

b) It enhances the scope for commercialisation of farming.

2) Diversification of productive activities:- It implies a shift of labour force from crop-farming to non-farming areas of employment, like – Animal husbandry, fisheries, horticulture etc.

### **Non-farm areas of employment for rural population**

1) Animal husbandry

2) Fisheries

3) Poultry

4) Bee-keeping

5) Horticulture

6) Cottage and Household Industry

### **Organic Farming**

Organic Farming is a system of farming in which organic inputs (basically include animal manures and composts) are used for cultivation. It discourages the use of chemical inputs. This method of farming is environment friendly.

### **Advantages of Organic Farming:-**

1) Organic level of soil increases by the use of organic inputs and sustains soil fertility.

2) Organic inputs provide minerals for the growth of plants.

3) Organic inputs are cheap as compared to chemical inputs.

4) Organic farming is environment friendly.

5) Inexpensive technology for small farmers.

6) Organic farming is based on labour intensive technique.

7) We get healthier and tastier food by the use of organic farming.



**Disadvantages of Organic Farming :-**

- 1) Initial cost is high.
- 2) Produce is more perishable.

**Very short Answer (1 Mark)**

1. Diversification of crop production increases market risks. (True/False)
2. Given below are 2 statements: Assertion (A) and Reason (R). Choose the correct alternative.

(A) : Change in cropping pattern is a form of Diversification of farm activities.

(R) : Most agricultural activities are seasonal in nature.

**Alternatives.**

- a) Both(A) and (R)are true and (R) is correct explanation for (A).
- b) Both (A) and (R) are true and (R) is not the correct explanation for (A).
- c) (A) is true and (R) are false.
- d) (A) is false and (R) is true.

**Read the following hypothetical case study and answer Q. 3-5.**

Farmers in India have always relied on informal sources for credit the efforts of the Government after independence, trying to shift the secure towards formal institutions, have not proven very successful.

3. Informal sources of agricultural credit include\_\_\_\_\_ (money lenders/ cooperative societies).
4. Government has made efforts to provide institutional credit to farmers through (RBI, RRBs)
5. State one reason why Government efforts have not been successful in regard to agricultural credit.
6. Which is the apex institution to provide credit facility to agriculture and rural development?
  - a) NABARD      b) SBI

- c) RBI                      d) National Co-operative Bank of India
7. National Bank for Agriculture and Rural Development was set up in which year?
- a) 1981                      b) 1982                      c) 1984                      d) 1986
8. Which of the following is not a part of agricultural marketing?
- a) Storage                      b) Cultivation                      c) Gathering                      d) Processing
9. Choose the correct pair.

Column I	Column II
A. NABARD	(i) Established in 1987
B. Agricultural marketing	(ii) Use of chemical fertilizers
C. Organic farming	(iii) Healthy Produce
D. MSP	(iv) Maximum Selling Price

#### Alternatives

- a) A-(i)                      b) B-(ii)                      c) C-(iii)                      d) D-(iv)
10. Following is not true about organic farming.
- a) Environment friendly
- b) Healthy food
- c) Low set up costs
- d) Tastier food

#### Short Answer Questions (3-4 Marks)

- Write a short note on operation flood.
- Explain the importance of horticulture in Rural Development.
- Explain how Regional Rural Banks help in providing institutional credit to farmers.
- How does information technology contribute to Rural Development?

#### Answer Key

1. False                      2. (b)

3. Money lender
4. RRBs
5. any one valid reason
  - non accessibility
  - mortgage requirements
  - high default ratio
6. (a)
7. (b)
8. (b)
9. (c)
10. (c)

**UNIT - VII**  
**CHAPTER - 6**  
**HUMAN CAPITAL FORMATION IN INDIA**

---

Human Capital refers to the stock of knowledge, skills, ability, education, motivation and health in a nation at a point of time.

Human capital formation is the process of acquiring and increasing the skills, education and health among the people of the country over a long period of time.

**Sources of human capital formation**

- 1) Expenditure on education
- 2) Expenditure on health
- 3) On the job training
- 4) Expenditure on Migration
- 5) Expenditure on skill development
- 6) Expenditure on information

**Problems facing human capital formation in India:-**

- 1) Pressure of rapidly growing population
- 2) In-adequate resources.
- 3) Problem of Brain-Drain
- 4) Lack of proper management of human resources
- 5) Lack of quality education of technical and management
- 6) In-adequate development of health services

**Role of human capital in economic development of a country:-**

- 1) Increasing skill and the level of productivity.
- 2) Bring positive change in attitude and behaviour
- 3) Increasing research and technical reforms

- 4) Raises life expectancy
- 5) Raises the standard of living

**Roles of education in human development:-**

- 1) Raise creativity and productivity of the people.
- 2) Education produces good citizens
- 3) Develops science and technology
- 4) Helpful in proper utilization of resources of the country
- 5) Expands mental horizon of the people
- 6) Develop skills among the people

**Human capital formation in India:-**

- 1) Human capital formation is the goal and factor of economic development. Human resource development is included in the directive principles of the state in India.
- 2) Expenditure on both education and health are carried out simultaneously by all the three tiers of the government
  - (i) Union government
  - (ii) State government
  - (iii) Local government
3. In India, ministry of education at the centre and state level. NCERT (National Council of Educational Research and Training), UGC (University Grant Commission), AICTE (All India Council of Technical Education) regulate the education sector.
4. In India, Ministry of Health at the union and the state level and ICMR (Indian Council of Medical Research) regulate the health sector.
5. Provision of drinking water and sanitation facilities are the basic needs of healthy life. State Governments and local bodies are responsible to provide such facilities.

**Growth of Education Sector in India :-**

Education is the main factor of the social and economic development of a country. A good education system produces not only skilled and trained people but also promotes science and technology. The following observations highlight the growth of education sector in India:-

(1) Elementary Education:-

- (a) Elementary education includes primary and middle school education.
- (b) Now, elementary education is free and compulsory (Class 1 to 8) for the age group of 6-14.
- (c) Various policies such as Sarva Shiksha Abhiyan, Mid-day Meal Scheme, district primary education programme, right to education have been playing major role in enhancing primary education in India.

(2) Secondary and Senior Secondary Education:-

- (A) For the expansion of secondary education, the following institutions are working:-
  - (a) Navodaya and Kendriya Vidhayalayas.
  - (b) National Council of Educational Research and Training
  - (c) commercialisation of Secondary Education
  - (d) Technical, Medical and Agricultural Education
- (B) Higher Education:-
  - (a) Universities, Colleges, Professional and Technical Educational in situations are included in higher education.
- (C) The following main institutions are working in the field of higher education :-
  - (a) University Grant Commission (UGC)
  - (b) Indira Gandhi National Open University (IGNOU)
  - (c) All India Council for Technical Education (AICTE)
  - (d) Indian Council for Medical Research (ICMR)

**Problems related to Development of Education in India:-**

- 1) Large number of illiterate
- 2) Inadequate Professional and Technical Education
- 3) Gender Bias
- 4) Low Rural Access Level
- 5) Low government expenditure on the development of education.

### One mark Questions (Very short Answer)

- Q. 1. .... (Purchase of a new machine/on the job training) is a source of human capital formation. (Choose the correct alternative)
- Q.2. Which one of the following is not a problem of Human Capital formation in India? (Choose the correct alternative)
- (a) Low academic standard
  - (b) Low Savings
  - (c) Rising Population
  - (d) Lack of proper manpower planning
- Q.3. From the set of statements given in Column (I) and Column (II), choose the correct alternative:-

### Table

Column-I		Column-II
A. Physical capital	(i)	expenditure on health
B. Human capital	(ii)	scientific and technical manpower
C. Source of human capital formation	(iii)	engineers and doctors
D. A rich ingredient of human capital	(iv)	factories

Alternatives:-

- a. A-(ii), B-(iv), C-(i), D-(iii)

- b. A-(iv), B-(i), C-(iii),D-(ii)
- c. A-(iv), B-(iii), C-(i),D-(ii)
- d. A-(ii), B-(i), C-(iv),D-(iii)

Q. 4. Read the following statement- Assertion (A) and reasons (R). Choose one of the correct alternatives given below:-

Assertion (A) : People migrate in search of jobs that fetch them higher salaries than what they may get in their native places.

Reason (R) : Technically qualified persons, like engineers and doctors, migrate to other countries.

Alternatives:-

- a. Both assertion (A) and reason (R) are true and reason (R) is the correct explanation of assertion (A).
- b. Both assertion and reason are true and reason (R) is not the correct explanation of assertion (A).
- c. Assertion (A) is true but reason (R) is false.
- d. Assertion (A) is false but reason (R) is true.

Q.5. Following information is not collected by spending on information.

- a. Level of salaries.
- b. Educational institutions.
- c. Types of skills taught.
- d. Number of hospitals

Q.6. It refers to the process of creating an environment in which people can enjoy long, healthy and creative lives. (Choose the correct alternative)

- a. Economic growth
- b. Human capital
- c. Higher production
- d. Human development



Q.7. Human development is a broader concept than human capital. (State whether true or false)

Q. 8. Following is not an organisation to facilitate education in India.

- a. NCERT
- b. AICTE
- c. ICMR
- d. UGC

Q. 9. Read the following tatement - Assertion (A) and reasons (R). Choose one of the correct alternatives given below:-

Assertion (A) :- Expenditures on education and health make substantial long-term impact and they cannot be easily reversed.

Reason (R) :- Government intervention is essential in expenditures on education and health.

Alternatives:-

- a) Both assertion (A) and reason (R) are true and reasons (R) is the correct explanation of assertion (A).
- b) Both assertion and reason are true and reason (R) is not the correct explanation of assertion (A).
- c) Assertion (A) is true but reason (R) is false.
- d) Assertion (A) is false but reason (R) is true.

Q.10. From the set of statements given in Column (I) and Column (II), Choose the correct alternative:-

Column I	Column II
(A) Preventive medicine	(i) medical intervention during illness
(B) Medical research body	(ii) Vaccination
(C) Curative medicine	(iii) spread of health literacy
(D) Social medicine	(iv) ICMR

**Alternatives:-**

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

Q. 11. .... increases due to innovative skills.

- a. Income
- b. Productivity
- c. Both (a) and (b)
- d. None of the above

Q. 12. Choose the correct alternative from the following.

- a. Better job is a reason for migration.
- b., Human capital and economic growth are not correlated.
- c. Physical capital includes human capital
- d. Expenditure on Health is not included in investment.

Q.13. Which of the following is the reason of the problem of human capital formation in India.

- a. Brain drain
- b. Population growth
- c. Low academic standards
- d. All of the above

**Read the following report given in Economic Survey 2020-21 and answer Questions 14 & 15 on the basis of the same:**

The level of skill acquirement remained low in India, as only 2.4 percent of the workforce of age 15-59 years have received formal vocational/technical training and another 8.9 per cent of the workforce received training through informal sources. Out of the 8.9 per cent workforce who received non-formal training,

the largest chunk is contributed by on-the-job training (3.3 per cent), followed by self-learning (2.5 per cent) and hereditary sources (2.1 per cent) and other sources (1 per cent), Source-Economic Survey 2020-21

Q.14. Which is the main source of skill acquirement in India?

- a. Formal sources
- b. Vocational Training
- c. Hereditary sources
- d. Informal Sources

Q. 15. Which of the following is the largest contributor in human capital formation.

- a. Self-learning
- b. Technical training
- c. On-the-job training
- d. Vocational training

Q.16. .... five year plan recognised the importance of Human Capital.

- a) Second                      b) Eight                      c) Seventh                      d) Third

Q.17. Which one of the following is a reason for poor human capital formation in India?

- (a) Brain-Drain
- (b) High growth of population
- (c) Insufficient resources
- (d) All of the above

Q.18. What do you mean by human capital formation?

Q.19. What is on-the-job training?

Q.20. Why do we need to invest in human capital?

**Three and four (3 & 4) Mark Questions:-**

- 1) What are three major sources of human capital formation?

- 2) Explain the concept of human capital formation.
- 3) Bring out the differences between human capital and physical capital.
- 4) Is rapidly growing population a constraint in the process of human capital formation? Explain.
- 5) Explain how educational planning is necessary for human capital formation.
- 6) What are the principle objectives of education in India?
- 7) How is health a source of human capital formation?
- 8) How migration promotes human capital formation?
- 9) Explain how investment in education stimulates economic growth.
- 10) "Casuality between human capital and economic growth flows in either directions " Defend or refute the given statement.
- 11) "The expenditure by the government on education is expressed in two ways." Name the two ways. Is India government spending enough on education?

**Six (6) Mark Questions:-**

- 1) What is human capital formation? Differentiate between human capital and physical capital.
- 2) How does investment in human capital contribute to economic growth?
- 3) What are the sources of human capital formation?
- 4) What is the need for government intervention in promoting health and education in India?
- 5) How does expenditure on "on the job training" and "Information" act as a source of human capital.
- 6) Explain the growth of education sector in India.
- 7) Explain how education is still a challenging proposition in India.
- 8) Discuss the need for promoting women's education in India.
- 9) 'Human Capital Formation gives birth to innovation, invention and technological Improvements. "Do you agree with the given statement? Support your answer

with valid arguments."

- 10) In spite of investment in Human Capital Formation, India is still facing a lot of challenges in Human Capital Formation. What are the main problems of Human Capital Formation in India?

**ANSWER OF ONE MARK QUESTIONS KEY**

- |                        |       |
|------------------------|-------|
| 1. on the job training | 10. b |
| 2. b                   | 11. c |
| 3. c                   | 12. a |
| 4. a                   | 13. d |
| 5. d                   | 14. d |
| 6. d                   | 15. c |
| 7. true                | 16. c |
| 8. c                   | 17. d |
| 9. a                   |       |

18. Human capital formation is the process of acquiring and increasing the abilities, skills, education and experience among the people of the country over a long period of time.
19. On the job training refers to the training providing to the workers by the firm to enhance their specialised skill. It makes them more efficient and productive.
20. Because it develops man's ability and skill.

## UNIT - VII

### EMPLOYMENT : GROWTH, INFORMALISATION AND OTHER ISSUES

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#### Point to remember

Work plays an important role in our lives, as individuals, and in social life.

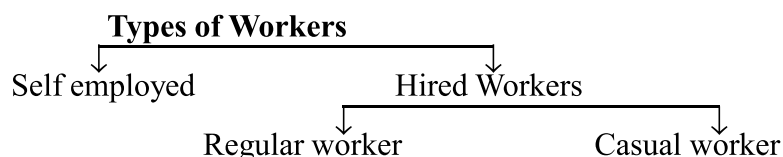
A worker is an individual, who is involved in some economic activity, to earn a living.

Economy activity :- It refers to all activities which are under taken to produce goods and service for generation of income.

Labour Force:- All persons, who are working and those who are not working but able to work and willing to work at the existing wage rate constitute labour force.

Work Force:- The number of persons, who are actually employed at a particular time are known as workforce. It includes all those persons who are actually engaged in productive activities.

$$\text{Participation Rate} = \frac{\text{Work Force}}{\text{Total Population}} \times 100$$



About two fifth of the total population in the country is engaged in various economic activities. Men, particularly rural men form the major section of workforce in India.

Majority of workers in India are self employed, (57%) Casual wage labourers and regular salaried employees together account for less than half the propoertion of India's workforce.

About sixty percent of India's workforce depends on agriculture and other allied activities as the major sources of livelihood.

Jobless Growth:- It is defined as a situation where GDP grows faster than the employment opportunities, resulting in unemployment.

Casualisation of employment:- Casualisation refers to a situation when the percentage of casually hired workers in the total workforce tends to rise over time.

Informalisation:- Refers to a situation when people tend to find employment move in informal sector of the economy and less in formal sector of the economy.

Unemployment:- It is a situation where a person is ready and willing to work at the prevailing wage rate but does not find work.

Causes of unemployment:-

- 1) Slow rate of economic growth
- 2) Population explosion
- 3) Defective education system
- 4) Underdeveloped agriculture
- 5) Slow growth of Industry
- 6) Decline of cottage and small industry
- 7) Inadequate employment planning
- 8) Low capital formation

**Remedial measures of unemployment:-**

- 1) Accelerating growth rate of GDP
- 2) Control of population growth
- 3) Development of Agriculture sector
- 4) Development of small scale enterprises
- 5) Encouragement in infrastructure
- 6) Special employment programmes
- 7) Rapid Industrialisation

**Special programmes to fight poverty and unemployment:-**

- 1) Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA)

- 2) Swarnjyanti Sahari Rozgar Yojna
- 3) Pradhan Mantri Gramodaya Rozgar Yojna
- 4) Swarn Jayanti Gram Swarozgaar Yojna

**Objective Questions (1 Marks)**

1. Which of the following activity is not related to service sector?
  - a) Construction Activities
  - b) Banking
  - c) Working in the call center
  - d) Teaching
2. The formula to calculate worker population ratio is
  - a)  $(\text{Workforce}/\text{Labour force}) * 100$
  - b)  $\text{Workforce} + \text{Number of people who are willing to work but are unemployed}$
  - c)  $(\text{Number of Unemployed persons}/\text{Labour force}) * 100$
  - d)  $(\text{Workforce}/\text{Total population}) * 100$
3. Which of the following is an appropriate reason for labour by people
  - a) Livelihood earning
  - b) To get sense of self worth
  - c) To help their dependents
  - d) All of the above
4. The share of males in India's labour force is less than that of females. (True/False)
5. The size of India's labour force in 2011-12 was
  - a) 473 crore
  - b) 4.73 crore
  - c) 47.3 crore
  - d) 47.3 million



6. While other things remain same, an increase in population will
- a) Decrease the worker population ratio
  - b) Increase the worker population ratio
  - c) Not affect the worker population ratio
  - d) None of the above
7. The size of work force can never be \_\_\_\_\_ the size of labour force. (greater than/ equal to/ less than)
8. During 2017-18, in which of the following the highest share of workforce in India was employed
- a) Casual Labour
  - b) Regular Salaried Employment
  - c) Self employment
  - d) None of the above
9. Which of the following is a worker in economic sense
- a) Student
  - b) Trader
  - c) Both of the above
  - d) None of the above
10. Unemployment that occurs in certain seasons of the year is known as
- a) Open Unemployment
  - b) Disguised Unemployment
  - c) Seasonal Unemployment
  - d) None of the above
11. The major causes of unemployment in India are
- a) Under Development
  - b) Rapid Population Growth

c) Defective Planning

d) All above

12. Read the following statements Assertion (A) and Reason (R). Choose the correct alternative from given below.

Assertion (A) : In rural areas, people cannot stay at home as their economic condition may not allow them to do so.

Reason (R) : During 2017-18, for every 100 rural women about 18 participate in the employment market.

Alternatives:

- a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)
- c) Assertion (A) is true, but Reason (R) is false.
- d) Assertion (A) is false, but Reason (R) is true.

Read the following paragraph carefully and answer the questions (13-14) on the basis of the same.

India's employment situation is bad. The current unemployment rate is the highest in the last 45 years. The unemployment among urban youth (age 15-29) is alarmingly high at 22.5 percent. The high unemployment rates is but just one of the problems with India's employment scenario. The labour force participation rate has come down to 46.5 percent for those who are 15 years and above. A large proportion of the employed worker get low wage and are stuck in 'employed poverty' trap.

- Economic Times, 24 January 2020

13. The percentage of population which contributes to creation of goods and services in the economy is

- a) Work force – Unemployed
- b) Labour force – Unemployed
- c) Population – Unemployed

d) None of the above

14. The problems faced by people in the current scenario are

- a) Unemployment
- b) Under employment
- c) Low wage
- d) All above

**Answers of objective Questions**

- |                 |         |        |          |         |         |
|-----------------|---------|--------|----------|---------|---------|
| 1. (a)          | 2. (d)  | 3. (d) | 4. false | 5. (c)  | 6. (a)  |
| 7. Greater than | 8. (c)  | 9. (b) | 10. (c)  | 11. (d) | 12. (b) |
| 13. (b)         | 14. (d) |        |          |         |         |

**Three and Four (3 & 4) Mark Question:-**

- 1) Analyse the recent trends in sectoral distributin workforce in India?
- 2) What is the difference between labour force and work force?
- 3) What are the adverse effects of unemployment?
- 4) Suggest general measures to control unemployment?
- 5) Give a brief not on the MNREGA?
- 6) Empowerment of women is related to employment of women. Comment.

**Six (6) Mark Questions:-**

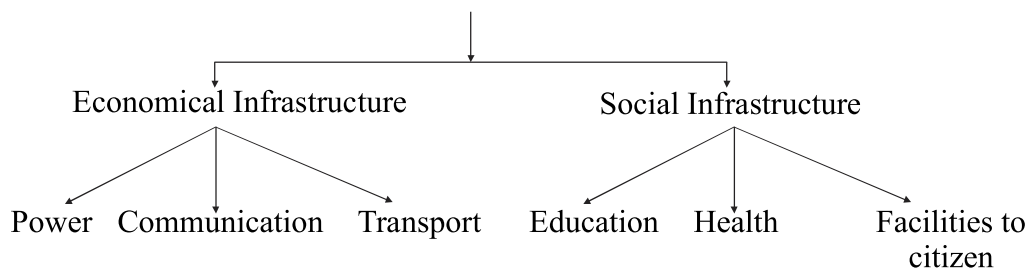
- 1) What are the various types of unemployment?
- 2) What are the causes of unemployment?
- 3) Explain occupational structure of workforce?
- 4) What do you mean by organised sector? Discuss the reasons for fall in employment in organised sector?

**UNIT - VII**  
**CHAPTER - 8**  
**INFRASTRUCTURE**

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Infrastructure can be defined as the supporting structure that provide different inds of services to the main areas of production such as agricultural production, industrial production, trade and commerce.

**Types of Infrastructure**



Economic and social infrastructure together help in the overall development of the economy. Both are complementary to each other.

- **Importance of Infrastructure**

- 1) Facilitates functioning of the economy
- 2) Agricultural development
- 3) Better quality of life
- 4) Provide employment
- 5) Facilitates Outsourcing

- **State of Infrastructure in India**

- 1) As per census 2001, only 56% of the rural households has electricity connection.
- 2) Top water availability is limited to only 24% rural household and the remaining household make use of water from open sources.
- 3) India invests only 5% of its GDP on infrastructure which is for below that of China and Indonesia.

## **Health**

Health is a state of complete physical, mental and social well-beings and not merely the absence of disease or infirmity.

### **Status of Health Infrastructure**

- 1) The union through the central council of health and family welfare.
- 2) At the village level, a variety of hospitals have been set up by the government.
- 3) Expansion of health infrastructure has resulted in the eradication of deadly diseases like small pox and the near eradication of polio and leprosy.

### **Role of Private Sector**

- 1) More than 70% of the hospital in India are run by the private sector.
- 2) Nearly 60% of dispensaries are run by the private sector.

The role of government in providing healthcare is still very important as poor people can depend only on government hospitals, due to huge expenses in private health services.

### **Community and non-profit organisation in healthcare**

One of the important aspects of a good healthcare system is community participation.

For example:-

- i) SEWA (Self Employed Women Association) in Ahmedabad
- ii) ACORD (Action for Community Organisation Rehabilitation and Development) in Nilgiri

### **Medical Tourism in India**

Health services are cheaper in India as compared to cost of similar health care services in other countries. As a result foreigners come to India for surgeries, Liver transplants etc. India needs to upgrade its health infrastructure to attract more foreigners to India.

### **Indicators of Health And Health Infrastructure**

- 1) Expenditure on health sector is just 4.8% of total GDP.
- 2) India has about 7% of the world's population but it bears a frightening 20% of the global burden of diseases.
- 3) Every year, around 5 lakh children die of water-borne diseases.

### **Rural Urban Divide**

- 1) India's 70% of population live in rural areas, but only 20% of total hospitals and 50% of total dispensaries are located in rural areas.
- 2) The PHCs located in rural areas do not even offer X-ray or blood testing facilities which constitutes basic health care.

There is a sharp divide between the urban and rural healthcare in India.

### **Women Health**

- 1) The child sex ratio declined from 945 in 1991 to 927 in 2001. It indicates growing incidence of female foeticide in the country.
- 2) More than 50% of married women between the age group of 15 and 49 have anaemia and nutritional anaemia, caused by iron deficiency, which has contributed to 19% of maternal deaths.

Public Private Partnership can effectively ensure reliability, quality and affordability of both drugs and medicare.

### **QUESTION BANK**

#### **One (1) MARK QUESTIONS:-**

- 1) Define infrastructure.
- 2) Define conventional source of energy.
- 3) What is commercial source of energy.
- 4) Which constitutes the maximum share in power generation.
  - a) Thermal Power
  - b) Hydro Power
  - c) Atomic Power
  - d) All the above have equal share

- 5) Name two sources of non conventional energy.
- 6) Define plant load factor.
- 7) Which of the following is a commercial source of energy?
- a) Firewood                      b) Agricultural waster
  - c) Coal                              d) Dried dung

Ans.: (c) Coal

8. The word 'Health' means
- a) Ability to realise one's potential
  - b) Absence of disease
  - c) Both
  - d) None

Ans.: (c) Both

9. In a rural area, what is the female worker's participation rate?
- (a) Lower in a rural area
  - b) Higher in rural areas
  - c) Higher in urban areas
  - d) Lower in both the areas

Ans.: (b) Higher in rural areas

10. One of the following is an example of social infrastructure-
- a) Water supply
  - b) power supply
  - c) communication
  - d) transportation

11. One of the following is an example of economic ingrastructure
- a) bank                      b) hospital      c) school      d) railway

Ans.: (a) bank

12. Which one of the following cannot be included in AYUSH?

- (a) Naturopathy                      b) Allopathy                      c) Unani                      d) Siddha

Ans.: (b) Allopathy

13. India's investment on health infrastructure is-

- (a) below 2% of GDP  
(b) below 5% of GDP  
(c) above 5% of GDP  
(d) above 8% of GDP

Ans.: (b) below 5% of GDP

14. Ayushman Bharat Yojana, was launched in the year of -

- (a) 2014                      (b) 2016                      (c) 2018                      (d) 2020

Ans.: (c) 2018

**THREE AND FOUR (3 & 4) MARK QUESTIONS:-**

- 1) Distinguish between economic and social infrastructure.
- 2) Distinguish between commercial and non-commercial energy.
- 3) Short note on medical tourism in India.
- 4) Discuss the participation of non-profit organisation in healthcare.
- 5) Distinguish between conventional and non-conventional source of energy.
- 6) Discuss two main drawbacks of our health care system.
- 7) Discuss the importance of infrastructure for a economy.
- 8) What do you mean by transmission and distribution losses? How could they be reduced?

**SIX (6) MARK QUESTIONS:-**

- 1) Discuss the challenges that India's power sector is facing.



- 2) Discuss the importance of infrastructure.
- 3) Discuss the role of private sector in providing health service in India?

**ANSWERS OF ONE (1) MARK QUESTIONS**

- 1) It is the supporting system which accelerate the path of growth.
- 2) These saunas are beings used since long time.
- 3) These saunas which command the price.
- 4) Thermal power.
- 5) Solar energy, wind energy.
- 6) It means the operational efficiency of thermal power.

**UNIT - VII**  
**CHAPTER - 9**  
**ENVIRONMENT AND SUSTAINABLE DEVELOPMENT**

---

- What is environment - It is the totality of all resources and planetary inheritance.
- Components of environment – Biotic and Abiotic.
- Environmental Crisis – when resource extraction exceeds rate of regeneration.
- Reasons for Environmental Crisis –
  - Increasing population
  - Poverty
  - Excessive industrialisation
- Measures taken to deal within this crisis in cur very high costs. Hence opportunity cost of environmental Crisis is high.
- Major issues :- Global warming, Ozone depletion.

**Global Warming:**

- Increase in average temperature of the globe due to increase in level of carbon dioxide and other greenhouse gases in the atmosphere.
- Rising sea levels due to melting of polar ice.
- Frequent storms.

**Ozone Depletion**

- Fall in level of Ozone in the atmosphere due to release of chloro fluoro carbons (CFCs)
- Damage to living organisms.
- Cause to skin cancer among human beings.
- Harm to aquatic life.

**Major Concerns for India**

- Air Pollution
- Water contamination
- Soil erosion
- Deforestation
- Wildlife extinction

Sustainable Development – The United Nations Conference on Environment and Development (UNCED), defined it as : Development that meets the need of the present generation without compromising the ability of the future generation to meet their own needs.

Suggestions given by Herman Daly to achieve sustainable development :

1. Limiting human population.
  2. Input effective technological progress.
  3. Extraction of renewable resources on a sustainable basis.
  4. Rate of depletion of non-renewable resources should not exceed the rate of creating renewable substitutes.
  5. Inefficiencies arising from pollution should be corrected.
- Strategies for sustainable development adopted in India
    - Use of Solar and wind energy
    - CNG as fuel for transport
    - LPG and Gobar Gas in rural areas.
    - Mini-Hydel plants
    - Use of traditional and environment friendly systems of health care
    - Bio composting
    - Bio pest control

### **Very Short Answer Questions (1 Mark)**

Read the 2 statements : Assertion (A) and Reason (R) and choose the correct alternative.

Assertion (A) : Carrying capacity of the environment means rate of regeneration is greater than or equal to rate of extraction.

Reason (R) : There has been considerable research being done to find renewable substitutes to non-renewable sources of energy.

Alternatives:

- a) Both (A) and (R) are true and (R) is correct explanation for (A).
- b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- c) (A) is true and (R) is false.
- d) (A) is false and (R) is true.

Read the following passage and answer the questions 3-6 that follow.

With the tag line 'Swachh Indhan, Behtar Jeevan, Union Government has launched a social welfare scheme, Pradhan Mantri Ujjwala Yojana (PMUY) on 1st May 2016 under the leadership of the Prime Minister.

The Scheme envisages of smoke free Rural India and aims to benefit give crore fairless especially the women living below poverty line (BPL) by providing concessional LPG connections to the entire nation by 2019."

- 3. The PMUY was launched on
  - a) 1st May 2014
  - b) 1st May 2016
  - c) 1st July 2016
  - d) 15th August 2016
- 4. The scheme aims to provide LPG connection to \_\_\_\_\_ (urban/rural) women.
- 5. The scheme is expected to reduce \_\_\_\_\_ (income level /pollution level) in India.
- 6. The Ujjwala Yojana will provide concessional LPG to all the women in India. (True/False)

7. Which of the following is not a function of the environment?
- Assimilation of waste
  - Supply of resources
  - Providing aesthetic services
  - Segregation of waste
8. Which of the following is not used as a fuel for cooking.
- LPG
  - PNG
  - CNG
  - Gobar Gas
9. Sustainable development advocates use of non-renewable sources of energy. (True/False)
10. Identify the correct pair.

Column I	Column II
A. Biocomposting	(i) Chemical fertilizer
B. Organic farming	(ii) Chemical Pesticides
C. Mini Hydel Plants	(iii) Suitable for Montaineous regions
D. Solar Energy	(iv) Non-Renewable

Alternatives:-

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

### Answer Key

1. b)    2. a)    3. b)    4. rural    5. Pollution level    6. False  
 7. (d)    8. (c)    9. False    10. c)

<b>Short Answer Questions</b> <b>(3-4 Marks)</b>
---

- Explain the effects of Green Revolution in context of Sustainable Development.
- What steps have been taken in India in the direction of sustainable development.

3. State any four environmental concerns in India.
4. India's environmental problems pose dichotomy - they are poverty induced and at the same time, due to affluence in living standards. Defend or refute.
5. Explain why opportunity cost of environment Crisis is very high.

<b>Long Answer Questions</b>
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<b>(6 Marks)</b>
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1. Explain the measures as suggested by Herman Daly in order to achieve sustainable development.
2. Give 2 examples of the following.
  - a) Over utilization of environment resources.
  - b) Misuse of environment resources
  - c) Land degradation.

**SIX (6) MARK QUESTIONS**

- 1) Explain the relevance of intergenerational equity in the definition of sustainable development.
- 2) Explain the supply-demand reversal of environmental resources.
- 3) Highlight any two serious adverse environmental consequence of development in India

<p style="text-align: center;"><b>UNIT - VIII</b></p> <p style="text-align: center;"><b>CHAPTER - 10</b></p> <p style="text-align: center;"><b>DEVELOPMENT EXPERIENCE OF INDIA</b></p> <p style="text-align: center;"><b>A COMPARISON WITH NEIGHBOURS</b></p>
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- **Development Path of India, Pakistan And China**

- (i) All the three countries started their development path at the same time India and Pakistan got independence in 1947 and people's Republic of China was established in 1949.
- (ii) All the three countries have started planning their development strategies in similar ways. India announced its First Five Year Plan in 1951, Pakistan announced in 1956 and China in 1953.
- (iii) India and Pakistan adopted similar strategies, such as creating a large public sector and raising public expenditure on social development.
- (iv) Both India and Pakistan had adopted 'mixed economy' model but China had adopted 'Command Economy' model of economic growth.
- (v) Till 1980's, all the three countries had similar growth rates and per capita incomes.
- (vi) Economic Reforms were implemented in China in 1978, In Pakistan in 1988 and in India in 1991.

- **Development Strategy:**

- A. China**

- (i) After the establishment of people's Republic of China under one party rule, all the critical sectors of the economy, enterprises and land owned and operated by individuals, were brought under government control.
- (ii) A programme named 'The Great Leap Forward (GLF) campaign was initiated in 1958, which aimed at industrializing the country on a massive scale. Under this programme, people were encouraged to set up industries in their backyards.

- (iii) 1965, Mao Tse Lung introduced the 'Great Proletarian Cultural Revolution (1966-1976)', under which students and professionals were sent to work and learn from the countryside (rural areas).
- (iv) In rural areas, commune system was started, under which people collectively cultivated lands.
- (v) Reforms were introduced in China in phases.
- (vi) In the initial phase, reforms were initiated in agriculture, foreign trade and investment sectors. In the later phase, reforms were initiated in the industrial sector.
- (vii) The reforms process also involved dual pricing. This means fixing the prices in two ways; farmers and industrial units were required to buy and sell fixed quantities of raw materials and products on the basis of prices fixed by the government and rest were purchases and sold at market price.
- (viii) In order to attract foreign investors, Special Economics Zones (SEZ) were set up, SEZ is a geographical region that has economic laws different from a country's typical economic laws. Usually the goal is to increase foreign investment.

## **B. Pakistan**

- (i) Pakistan followed the mixed economy model with co-existence of public and private sectors.
- (ii) Pakistan introduced tariff protection for manufacturing of consumer goods, together with direct import controls on competing imports.
- (iii) The introduction of Green Revolution and increase in public investment in infrastructure in select areas, led to a rise in the production of food grains.
- (iv) In 1970's Capital goods industries.
- (v) In 1988, structural reforms were implemented. Major thrust areas were denationalization and encouragement of private sector.
- (vi) Pakistan also received financial support from western nations and remittances from emigrants to the Middle countries. This helped the country in stimulating economic growth.



<p style="text-align: center;"><b>COMPARATIVE STUDY</b></p> <p style="text-align: center;"><b>INDIA, PAKISTAN AND CHINA</b></p>
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**1. Demographic Indicators:**

The population of Pakistan is very small and accounts for roughly about one-tenth of China and India.

Though China is the largest nation geographically among the three, its density is the lowest.

Population growth is highest in Pakistan followed by India and China. One child non introduced in China in the late 1970s is the major reason for low population growth. But this measure led to a decline in the sex ratio, that is the proportion of females per 1000 males.

The sex ratio is low and biased against females in all the three countries.

There is strong son-preference prevailing in all these countries as the reason.

The Fertility rate is low in China and very high in Pakistan.

Urbanization is high in both China and Pakistan - with India having 2 percent of its people living in Urban areas.

**2. Gross Domestic Product (GDP) and Sectors :-**

China has the second largest GDP (PPP) of \$9.4 trillion (approx) in 2013 whereas India's GDP (PPP) and Pakistan GDP (PPP) are \$1.877 trillion (approx) and \$232.3 Billion (approx) respectively.

On this path of Development China's average growth rate is about 9.5% while India's and Pakistan's average growth rate is about 5.8% and 4.1% respectively.

In China, in the year 2011, with 37 percent of its workforce engaged in agriculture, its contribution to GDP is 9 percent (approx). While in India and Pakistan the contribution of agricultural sector in GDP is about 14% and 25% respectively. In India about 43% are engaged in agricultural sector, while in Pakistan this figure is about 49%.

In China, manufacturing contributes the highest to GDP at 53 percent whereas in India and Pakistan, it is the service sector which contributes the highest (more than 50 percent of GDP).

Though China has followed the classical development pattern of gradual shift from agriculture to manufacturing and then to services, India and Pakistan's shift has been directly from agriculture to service sector.

In the 1980s, India, China and Pakistan employed 17, 12 and 27 percent of its workforce in the service sector respectively. In 2011, it reached the level of 37, 37 and 35 percent respectively (approx).

China's growth is mainly contributed by the manufacturing sector where as in both India and Pakistan, the service sector is emerging as a major player of development.

### **3. Human Development Indicators:**

In most areas of human development, China has performed better than India and Pakistan. This is true for many indicators-per Capita GDP or proportion of population below poverty line, health indicators such as mortality rates, access to sanitation, literacy, life expectancy or malnourishment etc.

Pakistan is ahead of India in reducing proportion of people below the poverty line and also its performance in transferring labour force from agricultural sector to industrial sector and access to water is better than India.

Contrary to it, India is ahead of Pakistan in education sector and providing health services.

India and Pakistan are ahead of China in providing improved water sources  
Conclusion.

#### **A. India performed moderately as is clear from**

A majority of its people still depend on agriculture.

Infrastructure is lacking in many parts of the country.

It is yet to raise the level of living of more than 22% of its population that lives below the poverty line.

#### **B. Pakistan has performed poorly. The reasons for the slowdown of growth and re-emergence of poverty in Pakistan's economy are:**

(i) Political instability.

(ii) Volatile performance of agriculture sector.

(iii) Over dependence on remittances.

(iv) Growing dependence on foreign loans on the one hand and increasing difficulty in paying back the loans on the other.

**C. China has performed comparatively the best as is clear from:**

Success in raising the level of growth along with alleviation of poverty.

It used the market mechanism to create additional social and economic opportunities without political commitment.

By retaining collective ownership of land and allowing individuals to cultivate lands, China has ensured social security in rural areas.

Public intervention in providing social infrastructure has brought about positive results in human development indicators in China.

	<b>INDIA</b>	<b>PAKISTAN</b>	<b>CHINA</b>
<b>Started towards their developmental path</b>	1947	1947	1949
<b>Initiation of development strategies</b>	<ul style="list-style-type: none"> <li>• Mixed Economy,</li> <li>• First Five Year Plan in 1951</li> <li>• Till the 1980s, all the three countries had similar growth rates and per capita incomes</li> </ul>	<ul style="list-style-type: none"> <li>• Mixed Economy,</li> <li>• First Five Year Plan in 1956, which is called Medium Term plan.</li> <li>• Till the 1980s, all the three countries had similar growth rates and per capita incomes</li> </ul>	<ul style="list-style-type: none"> <li>• Command economy</li> <li>• China announced its First Five Year plan in 1953</li> <li>• Till the 1980s, all the three countries had similar growth rates and per capita incomes</li> </ul>
<b>Economics Reforms</b>	1991	1988	1978
<b>Development Strategies</b>	<ol style="list-style-type: none"> <li>1. Industrial policy 1948, 1956 etc.</li> <li>2. Green revolution (1966)</li> <li>3. Operation fluid or white revolution 1970</li> <li>4. Poverty eradication programme</li> <li>5. Rural Development strategy</li> <li>6. Employment Generation</li> <li>7. Economic reform-1991</li> <li>8. Special Economic Zone policy-2005</li> </ol>	<ol style="list-style-type: none"> <li>1. Import Substitution 1950s</li> <li>2. Import industrialisation. 1960s</li> <li>3. Green revolution 1960s</li> <li>4. In 1970s, Capital goods industries were nationalised.</li> <li>5. In 1988, structural reforms were implemented</li> </ol>	<ol style="list-style-type: none"> <li>1. Green Leap Forward (GLF) (1958)</li> <li>2. Great Proletarian Cultural Revolution (1966-76)</li> <li>3. Economic Reforms (1978)</li> <li>4. Special economic zone 1979</li> </ol>
<b>Demographic indicators</b>	<ul style="list-style-type: none"> <li>• Huge populous country</li> <li>• National Population</li> <li>• Policy formulated in the year 2000</li> <li>The sex ratio is low and biased against females</li> <li>The Fertility rate is close to average.</li> <li>Urbanisation is low (28% only)</li> <li>Under nourished children are 37.9%</li> </ul>	<ul style="list-style-type: none"> <li>• Low populous country (about one tenth of India or China)</li> <li>• Population growth is highest in Pakistan followed by India and China</li> <li>• The sex ratio is low and biased against females</li> <li>• The Fertility rate is very high</li> <li>• Urbanisation is high</li> <li>• Under nourished children are 37.6%</li> </ul>	<ul style="list-style-type: none"> <li>• Huge populous country</li> <li>• One child norm which was introduced in China in the late 1970s is the major reason for low population growth</li> <li>• The sex ratio is low and biased against females</li> <li>• The Fertility rate is low</li> <li>• Urbanisation is high</li> <li>• Under nourished children are 8.1%</li> </ul>
<b>Material Mortality Rate (per 1 lakh births)</b>	174	178	27
<b>Infant Mortality Rate (per 1000 live births)</b>	29.9	57.2	8.5
<b>Human Development Index (Value)</b>	0.647	0.560	0.758
<b>Gross National Income per Capita (PPP S)</b>	6,829	5,190	16,127

<b>People Below Poverty Line (at \$3.20 a day PPP)(%)</b>	60.4	46.4	7.4
<b>Overall performance</b>	<ul style="list-style-type: none"> <li>a. India performed moderately</li> <li>b. A majority of its people still depend on agriculture</li> <li>c. Infrastructure is lacking in many parts of the country</li> <li>d. It is yet to raise the level of living of more than 22% of its population that lives below the poverty line.</li> </ul>	<ul style="list-style-type: none"> <li>a. Pakistan has performed poorly.</li> <li>b. Political instability.</li> <li>c. Volatile performance of agriculture sector</li> <li>d. Over dependence on remittances</li> <li>e. Growing dependence on foreign loans on the one hand and increasing difficulty in paying back the loans on the other.</li> </ul>	<ul style="list-style-type: none"> <li>a. China has performed comparatively</li> <li>b. Success in raising the level of growth along with alleviation of poverty.</li> <li>c. It used the market mechanism to create additional social and economic opportunities without political commitment.</li> <li>d. By retaining collective ownership of land and allowing individuals to cultivate lands, China has ensured social security in rural areas.</li> <li>e. Public intervention in providing social infrastructure has brought about positive results in human development indicators in China.</li> </ul>

### Multiple Choice Question

(1 Mark)

1. Which of the following country has highest density of population per square km?

- (a) Pakistan                      (b) India  
(c) China                        (d) Britain

Ans. (b) India

2. Human Development Index is a measure of \_\_\_\_\_.

- (a) birth rate                      (b) death rate  
(c) quality of life                (d) quality of environment

Ans. (c) quality of life

3. China republic was established in -

- (a) 1945                      (b) 1947                      (c) 1949                      (d) 1951

Ans. (c) 1949

4. Which is the poorest nation?

- (a) India                      (b) China                      (c) Pakistan                      (d) Canada

Ans. (c) Pakistan

5. Which country adopted infant policy?

- (a) India                      (b) China                      (c) Pakistan                      (d) None of these.

Ans. (b) China

6. In 1978 'Reform policy' started by China.

Ans. True

7. Ratio of people below poverty line in India is higher than China.

Ans. True

8. The Great leap Forward (GLF) campaign was initiated in 1978.

and. False

9. When did India introduce reforms? 153 ***Class XII : Economics (English)***

Ans. 1991

10. What do you mean by Great Leap Forward (GLF)?

Ans. The Great Leap Forward (GLF) was started in China 1958 for industrialization, under which people had to set up industries in the back of their homes.

**Short answer type questions (3-4 marks)**

1. What was common in the development strategy of India, China and Pakistan during 1950-1990?
2. When was the Great Proletarian Cultural Revolution introduced in China?
3. Mention the main features of Indian economy.
4. What is the important implication of the 'one child norm' in China?
5. Suggest some lessons that India can learn from China.
6. China's rapid industrial growth can be traced back to its reforms in 1978. Do you agree? Explain it.

**Long answer type question (6 marks)**

1. How will you prove that human development is more progressed in China than in India and Pakistan?
2. Critically appraise the development strategies of India.

**CBSE SAMPLE QUESTION PAPER – 2021-22**  
**ECONOMICS (CLASS 12)**  
**TERM 1**

**Time: 90 minutes**

**Maximum Marks: 40**

**GENERAL INSTRUCTIONS:**

1. There are a total 60 questions in this paper out of which 50 questions are to be attempted.
2. This paper is divided into three Sections:
  - a. Section A – Contains 24 questions. Attempt any 20 questions.
  - b. Section B – Contains 24 questions. Attempt any 20 questions.
  - c. Section C – Contains 12 questions. Attempt any 10 questions.
3. All questions carry equal marks.
4. There is no negative marking.

**Q.NO.**

**QUESTIONS**

**SECTION A**

(20 questions out of 24 questions are to be attempted)

- 1 The Government can achieve its budget objective of 'Redistribution of Income' by \_\_\_\_\_  
(Fill up the blank with correct alternative)
  - a) managing the General Price Level in the economy to the desired level.
  - b) increasing the Gross Domestic Products (GDP) of the economy.
  - c) bringing the production of goods and services under its direct and absolute control.
  - d) rationalisation of taxes in pro-poor direction.
- 2 Balance of Payments of an economy records \_\_\_\_\_ for a fiscal year.  
(Fill up the blank with correct alternative)
  - a) income and expenditure of the government
  - b) inflow and outflow of funds of the government
  - c) inflow and outflow of foreign exchange to/from the economy
  - d) inflow and outflow of loans to/from the rest of the world
- 3 Identify which of the following bank does not interact directly with the general public?

(Choose the correct alternative)



- a) Bank of India
  - b) State Bank of India
  - c) Central Bank of India
  - d) Reserve Bank of India
- 4 Identify which of the following is not an example of 'invisible item' under Current Account of the Balance of Payments transactions:  
(Choose the correct alternative)
- a) Air and sea transport
  - b) Postal and courier services
  - c) Education-related travel
  - d) Merchandise linked transactions
- 5 Read the following statements carefully and choose the correct alternative from the following:
- Statement 1** – Demonetization was the step taken by the Government of India in order to tackle the problems of corruption, black money, terrorism and circulation of fake currency in the Indian Economy.
- Statement 2** – Demonetization has ensured improved tax compliance in India over the period of time.
- Alternatives:**
- a) Both the statements are true.
  - b) Both the statements are false.
  - c) Statement 1 is true and Statement 2 is false
  - d) Statement 2 is true and Statement 1 is false
- 6 Ms. Sakshi, an economics teacher, was explaining the concept of 'minimum percentage of the total deposits to be kept by any commercial bank with the Central Bank of the country, as per norms and statute prevailing in the country'.
- From the following, choose the correct alternative which specifies towards the concept explained by her?
- a) Cash Reserve Ratio
  - b) Repo Rate
  - c) Bank Rate
  - d) Statutory Liquidity Ratio

- 7 Two friends Mira and Sindhu were discussing the exchange rate systems.  
‘Under this system, the exchange rates are determined by the market forces of demand and supply. However, deliberate efforts are made by the competent authority to keep the exchange rates within a specific range’.  
The above-mentioned statement was given by Sindhu, identify the type of exchange rate system was she talking about?
- Fixed Exchange Rate
  - Floating Exchange Rate
  - Managed Floating Exchange Rate
  - Managed Fixed Exchange Rate
- 8 Read the following statements carefully and choose the correct alternative from the following:
- Statement 1** – Public goods are those goods and services that are collectively consumed by the public.
- Statement 2** – Public goods are excludable and rivalrous in nature.
- Alternatives:**
- Both the statements are true.
  - Both the statements are false.
  - Statement 1 is true and Statement 2 is false
  - Statement 2 is true and Statement 1 is false
- 9 Under the Balance of Payments structure of a nation, the two main categories of accounts for the classification of the transactions are \_\_\_\_\_ and \_\_\_\_\_.  
(Fill up the blank with correct alternative)
- current account
  - unilateral transfer account
  - capital account
  - loan account
- Identify the correct alternatives from the following:
- Alternatives:**
- i and ii
  - i and iii
  - iii and iv
  - iv and i

10 Identify which of the following is not a function of the Reserve Bank of India?

(Choose the correct alternative)

- a) To act as the banker to the Government of India.
- b) To act as the custodian of the gold reserve of India
- c) To act as the financial advisor to the Government of India
- d) To issue coins and one rupee note

11 Industrial Policy Resolution (IPR) 1956 formed the basis of the \_\_\_\_\_ Five Year Plan.

(Fill up the blank with correct alternative)

- a) First
- b) Fourth
- c) Second
- d) Third

12 Occupational structure refers to \_\_\_\_\_

(Fill in the blank with correct alternative)

- a) size of labour force in a country
- b) number of people living in a country
- c) distribution of workforce among different sectors of an economy
- d) nature of different occupations

13 \_\_\_\_\_ is the portion of agricultural produce which is sold in the market by the farmers, after meeting their self-consumption requirements.

(Fill in the blank with correct alternative)

- a) Trade Surplus
- b) Marketable Surplus
- c) Producer Surplus
- d) Consumer Surplus

14 Read the following statements carefully and choose the correct alternatives given below:

**Statement 1** –Poverty line in India is defined in terms of monetary value of the minimum nutritional (calorific) requirements of an individual in a day.

Statement 2 – The definition of poverty line in monetary terms has not changed over the years.

Alternatives:

- a) Both the statements are true.
- b) Both the statements are false.
- c) Statement 1 is true and Statement 2 is false
- d) Statement 2 is true and Statement 1 is false

- 15 Read the following statements carefully and choose the correct alternatives given below:

Statement 1 – India is often called as the ‘outsourcing hub’ of the world.

Statement 2 – Availability of skilled manpower is one of the prime factors responsible for the status gained by India at the international platform.

Alternatives:

- a) Both the statements are true.
- b) Both the statements are false.
- c) Statement 1 is true and Statement 2 is false
- d) Statement 2 is true and Statement 1 is false

- 16 Before the advent of Green Revolution in 1960’s, India was primarily dependent on \_\_\_\_\_ for the supply of food grains.

(Fill in the blank with correct alternative)

- a) United States of America (USA)
- b) Britain (United Kingdom)
- c) Mexico
- d) Union of Soviet Socialist Republics (USSR)

- 17 From the following given sets of statements in column I and II, choose the correct pair of statements.

	Column I		Column II
A	Exports of goods and services	i	Excess of Exports of goods over the Imports of goods
B	Trade Surplus	ii	An element of invisible items
C	Current Transfer to rest of the world	iii	Recorded as a positive item in the BOP account
D	Portfolio Investments	iv	Foreign Institutional Investors

Alternatives:

- a) A-i
- b) B-ii
- c) C-iii
- d) D-iv

- 18 National Bank for Agricultural and Rural Development (NABARD) was set up in 1982 as a/the \_\_\_\_\_ body to coordinate the activities of all institutions involved in the rural financing system.

(Fill in the blank with correct alternative)

- a) cooperative
- b) apex
- c) micro credit
- d) private credit

- 19 The Government of India has decided to vaccinate the adult population of India (with Covaxin/Covishield), without any charge. This would be categorized as \_\_\_\_\_

(Fill in the blank with correct alternative)

- a) revenue nature income
- b) capital nature expenditure
- c) revenue nature expenditure
- d) capital nature income

- 20 \_\_\_\_\_ is not a reason for poverty in India.

(Fill in the blank with correct alternative)

- a) population explosion
  - b) rise in per capita GDP
  - c) low capital formation
  - d) socio-economic exclusion
- 21 In a hypothetical economy, Mr. Neeraj has deposited ₹100 in the bank. If it is assumed that there is no other currency circulation in the economy, then the total money supply in the economy will be\_\_\_\_\_
- (Fill up the blank with correct alternative)
- a) zero
  - b) ₹ 100
  - c) not defined
  - d) ₹ 120
- 22 ‘Since independence, India has witnessed a considerable fall in the Infant Mortality Rate in India’ Identify which of the following may not be one of the reasons for the fall in the Infant Mortality Rate?
- (Choose the correct alternative)
- a) Improvement in health facilities over the years
  - b) Improvement in educational standards over the years
  - c) Fall in standard of living of the population of the nation over the years
  - d) Technological expansion over the years
- 23 Read the following statements carefully and choose the correct alternatives given below:
- Statement 1** – Subsidies do not add any burden on the financial health of a nation.
- Statement 2** – Complete removal of subsidies may violate the aim of equitable distribution of income.
- Alternatives:**
- a) Both the statements are true.
  - b) Both the statements are false.
  - c) Statement 1 is true and Statement 2 is false
  - d) Statement 2 is true and Statement 1 is false

- 24 Prior to India's independence, the stagnation in the agricultural sector was mainly caused by\_\_\_\_\_ (Fill up the blank with correct alternative)
- a) investment in technology
  - b) investment in agriculture facilities
  - c) advanced infrastructural facilities
  - d) land settlement system

### SECTION B

(20 questions out of 24 questions are to be attempted)

- 25 **Read the following statements - Assertion (A) and Reason (R):**

Assertion (A) – Acquisition of a domestic (Indian) company by a foreign (Australian) company will be recorded on the credit side of Balance of Payment Account.

Reason(R) – It leads to outflow of foreign exchange from the domestic economy.

From the given alternatives choose the correct one:

**Alternatives:**

- a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
  - b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
  - c) Assertion (A) is true but Reason (R) is false.
  - d) Assertion (A) is false but Reason (R) is true.
- 26 Suppose in an economy, the initial deposits of ₹ 400 crores lead to the creation of total deposits worth ₹ 4000 crores.  
Under the given situation the value of reserve requirements would be\_\_\_\_\_ (Fill up the blank with correct alternative)
- a) 0.01
  - b) 1
  - c) 0.1
  - d) 0.4

- 27 **Read the following statements - Assertion (A) and Reason (R):**

Assertion (A) – Major policy initiatives (land reforms and Green Revolution) helped India to become self-sufficient in food grains production.

Reason(R) – The proportion of people depending on agriculture did not decline as expected after the Green Revolution.

From the given alternatives choose the correct one:

**Alternatives:**

- a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- c) Assertion (A) is true but Reason (R) is false.
- d) Assertion (A) is false but Reason (R) is true.

28 Identify the incorrect statement from the following:

(Choose the correct alternative)

- a) Diversification in agriculture sector provides sustainable livelihood rural population.
- b) Diversification includes - change in cropping pattern, shift of workforce from agriculture to other allied activities and non agriculture sector.
- c) Objective of investment in new agricultural avenues (non-farm activities) increases financial risks for the rural population.
- d) Diversification reduces the proportion of unemployed population in the rural areas to considerable limits.

29 Read the following statements - Assertion (A) and Reason (R):

Assertion (A) – Human capital treats human beings as a means to an end (increase in productivity).

Reason(R) – Human Capital Formation decreases by way of investments in education and health.

From the given alternatives choose the correct one:

**Alternatives:**

- a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- c) Assertion (A) is true but Reason (R) is false.
- d) Assertion (A) is false but Reason (R) is true.

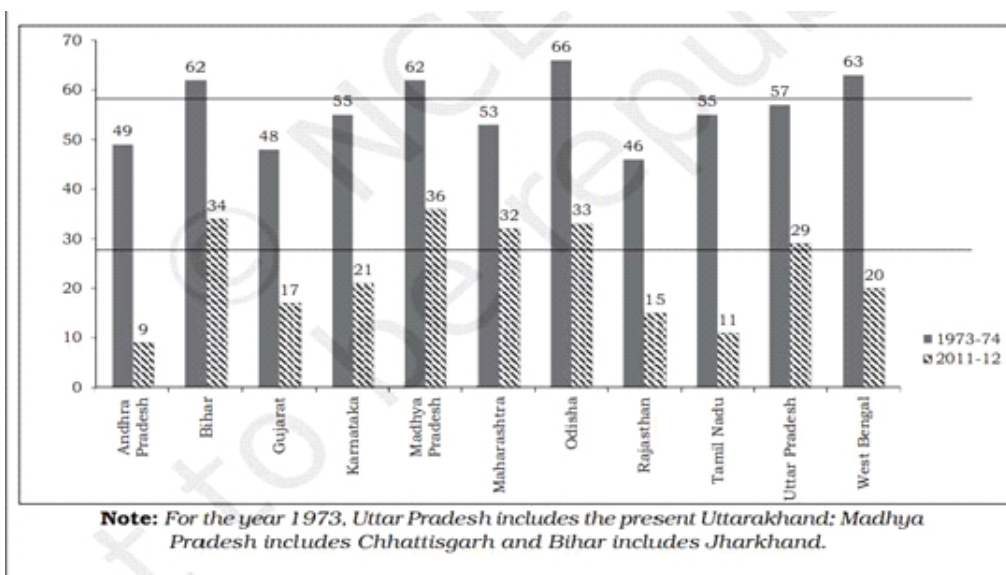
30 From the set of statements given in Column I (Name of the Scheme) and Column II (Objective of Poverty Alleviation Program), choose the correct pair of statements:



Column I (Name of the Scheme)	Column I (Objective of Poverty Alleviation Program)
A) Mahatma Gandhi National Rural Employment Guaranteed Act	i) Developing infrastructure and housing conditions
B) Poshan Abhiyan (Mid Day Meal Programme)	ii) guaranteed wage employment to rural unskilled worker
C) National Social Assistance Programme	iii) helping specific group - elderly people by giving them pensions
D) Valmiki Ambedkar Awas Yogna	iv) Improving food and nutritional status of the poor

**Alternatives:**

- a) A-i
- b) B-ii
- c) C-iii
- d) D-iv



**Figure Showing Population below poverty line in some large states, 1973-2012 (%)**

On the basis of the given bar diagram, identify the states which are able to reduce the poverty level as compared to other states between 1973 -2012.

- a) Tamil Nadu, Gujrat, Bihar, Andhra Pradesh
- b) Bihar, Madhya Pradesh, West Bengal and Orissa
- c) Rajasthan, Madhya Pradesh, Bihar and Uttar Pradesh
- d) Andhra Pradesh, Rajasthan, West Bengal and Tamil Nadu

**FOR VISUALLY CHALLENGED CANDIDATES:**

Identify which of the following statements given below, is not true, regarding the poor people?

- a) lack assets as well as income
- b) lack human capital
- c) work in formal sector
- d) too much dependency on public health facilities

**Select Indicators of Development in Education and Health Sectors**

Particulars		1951	1981	1991	2001	2016-17
Real Per Capita Income (in Rs)		7,651	12,174	15,748	23,095	77,659
Crude Death Rate (Per 1,000 Population)		25.1	12.5	9.8	8.1	6.3
Infant Mortality Rate		146	110	80	63	33
Life Expectancy at Birth (in Years)	Male	37.2	54.1	59.7	63.9	67
	Female	36.2	54.7	60.9	66.9	70
Literacy Rate (%)		16.67	43.57	52.21	65.20	76

**Source:** Economic Survey for various years, Ministry of Finance National Statistical Office & Ministry of Statistics and Programme Implementation; Government of India.

**On the basis of the above-mentioned information answer the following question:**

The Real Per Capita Income of India (as per the given data) has increased by \_\_\_\_\_ (approximately) between 1951 and 2016-17.

(Fill up the blank with correct alternative)

- a) 915 %
- b) 1015 %
- c) 815 %
- d) 715 %

**33 Read the following statements - Assertion (A) and Reason (R):**

Assertion (A) – The goal of equitable distribution of land was fully served by abolition of intermediaries, in the post-independence India.

Reason(R) – Big landlords challenged the land ceiling legislation, delaying the implementation and subsequently escaping from the legislation

From the given alternatives choose the correct one:

**Alternatives:**

- a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
  - b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
  - c) Assertion (A) is true but Reason (R) is false.
  - d) Assertion (A) is false but Reason (R) is true.
- 34 Read the following statements carefully and choose the correct alternatives given below:

**Statement 1** – The emergence of Self-Help Groups (SHG's) ensured the reduction in the fissures of the formal credit system.

**Statement 2** – The borrowings from SHGs mainly confined to consumption purposes by its members.

**Alternatives:**

- a) Both the statements are true.
  - b) Both the statements are false.
  - c) Statement 1 is true and Statement 2 is false
  - d) Statement 2 is true and Statement 1 is false
- 35 Read the following statements carefully and choose the correct alternatives given below:

Statement 1 – The value of money multiplier is determined by the reserve ratio prevailing in the monetary system.

Statement 2 – The process of credit creation directly relates to the value of reserve ratio.

**Alternatives:**

- a) Both the statements are true.
- b) Both the statements are false.
- c) Statement 1 is true and Statement 2 is false
- d) Statement 2 is true and Statement 1 is false

- 36 Arrange the following event in the correct chronological order:  
(Choose the correct arrangements)
- The year of great divide
  - Establishment of Tata Iron and Steel Company (TISCO)
  - Introduction of Railways in India by the British
  - Opening of Suez Canal
- Alternatives:**
- iv,ii,i,iii
  - i,iv,iii,ii
  - ii,iii,iv,i
  - iii,iv,ii,i
- 37 Read the following statements -Assertion (A) and Reason(R), choose one of the correct alternatives given below:
- Assertion (A): Trade of invisible items between two nations is a part of capital account of Balance of Payment
- Reason(R): Transactions that affect the asset-liability status of a country in relation to the rest of the world are known as Capital Account transaction.
- Alternatives:**
- Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
  - Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
  - Assertion (A) is true but Reason (R) is false.
  - Assertion (A) is false but Reason (R) is true.
- 38 Demand Deposits include \_\_\_\_\_ and \_\_\_\_\_.  
(Fill up the blank with correct alternative)
- Saving account deposits
  - Fixed deposits
  - Current Account Deposits
  - Post Office Savings
- Alternatives:**
- i and ii
  - ii and iii
  - i and iii
  - i and iv

- 39 Read the following statements -Assertion (A) and Reason(R), Choose one of the correct alternatives given below:

Assertion (A): Since the default rates of farm loans have become chronically high due to multiple reasons, the rural banks are facing a lot of cash crunch.

Reason(R): Due to lack of proper storage facilities a lot of farm produce is wasted.

**Alternatives:**

- a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
  - b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
  - c) Assertion (A) is true but Reason (R) is false.
  - d) Assertion (A) is false but Reason (R) is true.
- 40 Read the following statements -Assertion (A) and Reason(R), Choose one of the correct alternatives given below:

Assertion (A): Since Independence, the economic condition of many farmers across India has improved as they have adopted horticulture as a secondary source of income.

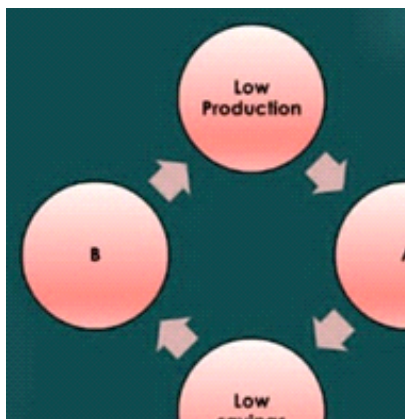
Reason(R): Varying climatic and soil conditions have given India an added advantage to be the producer of diverse horticultural crops.

**Alternatives:**

- a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
  - b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
  - c) Assertion (A) is true but Reason (R) is false.
  - d) Assertion (A) is false but Reason (R) is true.
- 41 Read the following statements -Assertion (A) and Reason(R), Choose one of the correct alternatives given below:
- Assertion (A): Demand Deposits are considered as a convenient mode of payment for execution of even the high value transactions.
- Reason(R): Demand Deposits are non-withdrawable in nature and cannot be withdrawn against issue of cheques and other similar instruments of payment.

Alternatives:

- a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
  - b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
  - c) Assertion (A) is true but Reason (R) is false.
  - d) Assertion (A) is false but Reason (R) is true.
- 42 Choose the correct alternatives to be filled in given blanks A and B.



- a) Low level of income and Low level of investment
- b) Low level of investment and Low level of Income
- c) Low Mobilization of savings and Low level of investment
- d) Low level of Investment and Low savings

FOR VISUALLY CHALLENGED CANDIDATES:

Read the following statements and choose the correct alternative from the following

Statement 1: Economists identify the poor on the basis of their occupation and ownership of asset.

Statement 2: Urban poor are mostly an overflow of rural poor.

Alternatives:

- a) Both the statements are true.
  - b) Both the statements are false.
  - c) Statement 1 is true and Statement 2 is false
  - d) Statement 2 is true and Statement 1 is false
- 43 Ms Ramanpreet has started a new business venture, she intends to spend a huge amount towards 'on-the-job training' of her workers before putting them to work. It exhibits the right step in the direction of Human Capital Formation.

Spot which of the following does not directly contribute to the process of human capital formation by Ms Ramanpreet:-

- a) adds skills and expertise
- b) improves efficiency
- c) ensures gender equity
- d) increases output productivity

- 44 Suppose that the Balance of Trade (BOT) of a nation, exhibits a surplus of ₹ 20,000 crores. The import of merchandise of the nation is half of the exports of merchandise to the rest of the world.

The value of exports would be ₹ \_\_\_\_\_ crores.

(Fill up the blank with correct alternative)

- a) 30,000
- b) 40,000
- c) 24,000
- d) 35,000

- 45 Read the following statements carefully and choose the correct alternatives given below:

Statement 1 – Government of India adopted ‘Trickle Down Approach’ to alleviate poverty to benefit the last man at the bottom of the pyramid.

Statement 2 – Empirical data over the years have shown that trickle-down theory did not yield desired results in India.

**Alternatives:**

- a) Both the statements are true.
- b) Both the statements are false.
- c) Statement 1 is true and Statement 2 is false
- d) Statement 2 is true and Statement 1 is false

- 46 Read the following statements -Assertion (A) and Reason(R), Choose one of the correct alternatives given below:

Assertion (A): If the receipts and payments on the current account are equal to each other, it depicts a situation of Current Account Surplus.

Reason(R): A surplus current account means that the nation is a lender to other countries and a deficit current account means that the nation is a borrower from other countries.

**Alternatives:**

- a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

- b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- c) Assertion (A) is true but Reason (R) is false.
- d) Assertion (A) is false but Reason (R) is true.

47 Identify the correct statement from the following:

(Choose the correct alternative)

- a) Restrictive policies of commodity production, trade and tariff pursued by the colonial government adversely affected the structure, composition and volume of India's foreign trade.
- b) Effective trade policies of commodity production, trade and tariff pursued by the colonial government favorably affected the structure, composition and volume of India's foreign trade.
- c) Liberal policies of commodity production, trade and tariff pursued by the colonial government adversely affected the structure, composition and volume of India's foreign trade.
- d) Restrictive policies of commodity production, trade and tariff pursued by the colonial government favorably affected the structure, composition and volume of India's foreign trade.

48 Match the situations given in Column I with their respective implications given in Column II:

(Choose the correct alternative)

	Column I		Column II
A	Migration	i	reduced in per capita economic growth
B	Low level of academic standards	ii	imbalance between demand and supply of human resource
C	Population- High Growth rate	iii	Brain Drain
D	Lack of proper manpower planning	iv	Mismatch between required skill and academic standards



- a) A-ii; B-iii; C-iv; D-i
- b) A-iii; B-iv; C-i; D-ii
- c) A-i; B-ii; C-iii; D-iv
- d) A-ii; B-iv, C-i; D-iii

### SECTION C

(10 questions out of 12 questions are to be attempted)

Q.No. 49 – 54 are to be answered on the basis of the following data:  
(in ₹ Crores)

	2019-2020 वास्तविक Actuals
1. Revenue Receipts	1684059
2. Tax Revenue (Net to Centre)	1356902
3. Non Tax Revenue	327157
4. Capital Receipts	1002271
5. Recovery of Loans	18316
6. Other Receipts	50304
7. Borrowings and other Laibilities	933651
8. Total Receipts (1+4)	2686330
9. Total Expenditure (10+13)	2686330
= 10. On Revenue Account	2350604

Source: indiabudget.gov.in

- 49 The value of recovery of loans has \_\_\_\_\_crores between 2019-20 (Actual) and 2020-21 (Budgeted Estimate).

(Fill up the blank with correct alternative)

- a) fallen by ₹ 3349
- b) risen by ₹ 3349
- c) fallen by ₹ 3439
- d) risen by ₹ 3439

- 50 The percentage change in the Non-Tax Revenue, between 2019-20 (Actual) and 2020- 21(Budgeted Estimate), taking the 2019-20 as base, would be \_\_\_\_\_.

(Fill up the blank with correct alternative)

- a) 15.02%
- b) 16.20%
- c) 17.68%
- d) 20.01%

- 51 Identify which of the following is not an example of tax revenue for the government: (Choose the correct alternative)
- Wealth Tax
  - Special Assessments
  - Income Tax
  - Corporate Tax
- 52 Identify the correct formula to calculate Fiscal Deficit
- Total expenditure - Total Receipt ( other than borrowings)
  - Revenue Expenditure- Revenue Receipt
  - Capital Expenditure- Capital Receipt
  - Revenue Expenditure + Capital expenditure - Revenue Receipt
- 53 Read the following statements carefully and choose the correct alternatives given below:
- Statement 1 – Revenue and Capital receipts are increasing but borrowings and other liabilities are reducing.
- Statement 2 – Grants and aid for creation of capital assets decreased from 2019 to 2021
- Alternatives:**
- Both the statements are true.
  - Both the statements are false.
  - Statement 1 is true and Statement 2 is false
  - Statement 2 is true and Statement 1 is false
- 54 The value of Primary Deficit for the year 2020-21, would be ₹ \_\_\_\_\_crores. (Fill up the blank with correct alternative)
- 88134
  - 321581
  - 96133
  - 609219

**Q.No. 55-60 are to be answered on the basis of the following data:**

India's post-1990 economic strategy entailed three important breaks with the past:

- To dismantle the vast network of controls and permits that dominated the economic system.
- To redefine the role of the state as a facilitator of economic transactions and as a neutral regulator rather than the primary provider of goods and services.
- To move away from a regime of import substitution and to integrate fully with the global trading system.

The 1991 reforms unleashed the energies of Indian entrepreneurs and gave untold choice to the consumers and changed the face of the Indian economy. The reform agenda constituted a paradigm shift, and has defined the broad contours of economic policymaking for three decades.

Liberalization was adopted as the guiding principle of governance and all governments since 1991, have broadly stuck to that path.

Today we don't need a paradigm shift. We need to look at individual sectors and see which one of these needs, reforms to create a competitive environment and improve efficiency. The power sector, the financial system, governance structures and even agricultural marketing need reforms.

Today's reforms also require much more discussion and consensus-building. The central government needs to work in tandem with state governments and consult different stakeholders impacted by reform decisions. Timing and sequencing are critically important in the new reforms' agenda.

Source: Excerpts from 'Like 1991, the 2021 crisis presents an opportunity, by C.Rangarajan, 22nd January 2021(livemint.com)

- 55 According to the given text, \_\_\_\_\_ was adopted as the guiding principle of governance and all governments since 1991.
- a) Modernization
  - b) Liberalisation
  - c) Privatization
  - d) Globalization

- 56 **Read the following statements carefully and choose the correct alternatives given below:**

Statement 1 – 1991 was a landmark moment in India's post-independence history as that changed the nature of the economy in fundamental ways.

Statement 2 –India's economic establishment launched a multipronged reforms agenda to repair India's macroeconomic balance sheet and ignite growth.

**Alternatives:**

- a) Both the statements are true.
- b) Both the statements are false.
- c) Statement 1 is true and Statement 2 is false
- d) Statement 2 is true and Statement 1 is false

- 57 **Read the following statements - Assertion (A) and Reason (R):**

Assertion (A) – India's pre-1990 economic strategy dismantles the vast network of controls and permits that dominated the economic system.

Reason (R) – The 1991 reforms unleashed the energies of Indian entrepreneurs, gave untold choice to consumers and changed the face of the Indian economy.

From the given alternatives choose the correct one:

**Alternatives:**

- a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

- b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).  
 c) Assertion (A) is true but Reason (R) is false.  
 d) Assertion (A) is false but Reason (R) is true.
- 58 In the light of the given text and common knowledge, identify the incorrect statement: -  
 a) A severe balance of payments problem triggered an acute economic crisis in 1991.  
 b) In 1991, the economic and political leadership launched a multipronged reforms agenda to repair the macroeconomic situation of the nation.  
 c) In post 1991 situation, the state was given the role of primary regulator of the economy.  
 d) Post pandemic, individual sectors should be looked closely. Sectors that need reforms should be identified and corrective action should be taken.
- 59 Read the following statements carefully and choose the correct alternatives given below:  
 Statement 1 – Timing and sequencing are critically important in the post-economic reform agenda.  
 Statement 2 – Post pandemic reforms in India require a paradigm shift.  
**Alternatives:**  
 a) Both the statements are true.  
 b) Both the statements are false.  
 c) Statement 1 is true and Statement 2 is false  
 d) Statement 2 is true and Statement 1 is false
- 60 Read the following statements - Assertion (A) and Reason (R):  
 Assertion (A) – The 1991 reforms released the vitalities of Indian businesspersons.  
 Reason (R) – The reform agenda established a paradigm shift and defined the broad outlines of economic policymaking for years to come.  
 From the given alternatives choose the correct one:  
**Alternatives:**  
 a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).  
 b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).  
 c) Assertion (A) is true but Reason (R) is false.  
 d) Assertion (A) is false but Reason (R) is true.

**Marking Scheme**  
**Economics (Class XII) Term I (2021-22)**

Q. NO.	ANSWER	Q. NO.	ANSWER	Q. NO.	ANSWER
1	d)	21	b)	41	c)
2	c)	22	c)	42	a)
				For VI candidates	
3	d)	23	d)	43	c)
4	d)	24	d)	44	b)
5	a)	25	c)	45	a)
6	a)	26	c)	46	d)
7	c)	27	b)	47	a)
8	c)	28	c)	48	b)
9	b)	29	c)	49	a)
10	d)	30	c)	50	c)
11	c)	31	d)	51	b)
		For VI candidates	c)		
12	c)	32	a)	52	a)
13	b)	33	d)	53	c)
14	c)	34	a)	54	a)
15	a)	35	c)	55	b)
16	a)	36	d)	56	a)
17	d)	37	d)	57	d)
18	b)	38	c)	58	c)
19	c)	39	b)	59	c)
20	b)	40	a)	60	a)

**General Instructions:**

**Read the following instructions very carefully and strictly follow them:**

- (i) Question paper comprises two Sections - A and B. All questions are compulsory.
- (ii) Question number 1 - 10 and 18 - 27 are very short-answer questions carrying 1 mark each. They are required to be answered in one word or one sentence each.
- (iii) Question number 11-12 and 28 - 29 are short answer questions carrying 3 marks each. Answers to them should not normally exceed 60-80 words each.
- (iv) Question number 13 - 15 and 30 - 32 are also short answer questions carrying 4 marks each. Answers to them should not normally exceed 60 - 80 words each.
- (v) Question number 16 - 17 and 33 - 34 are long answer questions carrying 6 marks each. Answers to them should not normally exceed 100-150 words each.
- (vi) Answer should be brief and to the point also the above word limit be adhered to as far as possible.
- (vii) There is no overall choice. However, an internal choice has been provided in 2 questions of one mark, 2 questions of three marks, 2 questions of four marks and 2 questions of six marks. Only one of the choices in such questions have to be attempted.
- (viii) In addition to this, separate instructions are given with each section and question, wherever necessary.

**Section - A (Macro Economics)****Expected Answer**

Q.No.	Marks
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1. ——— deficit includes interest payment by the Government on the past loans.

(Fill up the blanks with correct answer.)

Answer - Fiscal/Revenue )both the answers are to be considered as correct.) 1

2. State, whether the following statement is true or false:

'Inventory is a stock variable'.

Answer - True 1

3. To reduce credit availability in the economy, the Central Bank may \_\_\_\_\_

(Choose the correct alternative)

(a) buy securities in the open market.

(b) sell securities in the open market.

(c) reduce reserve ratio.

(d) reduce repo rate.

Answer - (b) sell securities in the open market. 1

4. In case of an underemployment equilibrium, which of the following alternative is not true? (Choose the correct alternative)

(a) Aggregate demand is equal to Aggregate supply.

(b) There exist excess production capacities in the economy.

(c) Resources are not fully and efficiently utilized.

(d) Resources are fully and effeiciently utilized.

Answer - resources are fully and efficiently utilized.

1

5. Which of the following is not a 'factor payment'?(Choose the correct alternative)

(A) Free uniform to defence personnel.

(b) Salaries to the Membnrs of Parliament.

(c) Rend paid to the owner of a building.

(d) Scholarship given to the students.

Answer - (d) Scholarship given to the students. 1

6. State, whether the following statement is true or false:

'Margin requirement is raised by the Central Bank to increase money supply.

Answer - False

1

7. If Marginal Propensity to Save (MPS) is 0.25 and initial change in investment is rs. 250 crores, then the final change in income would be \_\_\_\_\_. (Choose the correct alternative)

(a) Rs.1,000 crores

(b) Rs.1,200 crores

(c) Rs.500 crores

(d) Rs.3,500 crores

Answer – Rs. 1000 crores.

1

8. Combined factor income, which can't be separated into various factor income components, is known as \_\_\_\_\_. (Fill up the blanks with correct answer)

Answer - mixed income of self employed.

1

9. Define the term 'Public Goods'.

Answer - Public goods are those goods or services that are collectively consumed. It is not possible to exclude anyone from enjoying their benefits and one person's consumption does not reduce the availability to others. (any other valid definition to be allotted marks)

1

10. Rent + Interest + Profit = \_\_\_\_\_. (Fill up the blank with correct answer.)

Answer - operation surplus

OR

When Nominal Gross Domestic (NGD) is rs. 850 crores and Price index is 170, Real Gross Domestic Product (GDP) will be \_\_\_\_\_. (Fill up the blank with correct answer.)

Answer- Rs. 500 crores.

11. 'Subsidies to the producers, should be treated as transfer payment'. Defend or refute the given statement with valid reason.



Answer - The given statement is defended, as subsidy is a transfer payment. Subsidy is the financial assistance provided by the government to producers to fulfil its social welfare objectives. It does not contribute to any value addition. (no marks to be allotted if reason is not given or is wrongly given) 3

OR

Explain Circular Flow of Income in a two sector economy.

Answer - Two sector model consists of production sector and household sector, Households are the owners of factors of production and supply factor services to production sector. The production units in return make factor payment. Households spend the entire income on the purchase of goods and services produced by firms. Thus, consumption expenditure flows from households to firms, completing the circular flow of income. (to be marked as a whole) 3

12. Calculate Net Domestic Product at factor cost 1<sup>1/2</sup>

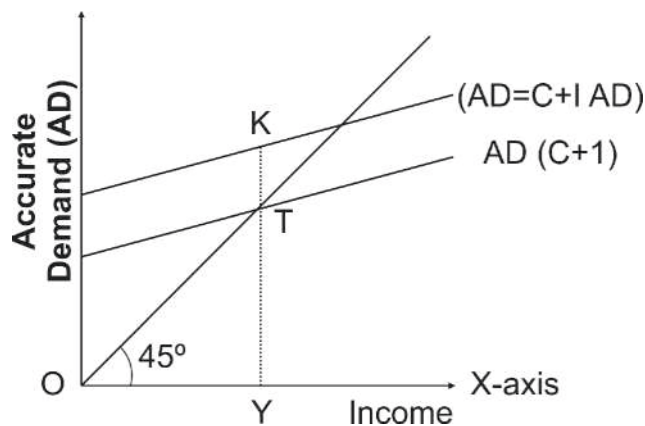
S.No.	Particulars	(Rs. in crores)
(i)	Interest	700
(ii)	Compensation of Employees	3,000
(iii)	Net Indirect Taxes	500
(iv)	Rent and Profit	700
(v)	Transfer Payments by Govt.	10

Answer - Net Domestic Product at factor cost = i + ii + iv 1

$$= \text{Rs. } 700 + 3000 + 700$$

$$= \text{Rs. } 1400 \text{ crores} \quad 1^{1/2}$$

13. In the given figure, what does the gap 'KT' represent? State and discuss any two fiscal measures to correct the situation.



**Answer** - KT' represents inflationary gap

Two fiscal measures are –

- (a) Increase in Taxes – To curb the inflationary gap the government may increase the taxes. This may reduce the purchasing power in the hands of the public which in turn may reduce the Aggregate Demand in the economy to bring it equal to the Aggregate Supply. 1
- (b) Reduction in Government Expenditure - To curb the inflationary gap the government may reduce its non developmental expenditure. This may reduce the purchasing power in the hands of the people which in turn will reduce the Aggregate Demand in the economy to bring it equal to the Aggregate Supply. 1<sup>1/2</sup>

**For visually Impaired Candidates:**

1<sup>1/2</sup>

Q. What is meant by deflationary gap? State and discuss any two fiscal measures to correct the situation of deflationary gap? 1

**Ans-** Deflationary gap is that situation when Aggregate Demand is lesser than Aggregate Supply corresponding to full employment level.

**Two fiscal measures are to control it are:**

- (a) Decrease in Taxes - To curb the deflationary gap the government may decrease the taxes. This may increase the purchasing power in the hands of

the people which in turn may increase the Aggregate Demand in the economy to bring it equal to the Aggregate Supply.  $1^{1/2}$

- b) Increase in Government Expenditure - To curb the deflationary gap the government may increase its expenditure. This may increase the purchasing power in the hands of the people which in turn may increase the Aggregate Demand in the economy to bring it equal to the Aggregate Supply.  $1^{1/2}$

OR

Q. Explain, how the 'Reverse Repo Rate' helps in correcting Excess Demand in an economy? 4

Ans - Reverse Repo rate is the rate of interest at which commercial banks can park their surplus funds with the central bank, for a relatively shorter period of time. To deal with the situation of excess demand this rate may be increased by the central bank. It may encourage the commercial bank to park their surplus funds with Central Bank. As a result, the availability of creating credit with the commercial bank will be reduced. Consequently, consumption expenditure and investment expenditure may get reduced, implying reduction in Aggregate Demand. (To be marked as a whole) (any other valid explanation to be allotted marks.)

14. 'Taxation is an effective tool to reduce the inequalities of income.' Justify the given statement with valid reasons. 4

Answer - The given statement is appropriate. The government may impose higher taxes (both direct and indirect taxes) on the richer class, reducing their purchasing power. Government may use the same tax revenue to provide goods and services (free or at subsidized price) to the poorer section of society to support them. (to be marked as a whole) (No marks to be allotted if reason is not given or is wrongly given)  $1^{1/2}$

15. Explain the function of Central Bank as 'Banker's Bank and Supervisor.' 4

Answer - Central Bank, as the Banker's Bank, accepts deposits from the commercial banks and offers them loans as and when required. Central Bank also provides clearing house facility to the commercial banks. In its supervisory role, it ensures that the commercial bank follow all the rules and instructions for the smooth functioning of the banking system. (To be marked as a whole) (any

other valid explanation to be allotted marks.)

16. Answer the following questions based on the data given below:

- (i) Planned Investments = 100 crore.
- (ii)  $C = 50 + 0.50 Y$
- (a) Determine the equilibrium level of income.
- (b) Calculate the value of Savings at equilibrium level of National Income.
- (c) Calculate the value of Investment Multiplier.

Answer (a) At Equilibrium

$$AD = Y = C + I \quad 1^{1/2}$$

$$\text{thus, } Y = (50 + 0.5Y) + 100 \quad 1^{1/2}$$

$$Y - 0.5Y = 150 \quad 1^{1/2}$$

$$Y = 150 / 0.5 = \text{Rs. } 300 \text{ crores.} \quad 1^{1/2}$$

So, equilibrium level of income = Rs. 300 crores.

(b) Consumption at equilibrium level of income

$$C = (-) \text{___} + (1+b)Y \quad 1$$

$$= (-) 50 + (0.5)(300) \quad 1^{1/2}$$

$$= \text{Rs. } 100 \text{ crores} \quad 1^{1/2}$$

(any other alternative correct method to be awarded marks)

$$(c) \text{ Investment Multiplier} = \frac{1}{1 - MPC} \quad 1$$

$$= \frac{1}{1 - 0.5} \quad 1^{1/2}$$

$$= 2 \quad 1^{1/2}$$

OR

Q. Discuss the working of the adjustment mechanism in the following situation:

- (a) If Aggregate Demand is greater than Aggregate Supply
- (b) If Ex-Ante Investments are less than Ex-Ante Savings

Ans

- (a) If ex-ante Aggregate Demand (AD) is more than ex-ante Aggregate Supply (AS), it means buyers are planning to buy more than what the producers are planning to produce. Thus, the inventories-in-hand of producers may fall. As a result, producers may plan to raise output and employment. This mechanism will continue to operate till the two forces become equal.

3

- (b) If ex-ante investments are lesser than ex-ante savings, it means buyers are planning to buy less than what the producers are planning to produce. Thus, the unplanned undesired inventories-in-hand of producers may rise. As a result, producers may plan to reduce output and employment. This mechanism will continue to operate till the two forces become equal.

3

17. (a) Explain the relationship between fall in price of a US Dollar (\$) and its demand.

Ans (a) Any fall in price of a US Dollar (\$) is a situation where lesser units of India rupee (₹) are required to buy a unit of US Dollar (\$). It may also be called as 'appreciation of Indian Rupee' or 'depreciation of US \$'. It may lead to rise in demand for foreign goods and services. As a result, the demand for US Dollars (\$) tends to rise.

3

Q. (b) Distinguish between Autonomous items and Accommodating items.  $1^{1/2}$

Ans: (b) Autonomous item, refers to those Balance of Payment (BOP) transactions which are undertaken for profit. Autonomous items are cause of BOP imbalance (BOP surplus or deficit). These transactions are also classed as "above the line items" in the BOP, whereas;

$1^{1/2}$

Accommodating items to those Balance of Payment (BOP) transactions which are free from the considerations of profit. Accommodation items are meant to restore BOP balance. These transactions are also classed as "Below the line items" in the BOP.

$1^{1/2}$

## SECTION - B INDIAN ECONOMIC DEVELOPMENT

18. 'GLF' with respect to the People's Republic of China referred to as \_\_\_\_\_.  
(Choose the correct alternative.)

- (a) Giant Leap Forward                      (b) Great Lead Forum  
(c) Great Leap Forward                      (d) Giant Lead Forum

Answer: (c) Great Leap Forward 1

19. State, whether the following statement is true or false: "GATT was established in 1923 with 48 member countries."

Answer: False 1

20. Which of the following countries initiated its process of Economic Reforms in the year 1991?

- (a) Pakistan                      (b) India  
(c) Russia                      (d) China

Answer: (b) India 1

21. Policy of 'Import Substitution' was targeted to protect \_\_\_\_\_ industries. (Fill up the blank with correct answer)

Answer - domestic 1

22. Which of the following is not used as a strategy for Sustainable Development?  
(Choose the correct alternative)

- (a) Use of bio-gas                      (b) Use of solar power  
(c) Use of thermal power                      (d) Use of hydel power

Answer - (c) Use of thermal power 1

23. Maternal Mortality Rate is high in \_\_\_\_\_ (China/Pakistan) (Fill up the blank with correct alternative)

Answer- Pakistan 1

24. \_\_\_\_\_ is one of the main positive contributions made by the British in India.  
(Fill in the blank with correct alternative)

Answer - Railways (Marks may be awarded for any relevant answer)

25. State, whether the following statement is true or false:

"As per the Human Development Report, 2018, India was ranked at 180th position."

Answer- False

1

26. If a construction site Manager hires two workers on daily wages basis, such a situation is covered under \_\_\_\_\_ (formal/informal) sector.

(Fill up the blank with correct alternative)

Answer- Informal

1

27. Greater proportion of women workers are found in \_\_\_\_\_ (urban/rural) areas as a component of India work force. (Choose the correct alternative)

Answer - rural

1

28. Compare and analyse the given data of India and China with valid reasons:

Country	Annual growth rate of population (2015)	Sex ratio (per thousand males)
India	1.2%	929
China	0.5%	941

Source: World Development Indicators, 2015

Answer -

- (a) The given data shows that China could arrest its annual population growth rate with the implementation of some stringent measure in late 1970s like the introduction of one child norm. This step has been instrumental in controlling the growth of population in China. India stands virtually more than double to China at its annual population growth rate of 1.2% as compared to China's annual population growth rate of 0.5% pa. 2
- (b) The social dynamics of both the countries are similar to each other sex ratio is low and biased in both the countries due to preference for male child. Whereas, India stands at 929 females per 1000 males, China is not far ahead at 941 females per 1000 males. 1

29. Discuss briefly the concept of 'Informalisation of workforce' in India.

**Ans-** In the recent years India has witnessed an unprecedented shift of the workforce from the formal sector to informal sector. This process whereby, the proportion of informal worker in the total workforce increases is known as informalisation of workforce. The government has initiated the modernization of the informal sector and provision of social security of measure to be worker in the informal sector. (to be marked as a whole) 3

OR

State any three challenges facing rural development in India.

**Ans-** Three challenges faced by rural development in India are:

- a) development of human resource. 1
- b) development of infrastructure. 1
- c) Measures for alleviation of poverty 1

(any other valid point to be allotted mark)

30. "Modernisation as a planning objective shows a dichotomy with employment generation." Justify the statement.

**Ans-** The given statement is appropriate, Modernisation implies use of advanced technology to enhance productivity at a faster pace. With application of modern technology, higher output is obtained at a relatively lower cost. However, in a labour abundant country like India modernisation may lead to an increase in unemployment as modern technology requires lesser labour per unit of output. (to be marked as a whole) (any other valid argument to be allotted marks) 4

OR

Q. State the two-fold motive for the systematic destabilisation of indigenous Indian industries in the British era.

**Ans. -** Two fold motive behind systematic destabilisation of indigenous Indian industries in the British era was :-

To get raw material from India at cheaper rates to be used for upcoming modern industries in Britain.

To sell finished product produced by the British industries in Indian market at higher prices.



31. State and discuss any two problems faced by power sector in India.

**Ans-** Major challenges faced by power sector in India are, as follows:

- (i) India's installed capacity to generate electricity is not sufficient. Even the installed capacity is underutilized because power plants are not running properly. 2
- (ii) State Electricity Board which distribute electricity are incurring losses due to obsolete transmission and distribution system and wrong pricing.

**(Marks to be awarded for any other relevant answer)**

2

32. Discuss briefly any two salient features of India's pre-independence occupational structure.

**Ans-** The occupational structure of India on the eve of independence had the following two main features:

- (i) Predominance of agriculture sector : The agricultural sector accounted for the largest share of workforce with approximately three-fourth of the workforce depending on agriculture, directly or indirectly. 2
- (ii) Growing regional variation: Due to rise of manufacturing and services sector in some parts of India (like the then Madras, Bombay and Bengal Presidencies) the dependency ratio of workforce on agricultural sector declined. 2

**(any other relevant argument to be allotted marks)**

OR

Discuss briefly, the rationale behind "equity with growth" as planning objectives for Indian Economy.

**Ans- Growth** refers to increase in country's capacity to produce the output of goods and services in an economy. **Equity** refers to reductions in inequality of income and wealth. When the objective of economic growth and equity are achieved, it may lead to development with social justice, which may increase the per capita availability of goods and services.

(To be marked as a whole)

(Marks to be awarded for any other relevant

explanation/argument)

33. (a) Distinguish between 'Green Revolution' and 'Golden Revolution'.

(b) How has women's health become a matter of great concern in India? Explain.

Answer:

(a) Green Revolution refers to the large increase in production of food grain resulting from the use of high yield variety (HYV) seeds of food crops (like wheat and rice) and supportive technology during mid 1960s to mid 70s. Whereas, 1<sup>1/2</sup>

Golden Revolution refers to the process where India has emerged as a leader in producing a variety of horticulture crops. 1/2

(b) Women constitute approximately half of India's total population, but they suffer from many disadvantages in health care. Traditionally, women health care had been on the back burner in India due to social considerations prevailing in the country. Gender ratio in the country is declining. The growing rate of female foeticide in the country is also a cause of concern. Most of the married women suffer from anaemia and nutritional anaemia leading to maternal deaths. (To be marked as a whole)

**(Marks to be awarded for any other relevant explanation/argument)**

34. Critically examine the results of Poverty Alleviation Programmes implemented in India since independence.

**Ans-** Poverty Alleviation Programmes are the designated programmes to target reduction in/removal of poverty in a country. India, which inherited poverty from British rule, tried her level best to eradicate poverty through various Poverty Alleviation Programmes over the years. As a result, the percentage of absolute poor in some states has fallen well below the national average of poverty. However, the problems of malnourishment, hunger and illiteracy continue to be a common feature in many parts of India, because of the following reasons: 6

- There has been no radical change in the ownership of assets.
- Due to unequal distribution of land and other assets, benefits from such programmes have been appropriated by the non-poor.
- Inadequate resource allocation for these programmes.

- The Government officials responsible for implementing these programmes were ill motivated and inadequately trained.

To conclude we may say that poverty alleviation programmes were a great step but could not achieve desired results due to improper implementation. (To be marked as a whole)

**(any other relevant answer should be allotted marks)**

OR

- (a) "Ujjawala Yojana has been a game changer for rural India." State any three conventional fuels being targeted under the Ujjawala Yojana.

**Ans:** The conventional sources of energy causes environmental pollution therefore the government have introduced the 'Ujjawala Yojana' as a game changer for rural India by providing free LPG gas cylinders (cleaner fuel) to rural households.

The three conventional fuels targeted under Ujjawala Yojana are:

- |                                       |   |
|---------------------------------------|---|
| (i) Agricultural waste and dried dung | 1 |
| (ii) Firewood                         | 1 |
| (iii) Coal                            | 1 |

- Ans-** b) "Economists believe that India should spend at least 6% of its GDP on Education for achieving desired results." Justify the statement with valid reason.

**Ans:-** The given statement is appropriate as it was recommended by the education Commission of 1964-64. The government is spending 4 percent (approx.) of GDP on education, which is quite inadequate. Education is an important component of human capital formation as it helps in increasing the availability of skilled and educated labour force in the country which may result in greater production and economic growth. 3

(to be marked as a whole) (any other relevant argument should be marked )

(data is only supportive, marks should not be deducted is not given.)

**SAMPLE QUESTION PAPER 2020-21**

**CLASS XII**

**ECONOMICS (030)**

**MM - 80**

**TIME : 3 HOURS**

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General Instructions:

1. This question paper contains two parts:  
Part A - Macro Economics (40 Marks)  
Part B - Indian Economic Development (40 marks).
2. Marks for questions are indicated against each question.
3. Question no. 1-10 and Qs. no. 18-27 (including two Case Based Questions) are 1 mark questions and are to be answered in one word/sentence.
4. Case Based Questions (CBQs) are Question No. 7-10 and Question no. 25 - 27.
5. Questions No. 11-12 and Question No. 28-29 are 3 marks questions and are to be answered in 60-80 words each.
6. Question No. 13-15 and Question No. 30-32 are 4 marks questions and are to be answered in 80-100 words each.
7. Question No. 16-17 and Question No. 33-34 are 6 marks questions and are to be answered in 100-150 words each.
8. Answers should be brief and to the point and the above word limit be adhered to as far as possible.

Q.No.	Questions	Marks
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**PART A- MACRO ECONOMICS**

1. Inventory is a ..... concept whereas the change in inventory is a ..... concept.  
(Fill up the blank with correct alternative)  
a. stock, flow                      b. flow, stock  
c. stock, stock                      d. flow, flow

If in an economy the value of Net Factor Income from Abroad is Rs. 200 crores and

---

the value of Factor Income to Abroad is Rs. 40 crores. Identify the value of Factor Income from Abroad. (Choose the correct alternative)

- a) Rs. 200 crores                      b) Rs. 160 crores  
c) Rs., 240 crores                      d) Rs. 180 crores

2. In the present COVID-19 times, many economists have raised their concerns that Indian economy may have to face a deflationary situation, due to reduced economic activities in the country.

Suppose you are a member of the high powered committee constituted by the Reserve Bank of India (RBI).

You have suggested that as the supervisor of commercial banks, ..... (restriction/ release) of the money supply be ensured, by the Reserve Bank of India (RBI).

(Choose the correct alternative)

3. Supply of money refers to ..... (Choose the correct alternative)

- a. Currency held by the public  
b. Currency held by Reserve Bank of India (RBI)  
c. Currency held by the public and demand deposits with commercial banks.  
d. Currency held in the government account.

4. Identify the correct pair of formula from the following column I and II:

(Choose the correct alternative)

Column I		Column II
A Current Account Surplus	i.	Receipts < Payments
B Current Account Surplus	ii	Receipts > Payments
C Balance Current Account	iii	Receipts ? Payments
D Current Account Deficit	iv.	Receipts ? Payments

Alternatives:

- a) A - i      b) B - ii                      c) C - iii                      d) D - iv

5. Identify which of the following statements is true? (Choose the correct alternative)

- a. The flexible exchange rate system gives the government more flexibility to maintain large stocks of foreign exchange reserves.
  - b. In the Managed floating exchange rate system, the government intervenes to buy and sell foreign currencies.
  - c. In the Managed floating exchange rate system, the central bank intervenes to moderate exchange rate fluctuations.
  - d. In the Fixed exchange rate system, market forces fix the exchange rate.
6. An Indian real estate company receives rent from Google in New York. This transaction would be recorded on ..... side of ..... account. (Fill up the blanks with correct alternative)
- a. credit, current
  - b. credit, capital
  - c. debit, capital
  - d. debit, current

**Read the following news report and answer Questions 7-10 on the basis of the same:**

The Reserve Bank of India (RBI) cut Repo Rate to 4.4%, the lowest in at least 15 years. Also, it reduced the Cash Reserve Ratio (CRR) maintained by the banks for the first time in over seven years. CRR for all banks was cut by 100 basis points to release Rs. 1.37 lakh crores across the banking system. RBI governor Dr. Shaktikanta Das predicted a big global recession and said India will not be immune. It all depends how India responds to the situation. Aggregate demand may weaken and ease core inflation.

The Economic Times: March 27th, 2020.

7. Cut in Repo Rate by RBI is likely to ..... (increase/decrease) the demand for goods and services in the economy. (Choose the correct alternative)
8. Decrease in Cash Reserve Ratio will lead to ..... (Choose the correct alternative)
  - a. fall in aggregate demand
  - b. no change in aggregate demand
  - c. rise in aggregate demand
  - d. fall in general price level
9. The difference by which actual Aggregate Demand exceeds the Aggregate Demand, required to establish full employment equilibrium is known as .....

(inflationary gap/deflationary gap).  
(correct alternative)

(Choose the

10. The impact of 'Excess Demand' under Keynesian theory of income and employment, in an economy are: (Choose the correct alternative)

- a. decrease in income, output, employment and general price level.
- b. decrease in nominal income, but no change in real output.
- c. increase in income, output, employment and general price level.
- d. no change in output/employment but increase in general price level.

11. State with valid reason, which of the following statement is true or false:

- a. Gross Value Added at market price and Gross Domestic Product at market price are one and the same thing.
- b. Intermediate goods are always durable in nature.

12. State, giving valid reasons, whether the following statements are true or false:

- a. Current account in Balance of Payments records only the exports and imports of goods and services.
- b. Borrowings from abroad are recorded in the Capital Account of the Balance of Payments on the debit side.

OR

'Trade Deficit must exist if a country is facing a situation of Current Account Deficit'.

Defend or refute the statement, with valid argument.

13. a. Define money multiplier.

b. 'Credit creation is inversely related to the reserve deposit ratio'. Justify the given statement, using a hypothetical example.

14. In an economy  $C = 200 + 0.5Y$  is the consumption function where  $C$  is the consumption expenditure and  $Y$  is the national income. Investment expenditure is Rs. 400 crores.

Is the economy in equilibrium at an income level Rs. 1500 crores? Justify your answer.

OR

Define: (i) Ex-ante savings

(ii) Full employment

15. 'India's GDP contracted 23.9% in the April-June quarter of 2020-21 as compared to same period of 2019-20, suggesting that the lockdown has hit the economy hard.' **The Hindustan Times, 1st September 2020**, State and discuss any two fiscal measures that may be taken by the Government of India to correct the situation indicated in the above news report.

16.

- a. 'Domestic household services performed by a woman may not be considered as an economy activity.'

Defend or refute the given statement with valid reason.

- b. 'Compensation to the victims of a cyclone is an example of a welfare measure taken by the government.'

State with valid reason, should it be included or not included in the estimation of national income of India.

OR

Suppose the Gross Domestic Product (GDP) of Nation X was Rs. 2,000 crores in 2018-19, whereas the Gross Domestic Product of Nation Y in the same year was Rs. 120,000 crores. If the Gross Domestic Product of Nation X rises to Rs. 4,000 crores in 2019-20 and the Gross Domestic Product of Nation Y rises to Rs. 200,000 crores in 2019-20.

Compare the rate of change of GDP of Nations X and Y, taking 2018-19 as base year.

17.

- a. Elaborate the objective of 'allocation of resources' in the Government budget.

- b. Discuss briefly how the Government budget can be used as an effective tool in the process of employment generation.

## **PART B - INDIAN ECONOMIC DEVELOPMENT**

18. .... was the Indian Finance Minister in 1991, acknowledged for his capabilities



to steer away the economic crisis looming large on the erstwhile Indian Economy.  
(Choose the correct alternative)

- a. Dr. Subramanian Swamy
- b. Dr. Manmohan Singh
- c. Pranab Mukherjee
- d. Dr. Urjit Patel

19. India entered the ..... stage of Demographic Transition after the year 1921.

- a. forth    b. second    c. third    d. first

20. Read the following statements - Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

Assertion (A): India became an exporter of primary products and an importer of finished consumer and capital goods produced in Britain.

Reason (R): Restrictive policies of commodity production, trade and tariff pursued by the colonial government adversely affected the structure, composition and volume of India's foreign trade.

Alternatives:

- a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- b. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- c. Assertion (A) is true but Reason (R) is false.
- d. Assertion (A) is false but Reason (R) is true.

OR

Read the following statements - Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

Assertion (A): The major policy initiatives i.e., land reforms and green revolution helped India to become self-sufficient in food grains production.

Reason (R): The proportion of people depending on agriculture did not decline as expected.

Alternatives:

- a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- b. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- c. Assertion (A) is true but Reason (R) is false.
- d. Assertion (A) is false but Reason (R) is true.

21. Read the following statements - Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

Assertion (A): Every year government fixes a target for disinvestment of Public Sector Enterprises (PSEs).

Reason (R): Disinvestment is an excellent tool for discarding the loss incurring Public Sector Enterprises (PSEs).

Alternatives:

- a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- b. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- c. Assertion (A) is true but Reason (R) is false.
- d. Assertion (A) is false but Reason (R) is true.

22. From the set of events/systems given in Column I and corresponding relevant fact given in column II, about China, choose the correct pair of statement:

Column I

Column II

A. Great Leap Forward

i. Cultivating land Collectively

B. Commune System

ii. Opening of the Industries in their homes

C. Proletarian Cultural revolution

iii. Students were sent to work and learn from the countryside

D. Economic Reforms in China

iv. 1988

Alternatives:

- a) A - i      b) B - ii      c) C - iii      d) D - iv

23. .... adopted 'One Child Policy' as a measure to control population. (Choose the correct alternative)

- a. India      b. China      c. Pakistan      d. Russia

**Read, the following hypothetical Case Study, carefully and answer the question numbers 24-27 on the base of the same.**

Since ages, farmers in India have taken recourse to debt. In the earlier times the same was from informal sources. Since independence with the efforts of the government, formal sector has actively come into picture. Farmers borrow not only to meet their investment needs but also to satisfy their personal needs. Uncertainty of income caused by factors like crop failure caused by irregular rainfall, reduction in ground water table, locust/other pest attack etc. These reasons push them into the clutches of the private money lenders, who charge exorbitant rates of interest which add to their miseries.

Various governments in India, at different times of different reasons, introduced debt relief/waiver schemes. These schemes are used by governments as a quick means to extricate farmers from their indebtedness, helping to restore their capacity to invest and produce, in short to lessen the miseries of the farmers across India. The costs and benefits of such debt relief schemes are, however, a widely debated topic among economists.

Some economists argue that such schemes are extremely beneficial to the poor and marginalised farmers while others argue that these schemes add to the fiscal burden of the government, others believe that these schemes may develop the expectation of repeated bailouts among farmers which may spoil the credit culture among farmers.

24. Uncertainty of income for farmers in India is majorly caused by ..... (irregular rainfall unavailability of loans).
25. Some economists argue that debt waiver schemes are extremely beneficial to the poor and marginalised farmers, as these schemes reduce the burden of ..... (indebtedness/personal expenditures)
26. The rural banking structure in India consists of a set of multi-agency institutions

..... (Regional Rural Banks/ Small Industries Development Bank of India) is expected to dispense credit at cheaper rates for agricultural purposes to farmers.

27. .... (Regional Rural Banks / Land Development Banks) is the most prominent body responsible for providing loans for long term land development.
28. 'India has emerged as a hotspot for medical tourism'. Defend the statement with valid arguments.

OR

Discuss any two steps taken by the government in the direction of improving agricultural marketing system in India, since independence.

29. Discuss briefly the concept of 'informalisation of workforce', in the context of Indian economy.
30. "Agriculture sector appears to be adversely affected by the economic reform process." Explain the given statement.
31. 'Atmanirbhar Bharat' had been at the roots of the Indian planning process in the form of 'self reliance' as an objective of the planning process.

Do you agree with the given statement? Justify the rationale of the given statement.

OR

Discuss briefly any two major steps taken by the Government of India on 'Financial Sector' from under the Economic Reforms of 1991.

32. Compare and analyse the given data of India and China with valid arguments.

Annual Growth of Gross Domestic Product (%), 1980-2017

Country	1980-90	2015-2017
India	5.7	7.3
China	10.3	6.8

Source: Key indicators for Asia and Pacific 2016, Asian Development Bank, Philippines. World Development indicators 2018.

- 33.

- a. 'If the rate of resource extraction exceeds the rate of regeneration, it leads to reduction in carrying capacity of the environment.'

Discuss the rationale of the given statement with valid reasons.

- b. 'Calorie-based norm is not an adequate measure to identify the poor. Establish the rationale of the given statement with valid reasons.

- a. Why are less women found in regular salaried employment ?

- b. Analyse the recent trends in sectoral distribution of workforce in India.

Trends in Employment Pattern (Sector wise), 1993-2012 (in%)

Sector	1993-2000	1999-2000	2011-2012
Primary	64	60.4	24.3
Secondary	16	15.8	24.3
Services	20	23.8	26.8

34. State, giving valid reasons whether the following statements are true or false.

- a. Since independence, the benefits of the increase in economic growth in India have trickled down to the people at the bottom of population pyramid.
- b. Human Capital Formation gives birth to innovation, invention and technological improvements.
- c. There exists an inverse correlation between infrastructural growth and national income.

**MARKING SCHEME - SAMPLE QUESTION PAPER 2020-21**

**CLASS XII**

**ECONOMICS (030)**

Q.No	Answers	Marks
1.	a. stock, flow. or c. Rs.240 crores	1  1
2.	release	1
3.	c. currency held by the public and demand deposits with commercial bank.	1
4.	b. B-ii	1
5.	c. In the Managed floating exchange rate system, the central bank intervenes to moderate exchange rate fluctuations.	1
6.	a. credit, current	1
7.	increase	1
8.	c. rise in aggregate demand	1
9.	inflationary gap	1
10.	d. no change in output/employment but increase in general price level.	1
11.	a. The given statement is false as Gross Domestic Product is the result of sum of Gross Value Added by all the producing units/firms in an economy, during an accounting year.  b. The given statement is false as intermediate goods are generally non-durable in nature. They are the goods used as raw material and they lose their identity in the production process for the creation of a new commodity, during an accounting year.	
12.		

- a. The given statement is false as the Current Account of Balance of Payments records unilateral transfers along with exports and imports of goods and services.
- b. The given statement is false as the borrowings from abroad are recorded in the Capital Account of Balance of Payments on the credit side as it results in an inflow of foreign currency in the economy.

The given statement is refuted as the Current Account Deficit (CAD) is a broader concept. CAD occurs when the foreign exchange payments on account of visible, invisibles and current transfers are in excess over the receipts of visible, invisibles and current transfers.

A country may face a situation of CAD, even if the country has trade surplus, with greater negative balances on account of services and unilateral transfers.

13.

- a. Money multiplier is the process by which the commercial banks create credit, based upon the reserve ratio and initial deposits.
- b. Reserve deposit ratio is the minimum reserves which a commercial bank must maintain as per the instructions of the Central Bank,

$$\text{Credit Creation} = \frac{1}{\text{reserve ratio}}$$

Thus, credit creation is inversely related to the reserve deposit ratio.

**For Example:** Suppose the Reserve Ratio is 0.2 and initial deposit is 1000 crores.

$$\text{Total Credit Created} = \frac{1}{\text{reserve ratio}} \times \text{initial deposits}$$

Now, suppose reserve ratio is increased to 0.5

$$\text{Total Credit Created} = \frac{1}{\text{reserve ratio}} \times \text{initial deposits}$$

$$= \frac{1}{0.5} \times 1000$$

= Rs. 2,000 crores.

Thus, on the basis of the above illustration we can say that there exists an inverse relation between reserve and credit creation.

14. Given , Consumption function(C)=200+0.5Y, Investment(I)=400, Level of income (Y)=1500

At Equilibrium level → AD = AS

$$Y = C + I$$

thus.

$$Y = (200 + 0.5Y) + 400$$

$$Y - 0.5Y = 600$$

$$Y = 600/0.5 = \text{Rs. } 1200 \text{ crores.}$$

The equilibrium level of income = 1200 crores.

The given income ( 1500 crores) is greater than equilibrium level of income (Rs. 1200 crores). Therefore, the economy is not in equilibrium.

**OR**

- 1) **Ex-ante savings** - Ex ante savings refers to the planned savings of an economy at different levels of income.
  - 2) **Full employment** - It refers to a situation, where all the willing and capable resources get a gainful job at prevailing wage rate. It is a situation where there is no involuntary unemployment.
15. The situation suggests that Aggregate Demand is less than Aggregate Supply. Following two fiscal measures may be taken to control it:
- a. **Decrease in Taxes** - To curb the situation, the government may decrease the taxes. This may increase the purchasing power in the hands of the general public. This may increase the Aggregate Demand in the economy to bring it equal to the Aggregate Supply.
  - b. **Increase in Government Expenditure** - The government may also increase its



expenditure. This may increase the purchasing power in the hands of the general public which in turn may increase the Aggregate Demand in the economy to bring it equal to the Aggregate Supply

16. a. The given statement is defended; as it is difficult to measure the monetary value of the services performed by a woman (homemaker). Therefore, these activities may not be considered as an economic activity.
- b. Compensation given to the victims of a cyclone is an example of a social welfare measure taken by the government. However, it is not included in estimation of national income as it is a transfer payment which does not lead to corresponding flow of goods and services.

**OR**

Nations/Years	2018-19	2019-20	Growth Rate of GDP
			$= \frac{\text{Change in GDP}}{\text{Base year GDP}} \times 100$
			(Base Year = 2010 -19)
X	Rs, 2,000	Rs.4,000	$= \frac{2000}{2.000} \times 100$
	crores	crores	$= 100\%$
Y	Rs. 1,20,000	Rs. 2,00,000	$= \frac{80,000}{1,20,000} \times 100$
	crores	crores	$= 66.67\%$

Nation X has registered a GDP growth rate of 100% and has performed better on the front of GDP rise as compared to Nation Y that has registered a GDP growth rate of 66.67%.

- 17.a. Allocation of resources: Government seeks to allocate resources with a view to balance the goals of all sections of the society. Production of goods and services which are injurious to health may be discouraged through taxation policy. Similarly, production of goods of socially beneficial nature may be encouraged through subsidies. If the private sector does not take initiative in certain activities

(Public Goods), the government may directly control them like water supply and sanitation etc.

- b. Government budget can be used as an effective tool in the process of employment generation in various ways. Investment in infrastructural projects like construction of flyovers, bridges, expansion of roads etc. creates jobs for different sections of the workforce. In rural/urban areas government can provide jobs through various employment generation schemes like MGNREGA, SJSRY, PMRY etc.

## **PART B - INDIAN ECONOMIC DEVELOPMENT**

- 18. b. Dr. Manmohan Singh
- 19. b. second
- 20. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

**Or**

Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).

- 21. b. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
- 22. c. C-iii
- 23. b. China
- 24. irregular rainfall
- 25. indebtedness
- 26. Regional Rural Banks
- 27. Land Development Banks
- 28. The given statement is defended as in the recent past India has witnessed many foreign nationals visiting for surgeries, organ transplant, dental and even cosmetic care. The prime reason for this phenomenon can be quoted as:
  - i. Health services in India offer latest medical technologies with qualified professionals.

- ii. All these medical services are less costly in India as compared to similar health care services in other countries.

**Or**

Two major steps taken by the government in the direction of improving Sericultural marketing system in India, since independence are:

- i. **Regulation of markets:** This step was necessary in the post independence period so as to create an orderly and transparent marketing condition across India. This policy benefitted both farmers as well as consumers.
  - ii. **Physical Infrastructure:** This is another important aspect tackled by the government. Improvement of physical infrastructure facilities like roads, railways, warehouses, godowns, cold storages, processing units etc. has been the target of the government since decades.
29. In the recent years, India has witnessed an unprecedented shift of the workforce from the formal sector to informal sector. This process whereby, the proportion of informal worker in the total workforce increases is known as informalisation of workforce.
30. The agricultural sector was adversely affected by the reform process in the following manner -
- (i) Public investment in agriculture sector especially in infrastructure like irrigation, power etc. has been reduced in the reform period.
  - (ii) Reduction of fertilizer subsidy has increased the cost of production affecting thereby the small and marginal farmers
  - (iii) Increased international competitiveness due to liberalisation and reduction of import duties.
  - (iv) Shift from food crops to cash crops due to export-oriented policy in agriculture led to a rise in prices of food-grains.
31. The given statement is correct; in the early post-independence period the aim of the government's policy was to reduce the dependence on the foreign countries for goods, services, technology and capital. It stressed on the use of domestic resources to avoid foreign interference, as it was feared that the dependence on the imported food supplies. foreign technology and foreign capital may increase foreign interference in the policies of our country.

Similarly, the main thrust of the Atmanirbhar Bharat' is also to make India an economy that is self-reliant and self-sufficient.

**Or**

Two steps taken by the government of India on financial sector under the Economic Reforms of 1991 were:

- (a) **Change in the role of Reserve Bank of India (RBI):** The role of RBI was reduced from regulator to facilitator of financial sector. This means that financial sector was given greater autonomy (to take decisions) on many matters independent of RBI.
- (b) **Origin of Private Banks:** The reform process led to establishment of private sector banks of Indian as well as foreign origin.

32. The given data shown that China has gained economic strength over the years. When many developed countries were finding it difficult to maintain a growth rate of even 5%. China was able to maintain near double-digit growth during the decade of 1980s. The growth rate of China has decelerated to an average of 6.8%, over the period 2015-17.

In the recent past India has posted a decent rise in the growth rate. While India had maintained a reasonable growth rate of 5.7% in the decade of 1980's it has shown great calibre and character in the period 2015-17 by registering an average of 7.3%, over the period 2015-17. Nevertheless, Indian elephant has to travel a long distance before it could present itself as a real threat to the growth story of the Chinese dragon.

33. a. The environment is able to perform its functions uninterruptedly so long as the demand for these functions is within the carrying capacity of the environment. This means that the resources are not extracted beyond the rate of their regeneration.

If there is a disequilibrium (demand being more than supply), the environment fails to replenish itself and it will lead to environmental crisis. Thus, to maintain a healthy environment, the carrying capacity of the environment must be valued and respected.

- b. The calorie based norms is not an adequate measure to identify the poor as this method does not differentiate between the very poor and the other

poor. This mechanism takes into account expenditure on food and a few other items as proxy for income. It ignores many other vital factors associated with poverty; for instance, the accessibility to basic education, health care, drinking water and sanitation.

**Or**

- a. Lesser women are found in regular salaried employment in India, because:
  - (i) jobs generally require skills and high level of literacy.
  - (ii) lack of mobility among women in India due to social constraints.
- b. The given data indicates that over the given period, the proportion of workforce in primary sector has gone down from 64% in 1993-94 to 24.3% in 2011-12, this account to nearly a all of 20% over the years. Whereas, the employment share of both secondary and the services sector has increased in India,

The share of secondary sector has gone up by approximately 9% (from 16% in 1993-94 to 24% approximately in 2011-12). the corresponding figure for services sector has gone up by 7% (from 20% in 1993-94 to 27% approximately in 2011-12)

These sectoral changes have been very significant in the growth journey of India, showing the gradual shift of the workforce from primary sector to the secondary and tertiary sector.

- a. The given statement is false as there have been different factors (like massive rate of growth of population, unequal distribution of wealth, skewed benefits accruing from green revolution etc.) due to which benefits of increase in the Gross Domestic Product have not trickled down completely to the people at the bottom of population pyramid
- b. The given statement is true. Human Capital Formation investment in education/health) not only increases the productivity of the available human resources but also stimulates innovations and creates ability to adopt and adapt to the new technologies.
- c. The given statement is false, as generally, there exists a positive correlation between infrastructural growth and national income. Infrastructure is the support system for an economy which facilitates greater productive activities, higher levels of output/income and improvement of quality of life in an economy,

# ECONOMICS (030)

**Time allowed: 3 hours**

1. All the questions in both the sections are compulsory Marks for questions are indicated against each question.
2. Question number 1 - 10 and 18 - 27 are very short-answer questions carrying 1 mark each They are required to be answered in one word or one sentence each
3. Question number 11 - 12 and 28-29 are short-answer questions caring 3 marks each . Answers to them should not normally exceed 60-80 words each.
4. Question number 13 - 15 and 30 - 32 are also short-answer questions carrying 4 marks each. Answers to them should not normally exceed 80-100 words each.
5. Question Number 16-17 and 33 - 34 are long answer questions carrying 6 marks each. Answers to them should not normally exceed 100-150 words each
6. Answer should be brief and to the point and the above word limit be adhered to as far as possible

### Q. No. QUESTION

- 211
- Class XII : Economics (English)**

**Or**

What are demand deposits?

5. The monetary policy generally targets to ensure.....  
(Choose the correct alternative)
- a) price stability in the economy
  - b) employment generation in the country.
  - c) stable foreign relations
  - d) greater tax collections for the government.
6. In an economy break-even point and equilibrium point may lie at the same level of income, if ex-ante investments are.....  
(Fill up the blank with correct answer)
7. State whether the given statement in true or false  
‘Managed Floating Exchange Rate is decided by market forces but remains within a specif range as decide by central bank’.
8. The formula to calculate Primary deficit is .....  
(Fill up the blank with correct answer)
9. From the set of statements given in Column I and Column II, choose the correci pair of statements.

**Column 1**

**Column II**

- |   |       |   |
|---|-------|---|
| a) Export of soliware to France             | (1)   | Debit side of current account                         |
| b) Import of Machinery from China           | (ii)  | Capital Account of Balance of payment                 |
| c) Remittances to relative staying abroad   | (iii) | Debit side of Current Account of Balance of Payments  |
| d) Investment by Apple phones firm in India | (iv)  | Credit side of Current Account of Balance of Payments |
10. Government expenditure on Mid-Day Meal scheme running in government (state

(Fill up the blank with correct answer)

- The Economic Times.

12. Calculate the value of Marginal Propensity to Consume (MPC). it in an economy. autonomous consumption is 500 crores, ex-ante investments are 4000crores and quilibriun level of Income of the economy is 18,000 crores.

Suppose in a hypothetical economy, the savings increase by 20 crores when national income increases by 100 crores. Compute the additional investments needed to attain an increase in national income by 6,000 crores?

- a) As government's bank                      b) Open market operations

- State and discuss the likely effects of the given statement on foreign exchange rate 4 with reference to the Indian Economy.

“Many large Multinational Corporations (MNCs) have recently shifted their investments from China and have started their production in India, thereby boosting the Make in India plans of the Government”

15. Elaborate the objective of ‘reallocation of resources in the government budget.

- Do you agree with the given statement Support your answer with a suitable



numerical example.

b) Calculate Depreciation on Capital Asset from the following data

<b>S.No</b>	<b>Particulars</b>	<b>Amount (in Rs. crores)</b>
1.	Capital value of the asset	1,000
2.	Estimated life of the asset	20 years
3.	Scrap Value	Nil

**Or**

(a) Circular flow of income in a two sector economy is based on the axiom that one's expenditure is other's income'.

Do you agree with the given statement? Support your answer with valid reasons.

(b) Calculate compensation of employees from the following data:

<b>S.no</b>	<b>Particulars</b>	<b>Amount (in Rs. crores)</b>
i.	Profits after tax	20
ii.	Interest	45
iii.	Gross Domestic Product at Market Price	200
iv.	Goods and Services Tax	10
v.	Consumption of Fixed Capital	50
vi.	Rent	25
vii.	Corporate Tax	5

17. An economy is operating at under-employment level of income'. What is meant by the given statement? Discuss one fiscal measure and one monetary measure to tackle the situation.

### **SECTION-B**

#### **(Indian Economic Development)**

18. Name any two taxes which were subsumed in Goods and Services Tax (GST).

19. **State whether the following statement is true or false:**

The latest demonetization of currency was undertaken by the Government of India on November 8, 2016'.

20. Identify the correct sequence of alternatives given in Column II by matching them with respective terms in Column I:

**Column -I**

**Column - II**

A. Land Ceiling	i.	Increase in production of food grain using high yielding variety seeds
B. Land reforms .	ii.	Portion of agricultural produce sold in the market
C. Green Revolution	iii.	Fixing the inaximum limit of land holding for an individual.
D. Marketed Surplus.	iv.	Change in the ownership of land (land to tillers)

21. Agriculture marketing does not comprise of .....

(Choose the correct alternative)

- a) Transportation of the produce to the market place for sale,
- b) Grading of the produce according to the quality
- c) Storage of the produce for sale in future.
- d) Credit taken to meet expenditure on agriculture.

22. Under .....type of unemployment, marginal product gained it employing one additional unit of labour is zero.

(Fill up the blank with correct answer)

**Or**

..... an indicator which is used for analyzing the employment situation of a country.

(Fill up the blank with correct answer)

23. In 1955 Karve committee was constituted for aiming the.....

(Fill up the blank with correct answer)

24. Identify the correct sequence of alternatives given in Column II by matching them with respective terms in Column I

**Column - I**

**Column- II**

- |  |           |
|--|-----------|
| A. Study Group formed by Planning Commission for Poverty                           | i. 2005   |
| B. Task Force on Projections of the Minimum Needs and Effective Consumption Demand | ii. 1962  |
| C. Mahatma Gandhi National Rural Employment Guarantee Act                          | iii. 2014 |
| D. Jan Dhan Yojana   | iv. 1979  |

**Choose the correct alternative**

- a) ii, iii, iv, i  
b) iii, ii, i, iv  
c) i, ii, iii, iv  
d) ii, iv, i, iii.
25. Solar energy can be converted into electricity with the help of.....(Photovoltaic cell Lithium cells).  
(Fill up the blank with correct alternative)
26. Arrange the following events of China in chronological order and choose the correct alternative:

- i. Great Proletarian Cultural Revolution  
ii. Great Leap Forward campaign  
iii. Introduction of Economic Reforms  
iv. First five year plan

Choose the correct alternative:

- a) ii, iv, iii, i

b) iv, ii, i, iii

c) ii, iv, i, iii

d) iv, i, ii, iii

27. Introduction of Economic Reform in Pakistan took place in.....

(Choose the correct alternative)

(a) 1978

(b) 1980

(c) 1988

(d) 1991

28. Recently Indians have drifted away from traditional knowledge and practice and caused large scale damage to environment

Explain how, adopting the traditional practices can be helpful in achieving the objective of sustainable development?

**Or**

power sector in India has major issues with its installed capacity. Discuss the given statement.

29. Education Commission 1964-66 had recommended that at least 6 per cent of GDP must be spent on education. How far India has been able to achieve the said goal?

30. The opening up of the Indian Economy has led to a rapid increase in Foreign Direct Investments and Foreign Exchange Reserves of the country'. Defend or refend the given statement.

31. Define the following terms

a) Disinvestment

b) Import Substitution

**OR**

Deline the following terms

a) Outsourcing

b) Quota

32. Answer the following questions on the basis of the following data:

a) Comment upon the population growth rates among the three countries.

b) Which country has most skewed in sex ratio?

Country	Estimated	Annual Growth of	Sex Ratio
---------	-----------	------------------	-----------

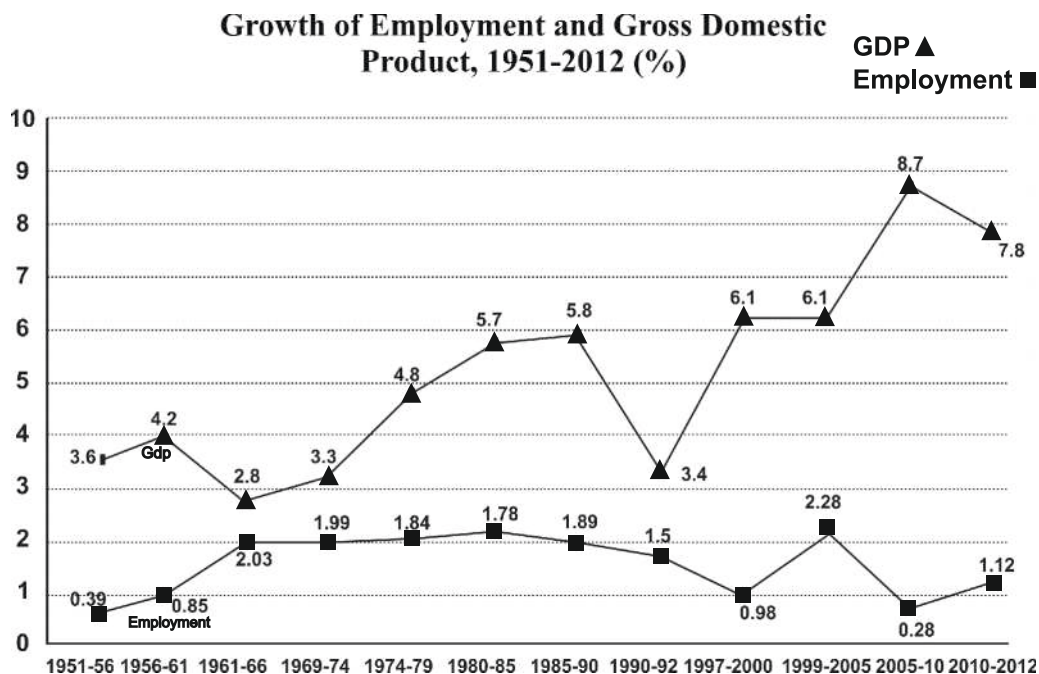
	Population (in million)	population (in %)	
India	1311	1.2	979
China	1371	0.5	941
Pakistan	188	2.1	947

**Source:** World Development Indicators, 2015, [www.worldbank.org](http://www.worldbank.org)

33. Rural Economic development is essential for Indian Economic development”  
Do You agree with the given statement? Support your answer with valid reasons
34. In spite of the increase in public health expenditure Indian Health System is an ailing system in itself Defend the statement citing any three major problems of Health sector in India

**Or**

Study the following chart showing the Growth of Employment and Gross Domestic Produkt and analyse the trend of the two variables from 1990-2012.



## Marking Scheme

### SECTION - A (Macro Economics)

Ques. Description

No.

1. Decreases
2. An intermediate good refers to that good which is purchased during the year by a firm from another for the purpose of further production resale.
3. b) Zero
4. i) CRR. ii) SLR, iii) Bank Rate, iv) Repo rate, v) Reverse repo rate (any two)

**OR**

Demand deposits are the deposits which can be withdrawn on demand by the depositors from banks.

5. a) price stability in the economy.
6. Zero
7. True
8.  $\text{Primary Deficit} = \text{Fiscal Deficit} - \text{Interest Payments}$
9. c) Remittances to relative staying abroad - (iii) Debit side of current Account of Balance of payment.
10. Revenue
11. Generally it is considered that an increase in the Gross Domestic Product (GDP) of any economy (India in this case) ensures increase in welfare of the people of the country. However, this may not always be correct. Some of the prime reasons for the same are:
  - a) unequal distribution and composition of GDP.
  - b) non-monetary transactions in the economy which are not accounted for in GDP, and
  - c) emergence of externalities in the economy (both positive and negative).

12. We know that consumption function is:

$$C = \bar{C} + MPC.Y$$

At equilibrium level of Income in the economy

$$Y = C + I$$

Given. Autonomous Consumption ( $\bar{C}$ )

Rs. = 500 crores and

Ex-ante Investments ( $I$ )

Rs. =4000 crores

$$18,000 = 500 + MPC(18,000) + 4,000$$

$$MPC(18,000) = 18,000 - 4,500$$

$$MPC = 13,500/18,000$$

$$MPC = 0.75$$

**OR**

$$MPS = \left( \frac{\text{Change in Savings}}{\text{Change in income}} \right) = \left( \frac{\Delta S}{\Delta Y} \right) = \frac{20}{100} = 0.20$$

$$\text{Investment Multiplier (K)} = \frac{1}{MPS} = \frac{1}{0.20} = 5$$

$$\text{Investment Multiplier (K)} = \frac{\text{Change in income}}{\text{Change in Investment}} = \left( \frac{\Delta Y}{\Delta I} \right)$$

$$5 = \frac{\text{Rs. 6,000}}{\text{Change in Investment}(\Delta I)}$$

Change in investment ( $\Delta I$ ) = Rs.1200 crores

Increase in investment by 1200 crores is required to attain additional income of Rs. 36000 crores.

13. **Central Bank as government's bank** - The Central Bank acts as a banker to both Central as well as state government. The central Bank accepts receipts and makes payments for the government and carries out exchange, remittance and other banking operations. It advances loan to the government to meet its requirements in case of crisis. It also acts as an agent to buy and sell government

securities advises the Government on various financial matters.

**OR**

**Open Market Operations by Central Bank** - Open Market Operations refers to buying and selling of government securities (bonds) by the Central Bank from/to general public. It is an important step which may be undertaken to control money supply in the economy. The central Bank may sell government securities to reduce the money in the hand of general public and vice-versa.

14. Selling of securities by foreign institutional Investors (FII's) in Indian capital market will lead to fall in the supply of foreign currency in the economy. This situation might lead to excess demand of foreign currency at the prevailing foreign exchange rate.

As result, a new equilibrium rate of foreign exchange will be determined which will be higher than the prevailing foreign exchange rate, leading to depreciation of domestic currency.

**OR**

Investments by large multinational corporations (MNCs) in India will ensure greater inflow of foreign exchange leading to an increase in the supply of foreign Currency. This situation may result into excess supply of foreign currency in the economy at the prevailing foreign exchange rate.

As a result, new equilibrium rate of foreign exchange will be determined which will be lower than the prevailing foreign exchange rate, leading to appreciation of domestic currency.

15. **Reallocation of resources** Government through its budgetary policies tries to reallocate resources to ensure fulfillment of various socio-economic objectives. The government may influence allocation of resources through.

(a) **Taxation policy**- Heavy taxes may be imposed on harmful products to discourage their production and subsidies may be provided on the production of socially useful products to encourage their productions.

(b) Government may directly undertake production of certain goods and services in the area, where private sector may not be willing to participate in production activities.

16. (a) The given statement is correct. Real Gross Domestic Product (GDP) is a



better indicator of economic growth than Nominal gross Domestic Product (GDP) as it is not affected by changes in general price level.

Goods	Price of Current Year ( $P_1$ ) (in Rs.)	Price of Base Year ( $P_0$ ) (in Rs.)	Quantity of Current Year ( $Q_1$ ) (in units)	Nominal GDP ( $P_1Q_1$ )	Real GDP ( $P_0Q_1$ )
A	20	10	100	2,000	1,000
B	10	5	200	2,000	1,000
C	30	20	50	1,500	1,000
				$\sum P_1Q_1$ = 5,500	$\sum P_0Q_1$ = 3,000

in the above example the difference between Real GDP ( $\sum P_0Q_1$ ) and Nominal GDP ( $\sum P_1Q_1$ ) is  $5,500 - 3,000 = \text{Rs. } 2,500$ .

This is only the monetary difference as the quantity sold in the market remains unchanged and the variation in the value of GDP is merely due to the change in the price in the economy.

b) Depreciation on capital asset = 
$$\frac{\text{cost of the capital asset} - \text{Scrap value}}{\text{Estimated life of the capital asset}}$$

$$\text{Depreciation} = \frac{1000 - 0}{20}$$

$$\text{Depreciation} = \text{Rs. } 50 \text{ crores}$$

**Or**

- a) Yes, the given statement is correct. In a two sector economy, the firms produce goods and services and make factor payments to the households. The factor income earned by the households will be used to buy the goods and Service which would be equal to income of firms. The aggregate consumption expenditure by the households in the economy is equal to the aggregate expenditure on goods and services produced by the firms in the economy (Income

of the producers).

$$\begin{aligned}\text{b) Compensation of Employees} &= (\text{iii}) - (\text{v}) - (\text{iv}) - (\text{vi} + \text{ii} + \text{i} + \text{vii}) \\ &= 200 - 50 - 10 - (25 + 45 + 20 - 5) \\ &= \text{Rs. 45 crores}\end{aligned}$$

17. An economy is said to be operating at under employment equilibrium level, if the planned aggregate expenditure falls short of aggregate output corresponding to full employment.

To tackle such a situation the aggregate demand has to be increased up to the level of full employment level of output.

Following measures may be taken for the same:

- 1) **Decrease in taxes:** The government under its fiscal policy may decrease the taxes (both direct and indirect taxes). This will ensure greater purchasing power in the hands of general public. This will help to increase aggregate and remove the deflationary gap.
- 2) **To Increase in money supply:** Central bank through its expansionary monetary policy can increase the money supply in the economy. Central bank can use tools like bank rate, cash reserve ratio, repo and reverse repo rates etc. to ensure greater money in the hands of general public which would in turn increase the aggregate demand in the economy and be helpful in reducing/removing the deflationary gap.

## SECTION-B

### (Indian Economic Development)

18. Value added tax, Service tax, excise duty, sales tax. (any two correct alternatives)
19. True
20. b) iii. iv, i, ii
21. d) Credit taken to meet agriculture expenditure.
22. Disguised

Or

Work force participation rate

- 23. Development of small scale industries
- 24. d) ii, iv. i. iii
- 25. Photovoltaic cell
- 26. b) iv, ii, i, iii
- 27. c) 1988
- 28. The given statement is quite appropriate. Indian traditional practices were environment friendly and worked as complementary to the system and nor is controller. The traditional agriculture system, healthcare system. housing. transport etc. were intrinsically environment friendly. The traditional practices used natural products and processes which are more or less free from side effects. For example by adopting medicinal plants/products we can conserve the resources and achieve the objective of sustainable development.

**Or**

The given statement states about the insufficiency of the installed capacity of production of power in India. If the Indian economy wants to reach the GDP growth rate between 7-8%, It must target to produce electricity with a growth rate of 7% which is not possible with the present production capacity in the power sector. Thus we need to work in two directions to improve installed capacity

- i. increased investments (by both public and private players) in the power generation sector.
  - ii. better utilization of the present infrastructure.
29. Investment in education system in India has been a woeful failure. The fact of the matter is that, in 1952 we were spending a meager 0.6% of our GDP on education that rose to only 4% in 2014. This has fallen well short of 6% target as proposed by the Education Commission, 1964. Moreover, throughout this period the increase in education expenditure has not been uniform and there has been irregular rise and fall.

This shows the apathy of the government towards investment in the education system. One can imagine, if the recommended 6% p.a. of the GDP would have

been spent properly the present education system would have reached unforeseen heights.

30. The given statement is true to its character. The foreign investments both Foreign Direct Investment (FDI) and Foreign Institutional Investment (FI), have increased from about US \$100 million in 1990-91 to US \$ 74 billion recently. This has changed the status of India from a begging bowl in 1990's to a self dependent economy in the present ages.

Due to the opening up of the Indian Economy, she has become one of the largest foreign exchange reserve holders in the world. India has been able to register an increase in the foreign exchange reserves from about US \$ 6 billion in 1990-91 to about US \$ 321 billion in 2014-15.

31. a) Disinvestment      Privatisation of the public sector enterprises (PSEs) by selling off a part/whole of the equity to the general public or any private sector player is known as disinvestment.
- b) Outsourcing      Hiring of regular service from external sources, mostly from foreign countries, which was previously provided internally or from within the country is known as outsourcing

**OR**

- a) Import Substitution: The policy aimed at replacing or substituting imports with domestic production by protecting the domestic industries from foreign competition is known as import Substitution
- b) Quota      Quantitative restrictions on imports for the protection of the domestic firms from foreign competition. Under this quantity of goods which can be imported is restricted by the state.

32.

- a) The given data shows that the annual growth rate of population is maximum in Pakistan standing at 2.1%, whereas the same stands at a meagre 0.5% in case of China (might be a direct result of the One Child Policy adopted). The annual population growth rate of India is in the danger zone of more

than 1% pa. India will be overtaking China as the most populous country in the world in near Future.

- b) Amongst the three countries stated above, India has most skewed data sex ratio (929 female per 1000 male). This is one of the major concerns for the demographers in India.
33. Mahatma Gandhi had always maintained that the real growth of India lies in the growth of villages. The importance of rural development in India lies in the fact that 2/3<sup>rd</sup> of the population still (directly or indirectly, depends on agriculture and around 1/3<sup>rd</sup> of the rural population still lives in abject poverty.

Some of the prime areas for the development of the rural India may be quoted as follows:

- **Infrastructure development** - is the key to any development process Basic infrastructure requirement like electricity, irrigation, credit availability, transport facilities, construction of village roads and feeder roads to nearby highways, etc. are the area which still need attention of the government so as to gain commanding heights.
- **Alleviation of poverty** - poverty in rural India is an area that should be taken up as a mission for improvement in the living conditions of particularly those living at the bottom of pyramid. This problem may be tackled by emphasizing on greater access to productive employment opportunities.
- **Development of Human Capital** - Rural human capital must be developed by taking sincere steps in the direction of education and health.

The health system in India has undoubtedly improved over the years but the pace of improvement has been unreasonably slow and truly we carry an unhealthy health system Following may be the most important concerns ailing Indian health system:

- **Low Public Expenditure** - In India the health expenditure as a percentage of GDP is abysmally low as compared to some of the major 2 developing countries. It stood at around 4.7% of the total GDP in the year 2014-15.
- **Urban Rural Divide** - People living in rural India do not have sufficient medical infrastructure. Nearly 70% of the population lives in rural areas which have only 20% of the total hospitals of the country,

- Women and child health issues - More than 50 per cent of married women in the age group of 15-49 years have iron deficiency, which has contributed to maternal deaths. Infant Mortality Rate per 1,000 live births in India is 34. Malnutrition and inadequate supply of vaccines lead to the death of millions of children every year.

**Or**

The period between 1990 to 2012 had been a significant one. Introduction of Economic Reforms in India has changed everything in India. Variables shown in the given graph show that GDP growth rate has taken an upwards trend over the years whereas the situation of Employment growth rate has seen major fluctuations with it going down in overall trend.

GDP growth rate has increased from a meager 3.4% in 1991 to 7.8% in 2012. However, the employment growth rate has shown declining trends from 1.5% in 1991 to 1.2% in 2012. Between the period 1999-2005 the employment growth rate was at peak since independence i.e. 7.28% p.a. with the corresponding GDP growth rate standing at a decent 6.1% p.a.

The gap between the two variables is maximum between the period 2005-10 when the employment growth rate hit the lowest in history of independent India i.e. 0.28%. In the same period the GDP growth rate had hit the highest level since independence to the tune of 8.7% p.a. Indian economy has witnessed the peculiar phenomenon of jobless growth over all these years. Learning from the situation government had put in serious efforts on employment front and brought it to level of 1.2 p.a. between the period 2010-12.

In all the period between 1990-2012 has been a real roller coaster ride for the Indian economy on the two fronts of GDP and Employment Growth rate.

**PRACTICE PAPER -I**  
**ECONOMICS CLASS XII (030)**

**General Instructions:**

1. This question paper contains two parts:
  - a) Part A - Macro Economics (40 marks)
  - b) Part B - Indian Economic Development (40 marks).
2. Question No. 1-10 and Question No 18-27 (including two Case Based Questions) are 1 mark questions and are to answered in one word/sentence.
3. Case Based Questions (CBQ's) are Question No. 7-10 and Question No. 24-27
4. Question No. 11-12 and Question No. 28-29 are 3 marks questions and are to be answered In 60 - 80 words each
5. Question No. 13-15 and Question No 30 - 32 are 4 marks questions and are to be answered in 80-100 words each.
6. Question No. 16-17 and Question No. 33-34 are 6 marks questions and are to be answered in 100-150 words each.
7. Answer should be brief and to the point and the above word limit be adhered to as far as possible.

**SECTION - A (Macro Economics)**

1. Tractor can never be.....good
  - (A) Final
  - (B) Intermediate
  - (C) Consumer
  - (D) Capital

**OR**

If Real GDP in 2019 is 500 and Nominal GDP in 2019 is 650, find GDP deflator.

- (a) 110
  - (b) 130
  - (c) 120
  - (d) 100
2. In the present situation of COVID, many banks would have faced financial emergency. If you own a bank and there is financial emergency in your bank,

then..... is the only institution that can come to the rescue of your bank.  
(Central Bank commercial bank) (Choose the correct alternative)

3. The authority that issues coins in India is..... (Choose the correct alternative)
  - (a) RBI
  - (b) Government of India
  - (c) SBI
  - (d) CBI
4. Identify the correct pair of statements from the following column I and column II. (Choose the correct alternative

**Column 1**

**Column II**

- |                                      |  |
|--------------------------------------|--|
| A. Supply curve of foreign exchange  | (i) Upward sloping curve                   |
| B. Export from India to Japan from   | (ii) Demand for foreign exchange India     |
| C. Repayment of international loans  | (iii) Source of supply of foreign exchange |
| D. Depreciation of domestic currency | (iv) Government plays important role       |

**Alternatives:**

- |           |          |
|-----------|----------|
| (a) A-i   | (b) B-ii |
| (c) C-iii | (d) D-iv |
5. Identify which of the following statements is true (Choose the correct alternative)
    - (a) Exchange rate of a currency is same as paper value of that currency
    - (b) Exchange rate is the price of a currency expressed in terms of gold
    - (c) Managed floating is also known as dirty floating
    - (d) Revaluation leads to a rise in supply of foreign currency
  6. Borrowing from the rest of the world would be recorded as ..... item in the..... account of BOP  
(Fill up the blanks with correct alternative)
    - (a) credit capital



- (b) debit, captat
- (c) credit current
- (d) debit, current

**Read the following news report and answer Questions 7-10 on the basis of the same.**

COVID-19 to have significant deflationary impact due to demand evaporation' Ruling out any impact of stimulate the price situation, Chief Economic Advisor K.V. Subramanian on Thursday said the COVID-19 pandemic has severely dented the demand for non-essential or discretionary goods, creating deflationary conditions. He also that a good part of the 20 lakh crore stimulus package is designed in a manner that the fiscal deficit remains i control

“COVID has a significant deflationary impact because demand especially for non-essential or discretionary goods and services will go down significantly. Therefore, it is unlikely that there would be too much inflationary impact through fiscal deficit or stimulus package, Subramanian told in an interview. The proposed stimulus package will generate demand by infusing liquidity into the system and thus perk up the economy, the CEA said. The Economic Times: May 15th.2020

7. Deficiency of demand creates .....(deflationary gap/inflationary gap) in the economy. (Choose the correct alternative)
8. Demand for. ....goods has gone significantly down during covid period. (Choose the correct alternative)
  - (a) non-essential
  - (b) essential
  - (c) both (a) and (b)
  - (d) None of these
9. The proposed stimulus package has tried to create ..... (more/less) demand in the economy choose the correct alternative
10. Inflationary gap: (Choose the correct alternative)
  - (a) raises the level of output.
  - (b) does not change the level of output.

- (c) raises the general price level.
  - (a) both b and c
11. State with valid reason, which of the following statement is true or false
- (a) GDP growth as an index of welfare loses its importance if there is deep economic divide in the economy.
  - (b) Real GDP may increase without any increase in the quantity of output in the economy .
12. State, giving valid reasons, whether the following statements are true or false
- (a) Appreciation of the Indian currency occurs when more rupees are to be paid for US dollar
  - (b) Flexible exchange rate is determined by IMF.

**OR**

Devaluation and depreciation are one and the same thing. Defend or refute the statement, with valid argument

13. Explain the components of money supply
14. In an economy 75 percent of the increase in income is spent on consumption Investment is increased by 1,0000 crore Calculate
- (a) Total increase in income
  - (b) Total increase in consumption expenditure.

**OR**

Explain the meaning of Marginal Propensity to Consume. What is its relationship with Marginal Propensity to Save?

15. “CRR cut will improve bottom line, says Karnataka Bank CEO Private lender Karnataka Bank MD and CEO Mahabaleshwara MS on Friday said the Reserve Bank of India (RBI) slashing the Cash Reserve Ratio (CRR) by 100 basis points (BPS) from 4% to 3% will improve the bottom line of banks.

Discuss how the above mentioned monetary instrument in news report is helpful in correcting the situation of excess demand and deficient demand.

16. (a) 'GDP as an index of welfare of a country has some limitations.' Defend or refute the given statement with valid reason

(b) Payment of fees to a lawyer engaged by a firm.' State with valid reason, should the given payment be included or not included in the estimation of national Income of India.

**OR**

Calculate the Net National Product at Factor Cost from the given details

S.No.	Particulars	(in crores)
1.	Mixed income of self-employed	8,000
2.	Depreciation	200
3.	Profit	1,000
4.	Rent	600
5.	Interest	700
6.	Compensation of employees	3,000
7.	Net indirect taxes	500
8.	Net factor income to abroad	60
9.	Net exports	(-)50
10.	Net current transfers to abroad	20

17. Classify the following items as revenue and capital expenditure and give reason for your answer:

(a) Subsidies

(b) Grants by the government

(c) Construction of school building

**SECTION - B (Indian Economic Development)**

18. Railways were introduced in India in ..... (Choose the correct alternative)

(a) 1853

(b) 1850

- (c) 1851 (d) 1854

19. ....is an economy in which means of production are used in a manner such that social welfare is maximised. (Choose the correct alternative)

- (a) Capitalist economy (b) Socialist economy  
(c) Mixed economy (d) Free economy

20. Read the following statements - I and II. Choose one of the correct alternatives given below:

**Statement I:** Five year plans gave a big push to the basic and capital goods Industries.

**Statement II:** Make in India will boost industrial sector in the Indian economy.

**Alternatives:**

- (a) Both (i) & (ii) are true  
(b) Both (i) & (ii) are false  
(c) Statement (i) is true but Statement (ii) is false.  
(d) Statement (ii) is true but Statement (i) is false

**OR**

Read the following statements - I and II. Choose one of the correct alternatives given below:

**Statement (I):** Economic and social equality was considered as the principal goal of planning

**Statement (II):** Real income of the people decreased due to high rate of inflation.

**Alternatives:**

- (a) Both (i) & (ii) are true  
(b) Both (i) & (ii) are false  
(c) Statement (i) is true but Statement (ii) is false  
(d) Statement (ii) is true but statement (is) is false

21. GBD stands for General Burden of Disease (true/ false)

22. Choose the correct pair of statement from the following column i and column ii

Colume I		Column II	
A.	One child policy	(i)	India
B.	Jobless growth	(ii)	China
C.	Problem of environmental degradation	(iii)	Pakistan
D.	Commune system of farming	(iv)	China

**Alternatives**

- (a) A - (i)
  - (b) B - (ii)
  - (c) C - (iii)
  - (d) D- (iv)
23. China surpassed India and Pakistan in..... sector of the economy (Choose the correct alternative)
- (a) primary
  - (b) manufacturing
  - (c) tertiary
  - (d) None of these

Read the following hypothetical case study carefully and answer the question numbers 24-27 on the basis of the same

**Diversification includes two aspects** - one relates to change in cropping pattern and the other relates to a shift of workforce from agriculture to other allied activities like livestock, poultry, fisheries etc. and non-agriculture sector The need for diversification arises from the fact that there is greater risk in depending exclusively on farming for livelihood. Diversification towards new areas is necessary not only to reduce the risk from agriculture sector but also to provide productive sustainable livelihood options to rural people. Much of the agricultural employment activities are concentrated in the Kharif season. But during the Rabi season, in areas where there are inadequate irrigation facilities, it becomes difficult to find gainful employment. Therefore, expansion into other sectors is

essential to provide supplementary gainful employment and in realising higher levels of income for rural people to overcome poverty and other tribulations. Hence, there is a need to focus on allied activities, non-farm employment and other emerging alternatives of livelihood, though there are many other options available for providing sustainable livelihoods in rural areas.

24. ....relates to a shift of workforce from agriculture to other allied activities (Monocropping/Diversification)
25. Livestock comes under the category of .....activities. (allied/diversification)
26. Diversification provides ..... options to rural people. (livelihood /irrigation)
27. It is difficult to find gainful employment in..... the season, in areas where there are inadequate irrigation facilities. (Kharif/Rabi)
28. ‘Economic growth occurs when GDP rises’. Defend the statement with valid reasons. Distinguish between formal workers and informal workers
29. Discuss briefly about challenges in agricultural credit in India.
30. “British intended to achieve some objectives through their policies of infrastructure.” Explain the given statement
31. ‘Protection of small scale industry and regulation of large scale industry was prevalent before 1991. Justify the rationale of the given statement.

**OR**

Explain the term globalisation. Explain outsourcing’ as a result of globalisation of the Indian economy.

32. Compare and analyse the given data of India, Pakistan and China with valid arguments.

**Structure of Growth-India, Pakistan and China**

Sector	%Share in GDP			% Share in Employment		
	India	Pakistan	China	India	Pakistan	China
Primary	15.4	24.4	7.9	47	42.3	27.7
Secondary	23.1	19.1	40.5	22	22.6	28.8
Tertiary	61.5	56.5	51.6	31	35.1	43.5

33. (a) “Challenge of poverty must be given more importance than environmental degradation.” Discuss the rationale of the given statement with valid reasons.
- (b) “Sustainable development is a process to be taken as a daily life activity.” Establish the rationale of the given statement with valid reasons.

**OR**

- (a) Why are female workers in rural areas unwilling to migrate to outside jobs?
- (b) Analyse the change in occupational structure of the country on the basis of the following table

<b>Change in occupational structure</b>		
<b>Sector</b>	<b>% of Workforce Sector</b>	
	1950-51	2017-18 Primary
Primary	72.72	43.8
Secondary	10.02	24.7
Tertiary	17.26	31.5
Total	100	100

34. State giving the valid reasons whether the following statements are true or false.
- (a) Higher percentage of workforce in rural areas suggests a higher contribution of the rural economy to GDP
- (b) Workforce is the difference between total population and no. of persons not working
- (C) Lack of warehousing causes loss of revenue to the farmers

## ECONOMICS (030)

### MARKING SCHEME - PRACTICE QUESTION PAPER -1 2020 - 2021

Q. No	Answer	Marks
<b>Part A - Macro Economics</b>		
1.	c. Consumer good	1
<b>Or</b>		
	b. 130	
2.	Central Bank	1
3.	b. Government of India	1
4.	a. A- (i)	1
5.	C. Managed floating is also known as dirty floating	1
6.	a.Credit, capital	1
7.	Deflationary gap	1
8.	a. Non essential	1
9.	More	1
10.	d. Both (b) and (c)	1
11.		
	a. Because increase in income inequalities will not lead to increase in welfare inspite of rise in GDP.	1 <sup>1/2</sup>
	b. The given statement is false as Real GDP will increase only when there is an increase in quantity of output in an economy as it is measured at constant prices.	1 <sup>1/2</sup>
12.		
	a. The given statement is false as appreciation of the Indian currency occurs when less rupees are to be paid for US dollars	1 <sup>1/2</sup>
	b. The given statement is false as flexible exchange rate is determined by the	



forces of supply and demand of foreign exchange in the international money market. 1<sup>1/2</sup>

**Or**

The given statement is refuted as devaluation and depreciation are not the same thing. Devaluation is fall in the value of a currency in respect to foreign exchange done by the government under fixed exchange rate system. 3

Whereas in depreciation government plays no role.

It is fall in market price of a currency due to change in demand and supply forces in the international money market. It happens under flexible exchange rate system.

13. The components of money supply are: 4

1. Currency held by the public
2. Demand deposits of people with the commercial banks
3. Other deposits with reserve bank

a. Total increase income. 2

75% of the income is spent on consumption.

$$MPC = \Delta C / \Delta Y = 75/100 = 0.75$$

$$\text{Multiplier (K)} = 1/1-MPC = 1/1-0.75 = 1/0.25 = 4 \text{ crore}$$

We know  $K = \Delta Y / \Delta I$

$$\Rightarrow \Delta Y = K \times \Delta I$$

$$\Delta Y = 4 \times 1000$$

$$= 4000 \text{ crore}$$

b. Total increase in consumption expenditure ( $\Delta C$ ) 2

$$MPC = \Delta C / \Delta Y$$

$$MPC \times \Delta Y$$

$$= 0.75 \times 4000$$

$$= 3000 \text{ crores}$$

**Or**

MPC refers to the ratio of change in consumption to change in income.

$$\text{MPC} = \frac{\Delta C}{\Delta Y} \quad 1$$

$$\text{Relationship between MPC and MPS} \quad 3$$

$$\text{MPC} + \text{MPS} = 1.$$

This is because the additional income is either consumed or saved.

We know that,  $\text{MPC} = \frac{\Delta C}{\Delta Y}$ . And  $\text{MPS} = \frac{\Delta S}{\Delta Y}$

We also know that,  $\Delta C + \Delta S = \Delta Y$

So,  $\text{MPC} + \text{MPS} = \frac{\Delta C}{\Delta Y} + \frac{\Delta S}{\Delta Y}$

$$= \frac{\Delta C + \Delta S}{\Delta Y}$$

We also know that,  $\Delta C + \Delta S = \Delta Y$

Therefore,  $\frac{\Delta Y}{\Delta Y} = 1$

Hence,  $\text{MPC} + \text{MPS} = 1$

15. CRR is the minimum percentage of net demand & time liabilities, to be kept by commercial banks with the central bank. In case of excess demand, the central bank increases CRR. 4

It decreases the cash availability with the commercial banks and reduces their credit creating power. It reduces excess demand in the economy.

Vice versa for Deficient demand.

- (a) The given statement can be defended. 4

GDP as an index of welfare have the following limitations

1. Distribution of income: GDP as an index of welfare loses significance if the distribution of income is unequal & inequality rises with rise in GDP.

2. Composition of GDP: if luxuries are produced more than the essential items or the production of harmful products increases then GDP growth becomes meaningless.
3. Non monetary exchanges: Larger the non monetary transactions greater the underestimation of GDP as an index of welfare.
4. Externalities : GDP index does not take account of externalities, Benefits or harms of economic activities without the payment or penalty do not form part of market transactions.

Environmental pollution reduces welfare while open gym increases. So, GDP is not properly accounted as an index of welfare. (Any other valid point)

- (b) Payment of fees to a lawyer engaged by a firm is not included in national income because it is intermediate expenditure of the firm. 2

**Or**

NNP<sub>fc</sub> = Compensation of employees + Rent + Interest + Profit + mixed income of self employed - Net factor income to abroad = Rs. 3000 + Rs. 600 + Rs. 700 + RS. 1000 + Rs. 8000 - Rs. 60 crores = Rs. 13,740 crores 3

So, NNP<sub>fc</sub> is rupees 13,240 crore. 2

1

17.

- a. Subsidies: It is a revenue expenditure as it does not create any asset for the government and nor it causes any reduction in liability of the government. 2
- b. Grants: It is a revenue expenditure as it does not cause any reduction in liability or rise in assets of the government. 2
- c. Expenditure on school building. It is a capital expenditure as it creates assets of the government. 2

### **PART B-INDIAN ECONOMIC DEVELOPMENT**

18. a. 1853 1

19. b. Socialist economy 1

20. A	1
<b>Or</b>	
21. False	1
22. d. iv	1
23. Manufacturing	1
24. Diversification	1
25. Allied	1
26. Livelihood	1
27. Rabi	1
28. 'Economic growth occurs when GDP rises':	3

The GDP is a good indicator of economic growth of an economy.

Economic growth implies a consistent increase in GDP or a consistent increase in the level of output means flow of goods and services in the economy.

Economic growth, in terms of increase in the level of output becomes meaningless if population of a country tends to grow at a pace close to the growth rate of output.

1<sup>1/2</sup>

**Or**

**Formal workers :** Regular workers

- Works in organized sector of the economy
- Are entitled to social security benefits like provident fund, gratuity, pension etc.
- Are protected by various labour laws against uncertainties of the market

**Informal worker :** Daily wagers or casual workers

- Works in unorganised sector of the economy
- Are not entitled to social security benefits
- Cannot form trade unions.

- Not protected by labour laws and are therefore highly vulnerable to uncertainties of the market.

29. Limitations of rural credit in India: 3

- Insufficiency of credit availability.
  - Lesser attention to poor farmers
  - Inadequate institutional coverage
1. Insufficiency of credit availability :The sources of institutional financing or volume of rural credit are insufficient to meet the agricultural credit requirements so farmers still depend on money lenders for their credit needs.
  2. Institutional credit sources are suffering from the problems of large overdue because loan default rate is chronically high.
  3. Recovery of agricultural loans has become a serious problem in the functioning of rural banking institutions

30. British intended to achieve some objectives through their policies of infrastructure as some efforts have been made to develop basic infrastructure like roads, railways, ports, water transport, Post and telegraph. The main motive behind these infrastructure development was to provide basic amenities for their own convenience, better administrative control, ferry army in insurgency, to improve foreign trade to make more profit. 4

31. Protection of small scale industries and regulation of large scale industries was prevalent before 1991 because India adopted the policy of protecting 4

small scale industries from high competition from large scale industries. India wanted it's small scale industries to flourish so it regulated large scale industries through licencing policy. Development of small scale industries was important to generate employment opportunities, beside social justice. It also helped in regional balanced growth, 4

**Or**

Globalisation refers to integration of domestic economy with the economies of the rest of the world through free flow of trade, capital, technology and knowledge by removing of barriers on international trade and capital movement.

Outsourcing refers to a system of hiring business services from the outside world which are also available in home country. These services include call centres, clinical advice, record keeping etc.

Outsourcing is an important outcome of the process of globalisation of the Indian economy. Availability of cheap & skilled labour in India or relative low wage rate for the skilled workers lead India to become a favourite destination of outsourcing in the world. Revolutionary growth of IT industry in India.

32. India, Pakistan and China, the contribution of agriculture to GDP were 15.4 , 24.4 and 7.9 per cent, respectively, but the proportion of workforce that works in this sector is more in India. In Pakistan, about 42.3 per cent of people work in agriculture, whereas, in India, it is 47 percent. Productivity is lowest in India.

22.6% of Pakistan workforce is engaged in industry but it produce 19.1% of GDP. In India industry work force account for 22% but produce goods worth 23.1% of GDP. In China industries contribute to GDP at 40.5 % and employee 28.8 % of workforce. So, productivity in China is highest.

In all the three countries, service sector contributes highest shares of GDP. Thus, in all the three countries the service sector is emerging as a major player of development. It contributes more to GDP and, at the same contributing to a large percentage share in employment. 4

- a) Poverty put more pressure on the environment so it can be said that poverty alleviation should be given more importance than environmental degradation. 3

A large number of Indian population is absolutely poor & lives in rural areas. These people are dependent on fuelwood & causes a massive erosion to natural capital 3

**(Any other relevant point)**

- b) “Sustainable development is a process to be taken as a daily life activity “is a true statement. Sustainable development can never be achieve in a day. It needs a consistent efforts. Each & every daily life activity should be done keeping the sustainable development as a primary concern. If we would wait for compaign or any day observance then it would not be enough to achieve. Water conservation, waste segregation, bio compost by kitchen

waste, use of renewable energy & avoidance of single use plastic are some ways to be adopted to sustainable development

(Any other relevant point)

**Or**

- a) Female workers in rural areas are unwilling to migrate for outside jobs because they are illiterate & unskilled. They hardly get any dignified job opportunities outside. Rural women have to manage household chores along with work. There is lack of transport facilities also. 3
- b) In the given data, the occupational structure has changed from 1959-51 to 2017-18 as 72.72 percent workforce was engaged in primary sector fell to 43.8 percent. Approximately 29% workforce shifted from this sector. In secondary sector, it rises from 10.02 to 24.7 percent. 14.7 percent workforce have increased in secondary sector. 3

In tertiary sector, the workforce have increased from 17.26% to 31.5%. So, there is a significant fall in primary sector & shift is towards secondary as well as tertiary sector.

34.

- a) The given statement is false because higher percentage of workforce in rural areas does not suggest higher productivity. This means low productivity of the workers & disguised unemployment in rural areas. 2
- b) The given statement is false. Workforce is the difference between labour force and persons who are part of labour force but are not employed. 2
- c) The given statement is true. Lack of warehousing / storage facilities causes reduction in revenue of farmers as lack of storage causes harm to the agriculture produce. 2

**Practice Paper - 2**  
**Class XII**  
**Subject Economies (030)**  
**Section A**  
**Macroeconomics**

General Instruction.

Question paper contains two parts.

1. Section A - Macro Economics (40 marks ) Part - B - Indian Economic Development (40 marks)
  2. Marks for questions are indicated against each question
  3. Question No. 1-10 and Question No. 18-27 (including two Case Based Questions)
  4. 1 mark questions and are to be answered in one word sentence. Case Based Questions (CBQ's) are Question No. 7-10 and Question No. 25-27
  5. Question No. 11-12 and Question No. 28-29 are 3 marks questions and are to be answered in 60 - 80 words each.
  6. Question No. 13-15 and Question No. 30 - 32 are 4 marks questions and are to be answered in 80-100 words each.
  7. Question No. 16-17 and Question No. 33-34 are 6 marks questions and are to be answered in 100-150 words each.
  8. Answers should be brief and to the point and the above word limit be adhered to as far as possible
- Q1. Capital is a man-made means of production. It is a..... concept as it is measured at/over a given..... of time
- a) Flow, period of time.
  - b) Stock, period of time.
  - c) Stock, point of time.
  - d) Flow, point of time.



Q2. which one is correct in given identities?

- a)  $NNP_{FC} = GDP_{FC} + \text{Depreciation} + NFIA$
- b)  $NNP_{FC}, GDP_{FC} - \text{Depreciation} + NFIA$
- c)  $NNP_{FC} = GDP_{FC} + \text{Depreciation} - NFIA$
- d)  $NNP_{FC} = GDP_{FC} + \text{Depreciation} - NFIA$

Q3. between 1 and 9 December 2020, foreign investor have bought 2.81 billion of Indian Equities **News from The mint newspaper**

How does it affect the balance of payment status of India?

Q4. Define money

Q5. what do you understand by demand deposit?

Q6. Match the Column

- |                      |   |
|----------------------|---|
| a. CRR               | i. Ratio of change in consumption expenditure to change in income                       |
| b. MPC               | ii. can be resold   |
| c. Intermediate Good | iii. Proportion of total deposits of commercial bank must keep as cash reserve with RBI |
| d. K                 | iv. $1/1 - MPC$   |

A) a-iii, b-iv, c-ii, d-i

B) a-iii, b-i, c-ii, d-iv

Q7. If  $MPS = 0.25$  and initial change in investment is 250 crore then change in income would be.....

Q8. **ASSERTION:** RBI regulates the volume of credit created by the banking system through many measures.

**REASON:** All quantitative measures of credit control come under monetary policy

A. Both A and R are true and R is the correct explanation of A.

- B. Both A and R are true but R is not the correct explanation of A.
  - C. A is true but R is false.
  - D. both A and R is false
- Q9. Exchange Rate for currencies is determined by supply and demand under the system of...
- a. Fixed exchange rate
  - b. flexible exchange rate
- Q10. In times of emergency when commercial banks fail to meet the obligations of their depositors because of liquidity crises they approach the Central Bank for giving them loans. Such a lending facility to commercial banks the RBI is called.....
- A. Banker's bank
  - B. Lender to the last resort
- Q11. State giving valid reason on whether the following statements are true or false.
- A) National income is always greater than domestic income.
  - B) GDPMP is the best indicator of economic growth/welfare as it takes the market price into consideration
- Q12. State any three components (broad categories of transactions) of capital account of B.O.P account

**OR**

Briefly describe the causes of disequilibrium in the B.O.P.

- Q13. Consumption function of an economy is given as  $C = 100 + 0.75Y$  then calculate
- A. Break-even point
  - B. Value of multiplier
- Q14.
- A) Define Money Multiplier
  - B) "Credit creation is inversely related to the legal reserve ratio justify the

given statement using a hypothetical example

Q15

- a) what can be the minimum value of investment multiplier (K) and when?
- b) In an economy equilibrium level of income of Rs 1200 cr The ratio of MPC to MPS is 3:1. Calculate the additional investment needed to reach a new equilibrium level of income of Rs 2000 cr.

**OR**

Explain the concept of deflationary gap with the help of diagram and table?

Q16. Calculate National Income from expenditure and output method

i. $GVA_{MP}$ by primary sector	300
ii. Private final consumption exp.	750
iii. Consumption of fixed capital	150
iv. Net Indirect taxes	120
v. $GVA_{MP}$ by secondary sector	200
vi. Net Domestic fixed capital formation	220
vii. Change in stock	-20
viii. $GVA_{MP}$ by tertiary sector	700
ix. Net imports	50
x. Govt. Final consumption expenditure	150
xi. Net factor income from abroad	20

**OR**

Give valid reason for the following

1. Old age pension is excluded in domestic income whereas retirement pension is included
2. Why are export receipt is not part of NFIA
3. Final goods are included in domestic income whereas intermediate goods are excluded

Q17.

- A) Write down the main budget objective of the government
- B) In March, the govt. announced a Rs. 1.7 lakh crore relief package focusing on providing food security to the poor and providing money in their hand to fight Covid-19.

Explain which objective of the budget is fulfilled from this package.

### **Section B**

#### **Indian Economic Development**

18. Which one was the most important infrastructure developed during the British rule?
- a) Waterways
  - b) Railways
  - c) Road
  - d) Airways
19. Which was of the strategy of economic planning under early Five Year Plans in India
- a) Balanced growth
  - b) Liberalisation
  - c) Import Substitution
  - d) Protectionism
20. In India, poverty line is determined on the basis of
- a) Expenditure on education
  - b) Expenditure on health
  - c) Expenditure on housing
  - d) Caloric intake
21. Read the following statements Assertion (A) and Reason (R) Choose one of the correct alternatives given below

**Assertion (A)** Insufficient rate of human capital formation is a reason for low per capita income in India

**Reason (R)** Percentage of GDP spent on Health and Education in India is significantly below the level of developed countries. Alternatives

- a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
  - b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)
  - c) Assertion (A) is true, but Reason (R) is false
  - d) Assertion (A) is false, but Reason (R) is true
22. Pick the incorrect statement from given below
- a) Great Leap Forward was related to communes
  - b) Pakistan initiated economic reforms in 1988
  - c) India controlled its population after 1980 due to one child policy
  - d) The first Five Year Plan in India ended in 1956

Read the following paragraph carefully and answer the questions (Q. No. 23 to 26) on the basis of the same

Infrastructure provides supporting services in the main areas of industrial and agricultural production, domestic and foreign trade and commerce. These services include roads, railways, ports, airports, dams, power stations, oil and gas pipelines, telecommunication facilities, the country and educational system including schools and colleges, health system including hospitals, sanitary system including clean drinking water facilities and the monetary system including banks, insurance and other financial institutions. Some of these facilities have a direct impact on production of goods and service while others give indirect support by building the social sector of the economy. Some divide infrastructure into

Two categories - economic and social infrastructure associated with energy, transportation and communication as included in the former category whereas those related to education, health and housing are included in the latter.

23. ....is part of economic infrastructure

- a) Housing
  - b) Communication
  - c) Education
  - d) Health
24. Social infrastructure.....affects the economic activities in any economy, (directly/indirectly)
25. Economists lay emphasis on developing economic infrastructure because
- a) It is cheap
  - b) It helps in economic development
  - c) Both (a) and (b)
  - d) None of the above
26. Infrastructure boosts (choose the correct option)
- a) Foreign trade
  - b) Agriculture
  - c) Industrial development
  - d) All of the above
27. Brundtland commission report was published in the year
28. What role does the government play in generating employment opportunities?

**Or**

Why is rural development of tremendous importance for our country?

29. Write a brief note on global warming
30. Information technology plays a very significant role in achieving sustainable development and food security Comment
31. Agriculture sector appears to be adversely affected by the reform process. Why?

**Or**

What are the major factors responsible for the high growth of the service sector?

32. Compare and contrast the development of India, China and Pakistan with respect to some salient human development indicators.
33. a) What are the main arguments in favour of subsidy?  
b) Explain 'growth with equity' as a planning objective
34. What are the main problems of human capital formation in India?

**Or**

Suppose you are a resident of a village, suggest a few measures to tackle the problem of poverty

## Marking Scheme - Practice Paper 2

### Economics (030)

#### Class XII

Q.NO	ANSWER	MARKS
1.	(c) Stock, point of time.	1
2.	(b)	1
3.	Raises the inflow of foreign currency in india,	1
4.	Money can be defined as “anything which is generally accepted in exchange of goods and services or repayment of debts”	1
5.	Demand deposit are those deposits which are repayable by the bank on demand.	1
6.	(b)	1
7.	$K = \Delta Y / \Delta I$ Or Or $1/0.25 = \Delta Y / 250$ Or change in income = 1000	$1^{1/2}$ $1/MPS = \Delta Y / \Delta I$ $1^{1/2}$
8.	(a)	1
9	(b)	1
10	(b)	1
11.	(a) National income greater than domestic income only when net factor income from abroad is positive. In other words, when factor income from abroad is more than factor income to abroad. b) Nominal GDP has its limitations as a measure of economic welfare as it can increase even though output/production remain constant or decline because of rise in price. When GDP measured at constant price then it's truly reflect the level of economic growth or welfare and only can increase	$1 + 1/2$



when output

12. Components of capital account cause change in assets or liabilities status of the resident and government of the country.

**Components**

- a) Foreign direct investment-foreign direct investment and foreign institutional investment. 1
- b) Foreign loans -credit granted by international institutions or foreign governments. 1
- c) Change in foreign exchange reserve because of private official transaction. 1

**OR**

- 1- Huge development and investment programme.
  - 2- Huge external borrowings.
  - 3- Inflation
  - 4- trade cycles
  - 5- limited export receipt and higher import payments.
- any three with correct explanation

13.  $C=100+0.75Y$  2

Break-even point income is equal to consumption or  $Y=C$

Or  $Y=100+0.75Y$

OR  $Y-0.75Y=100$

$Y=400$  2

Now, Value of multiplier

$K=1/1-mpc$

$K=1/1-0.75$

$K=1/0.25$

$$K = 4$$

14. Money multiplier: it is the multiple by which total deposit increased due to primary deposit.

Money creation (or credit creation) by commercial banks depends on two factors

- |                              |   |
|------------------------------|---|
| 1) amount of initial deposit | 1 |
| 2) LRR                       | 2 |

$$\text{Credit creation} = \text{initial deposit} \times 1/\text{LRR}$$

Numerical example	1
-------------------	---

15. A) Value of investment multiplier directly depends upon MPC. More of MPC means more value of investment multiplier 4

Hence investment multiplier is minimum at minimum value of MPC and minimum value of MPC is 0. So we can say that when MPC is equal to 0 value of multiplier is minimum.

B) initial level of equilibrium level of income = 1200 cr

$$\text{change in income} = 2000 - 1200 = 800 \text{ cr}$$

it is given  $\text{MPC} = 3 \text{ MPS}$

$$\text{as } \text{MPC} + \text{MPS} = 1$$

$$\text{So } \text{MPC} = \frac{3}{4}$$

$$\text{also } K = 1/1 - \text{MPC} \text{ so } K = 1/1 - 3/4$$

$$= 4$$

now

$$K = \text{change in income} / \text{change in investment}$$

$$4 = 800 / \text{change in investment}$$

$$\text{hence change in investment} = 200 \text{ cr}$$

**OR**

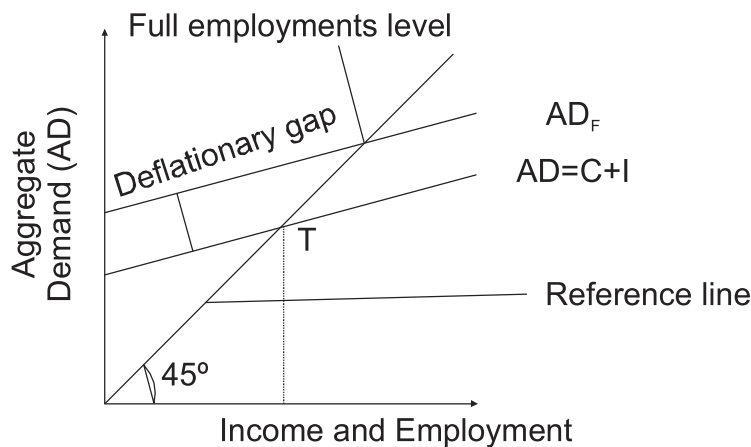


Diagram with correct explanation

16. By output method 3

$$\text{NNP}_{\text{FC}} = (\text{i} + \text{v} + \text{viii}) - \text{iii} + \text{xi} - \text{iv}$$

$$(300 + 200 + 700) - 150 + 20 - 120 = 950$$

By expenditure method 3

$$\text{NNP}_{\text{FC}} = (\text{ii} + \text{x}) + (\text{vi} + \text{vii}) + \text{ix} - \text{iv} + \text{xi}$$

$$= (750 + 150) + 220 - 20 - 50 - 120 + 20$$

$$= 900 + 200 - 150$$

$$= 950$$

**OR**

- 1) Old age pension received without rendering any productive service in return. This is unilateral or one sided payment and hence considered as transfer payment. Whereas retirement payment is for rendering service to the institution and hence only payable to the person. Retirement pension is earned income so it is included in national income. 2
- 2) Export is produced within domestic territory therefore forms a part of domestic income. 2

- 3) Final goods either purchased by consumers for personal use or by producers for investment, these are not for resale or further production. Whereas intermediate goods purchased as raw, material or for resale in the same year. So if we include intermediate goods in domestic income it leads to double counting. 2
17. A) Main components of capital receipt. 3
- 1) recovery of loans
  - 2) disinvestment
  - 3) borrowings
  - 4) small savings
- Any 3 with correct explanation
- B) Reallocation of resources - with correct explanation.
18. (b) Railways 1
19. (b) Liberalisation 1
20. (d) Calorie intake 1
21. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A) 1
22. (c) India controlled its population after 1980 due to one child policy 1
23. (b) communication 1
24. Indirectly 1
25. (b) It helps in economic development 1
26. (d) All of the above 1
27. 1987 1
28. Direct employment generation through recruitment in government undertakings.  
Indirect employment generation through raising its production and thereby generating employment opportunities in the linked industries. 3

**Or**

Majority population live in villages.

It will create employment opportunities and prevent stress migration.

It will create opportunities of education and skill development.

29. Global warming is the observed and projected increase in the average temperature of earth's atmosphere and oceans. 3

It is due to an increase in the greenhouse gas concentrations, like water vapour, carbon dioxide, methane and ozone in the atmosphere.

30. It helps in predicting areas of food insecurity and vulnerability. 4

It circulates information regarding emerging technology.

It is generating employment opportunities.

It makes the village a knowledge centre.

31. Reduction of public investment, removal of subsidy, shift towards cash crops, and liberalisation and reduction in import duties. 4

**Or**

Better technology and growth of IT, Cheap and skilled manpower, Better performance of some service sectors, and economic reforms.

32. China is ahead of India and Pakistan in human development indicators. It has better ranking in terms of income indicators such as GDP, health indicators, access to sanitation, literacy, life expectancy or malnourishment. Pakistan's performance in education, sanitation and access to water is better than India.

India has the largest share of poor in absolute terms. 4

33.

- (a) Subsidies are important to reduce inequalities of income. It enables the farmers to afford farm inputs. 3

- (b) A good indicator of economic growth is steady increase in the GDP. It enables people to enjoy a more rich and varied life. Equity too aims to raise the standard of living of all people. 3

34. High growth of population, Brain-Drain, Insufficient resources, 6 Unemployment or underutilisation of resources, and imbalances in distribution of resources between school and university education etc.

**Or**

Development of infrastructure, upgradation of agricultural practices to raise productivity, motivating the poor to acquire skills, generating employment opportunities for the identified poor, and awareness about benefits of family planning etc.

**PRACTICE PAPER, 2020-21**

**Class: XII**

**SUBJECT: ECONOMICS (030)**

**Time Allowed: 3 Hrs.**

**Maximum Marks: 80**

**General Instructions:**

1. This question paper contains two parts:  
Part A - Macro Economics (40 marks)  
Part B - Indian Economics Development (40 marks)
2. Marks for questions are indicated against each question.
3. Question No. 1-10 and Question No. 18-27 (including two Case Based Questions) are 1-mark questions and are to be answered in one word/sentence.
4. Case Based Questions (CBQ's) are Question No. 7-10 and Question No. 25-27.
5. Question No. 11-12 and Question No. 28-29 are 3 marks questions and are to be answered 60-80 words each.
6. Question No. 13-15 and Question No. 30-32 are 4 marks questions and are to be answered 80-100 words each.
7. Question No. 16-17 and Question No. 33-34 are 6 marks questions and are to be answered 100-150 words each.
8. Answer should be in brief and to the point and the above word limit be adhered to as far as possible.

<b>Q.No.</b>	<b>QUESTIONS</b>	<b>MARKS</b>
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**PART A-INTRODUCTORY MACRO ECONOMICS**

- |    |   |   |
|----|---|---|
| 1. | Which one is not included in the estimation of national income? | 1 |
| a) | Imputed rent of owner-occupied houses.                          |   |
| b) | Pension on retirement   |   |
| c) | Change in stock   |   |
| d) | Remittances by NRIs   |   |

2. Money which is accepted as a medium of exchange because of the trust between the payer and the payee. 1
  - a) Fiat money
  - b) Credit money
  - c) Full bodied money
  - d) Fiduciary money
3. In India. Coins are issued by: 1
  - a) State Bank of India
  - b) Reserve Bank of India
  - c) Ministry of Urban Development
  - d) Ministry of Finance
4. Spices is a major part of India's export, higher prices of it will (shrink/expand) Current account surplus. 1
5. Give one alternative which one can use to finance the deficit on current account BOP in case official reserves with the RBI are not moved? 1
6. Give one argument against Foreign Investment in India. 1

The Reserve of India (RBI). cuts repo rates by 75 bps to 4.4%, CRR by 100 bps to 3 percent. Also, it reduced Reverse Repo rate by 90 basis points. This decision and the advancement of the MPC (meet) has been warranted by the disruptive force of the coronavirus, "said Das adding the policy measure will mitigate the negative effects of virus and revive the situation. Afterall, it all depends how India responds to the situation. 1

. The Economic Times, March 27. 2020
7. Cut in Reverse Repo rate by RBI is likely to..... (Increase/ decrease) the overall liquidity available in the economy. 1
8. Cut in Repo rate by RBI will help in correcting the situation of .....(inflation deflation) 1
9. Decrease in Cash Reserve Ratio will lead to ..... 1

- (a) Fall in money supply
  - (b) No change in money supply
  - (c) Rise in money supply
  - (d) Fall in general price level
10. The Impact of Deficient Demand under Keynesian Theory Income and Employment in an economy are: 1
- (a) Increase in income, output, employment and general price level.
  - (b) Decrease in nominal income, but no change in real output.
  - (c) No change in output, employment but increase in general price level.
  - (d) Decrease in income, output, employment and general price level.
11. Sale of private vehicles is increasing day by day. Analyse its impact on GDP and 3 Welfare 3

**Or**

In the determination of social welfare, what matters is the quantum of output rather than the composition of output. Defend or refute.

12. The government announced the third tranche of the Atinairbhar Bharat Abhiyan: Package. A key initiative is the Production Linked initiative worth up to Rs. 1.46 lakh crore for 10 key sectors. 3

. The Indian Express

What impact is it likely to have on foreign exchange rate and imports and how?

13. The Indian Economy has been experiencing significant slowdown over the past few quarters. In the third quarter of the current fiscal year, the economy grew at a six-year low rate of 4.7%. Investment and consumption had been languishing and a number of stimulus measures have been taken to bring the economy on a growth path. The new coronavirus epidemic has made the recovery extremely difficult. The outbreak has presented fresh challenges for the Indian Economy now, causing severe disruptive impact on both demand and supply side elements which has the potential to derail India's growth story 4

-FICCI (Impact of Covid-19 on Indian Economy), March 20, 2020. State and



discuss any two measures that may be taken by Reserve Bank of India to improve the situation indicated in the above news report.

14. In this economy slowdown, how Indian government through its programmes like start up India, Make in India etc can boost up the economy. Analyse the situation and explain the manner in which it is expected to happen. 4
15. What is deficient demand? Specify the two measures taken to correct. 4
16. Given the following data, calculate the values of Operating Surplus' and 'Net Exports'. 6

Items	(Rs. In crore)
(i) Wages and Salaries	2400
(ii) Domestic Income	4000
(iii) Gross domestic fixed capital formation	1000
(iv) Mixed Income of Self-employed	400
(v) Private final consumption expenditure	2000
(vi) Net factor income from abroad	200
(vii) Net Indirect taxes	150
(viii) Government final consumption expenditure	1000
(ix) Consumption of fixed capital	100
(x) Profit	500
(xi) Change in stock	100

**OR**

Give reasons, explain how the following are treated in national income

- (i) Purchase of truck to transport goods by a company
- (ii) Payment of income tax
- (iii) Expenditure by government on providing free education
17. (a) Giving reasons, categories the following into revenue and capital expenditure

- (i) Construction of school building by the government.
- (ii) Payment of interest
- (iii) Subsidies
- (b) As it has been stated that Demonetisation of 500 and 1000 rupees notes would help the government in lowering its fiscal deficit. Defend or refute.

### **PART B - INDIAN ECONOMICS DEVELOPMENT**

18. When did India adopt new economic policy or economic reforms? 1
19. Selling of the share of public sector undertakings to the private sector is called - \_\_\_\_\_ 1
- (a) Import substitution
  - (b) Disinvestment
  - (c) Quota
  - (d) Tariff
20. Read the following statements - Assertion (A) and Reason (R). Choose one of the correct alternatives given below: 1

**Assertion (A):** India became an exporter of primary products and an importer of finished consumer and capital goods produced in Britain.

**Reason (R):** Restrictive policies of commodity production, trade and tariff pursued by the colonial government adversely affected the structure, composition and volume of India's foreign trade.

#### **Alternatives:**

- a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion(A)
- b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion(A)
- c) Assertion (A) is true but Reason (R) is false.
- d) Assertion (A) is false but Reason (R) is true.

21. Write the correct sequence of alternatives given in Column II by matching them respective terms in Column I. 1

Columns I	Column II
(i) Karve Committee	(a) To encourage farmers for adopting new HYV technology.
(ii) Industrial Policy Resolution, 1956	(b) Using small scale industries to promote rural development
(iii) Import Substitution Policy	(c) To protect the domestic firms from foreign competition
(iv) Subsidies	(d) To regulate private sector through a system of licensing to promote regional equality.

Or

Read the following statements - Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

**Assertion (A):** India become self-reliant in the agricultural production after introducing green revolution

**Reason(R):** shortage of food grains due to drought and lack of irrigation facilities in the early 1960's. Alternatives:

- a) Both assertion(A) and reason(R) are true and reasons (R) is the correct explanation of assertion (A).
- b) Both assertion and reason are true and reason (R) is not the correct explanation of assertion(A),
- c) Assertion (A) is true but reason (R) is false.
- d) Assertion (A) is false but reason (R) is true.

22. Which model of growth is adopted by China? 1

- (a) Capitalism
- (b) Mixed
- (c) Socialism

(d) Statism

23. In which country, growth rate of population is highest? 1

(a) India

(b) Pakistan

(c) China

(d) None of these

**Read, the following hypothetical Case Study, carefully and answer the question numbers 24 - 27 on the base of the same.**

An important lesson that the COVID-19 pandemic has taught the policymakers in India is to provide greater impetus to sectors which make better allocation of resources and reduce income inequalities. COVID-19 has also taught a lesson that in crisis the population returns to rely on the farm sector. India has a large arable land, but the farm sector has its own structural problems. However, directly or indirectly, 50 per cent of the households still depend on the farm sector. A greater support to MSMEs, higher public expenditure on health and education and making the labour force a formal employee in the economy are some of the milestones that the nation has to achieve.

One of the imminent reforms to be done in the country is labour reforms. Labour laws are outmoded in India, and some of these dates back to the last century. India's complex labour laws have been blamed for keeping manufacturing businesses small and hindering job creation. Industry hires labour informally because of complex laws and that is responsible for low wages.

24. Which types of structural problems are faced by agricultural sector? 1

25. "It is necessary to create employment in the formal sector rather than in the informal sector." Defend or refute the given statement with valid argument.

1

26. Hired labour comes in ..... (Informal organisation / formal organisation)

1

27. What do you mean by MSMEs? 1

28. As in today's scenario, pollution is one of the severe problem which India is

facing. Elaborate as how application of the traditional practices can be helpful in achieving the objective of sustainable development. 3

**Or**

Does population growth rate always enlarge the problem of poverty?

29. As Prime Minister urged to enhance non-farm activities in the rural sector. Analyse as how this enhancement will generate more income sources in the rural sector. 3

30. Do you think that the gains of green revolution are significant but not sufficient? Discuss. 4

**Or**

Discuss the impact of shifting from Inward-Looking Strategy to Outward Looking Strategy on the India's exports.

31. Is LPG policies showed some favourable impact on the Indian Economy? Discuss. 4

32. "India, China and Pakistan have travelled more than seven decades of development path with varied results". Explain the given statement. 4

33.

- (a) Is the launch of Pradhan Mantri Ujjwala Yojna" has any relevancy with the health of the people? Discuss. 6
- (b) Is the application of New Education Policy along with National Skill Development Programme will improve the human capital in India? Discuss.

**Or**

State whether the following statements are true or false. Give reasons.

- (a) Infrastructural facilities are positively related to economic growth.
- (b) Human capital formation enhances quality of life.
- (c) India show focus more on renewable sources of energy.

34. Study the given schedule and answer the following

- (i) Has the nature of workforce changed overtime ? How ?
- (ii) What this change signify ? Explain it.
- (iii) Is that situation make the workers highly vulnerable ? how ?

**Table- Trends in Employment pattern (Sector wise and status - wise)**

<b>Item</b>	<b>1972-73</b>	<b>1983-84</b>	<b>1993-94</b>	<b>1999-2000</b>	<b>2011-2012</b>
Primary	74.3	68.6	64	60.4	48.9
Secondary	10.9	11.5	16	15.8	24.3
Services	14.8	16.9	20	23.8	26.8
Total	100.0	100.0	100.0	100.0	100.0
Self- Employed	61.4	57.3	54.6	52.6	52.0
Regular salaried employees	15.4	13.8	13.6	14.6	18.0
Causal wage labourers	23.2	28.9	31.8	32.8	30.0
Total	100.0	100.0	100.0	100.0	100.0

## **Guidelines for Project Work in Economics (Class XI and XII)**

The **objectives** of the project work are to enable learners to:

- probe deeper into theoretical concepts learnt in classes XI and XII
- analyse and evaluate real world economic scenarios using theoretical constructs and arguments
- demonstrate the learning of economic theory
- follow up aspects of economics in which learners have interest
- develop the communication skills to argue logically

The **expectations** of the project work are that:

- learners will complete only **ONE** project in each academic session
- project should be of 3,500-4,000 words (excluding diagrams & graphs), preferably hand-written
- it will be an independent, self-directed piece of study

### **Role of the teacher:**

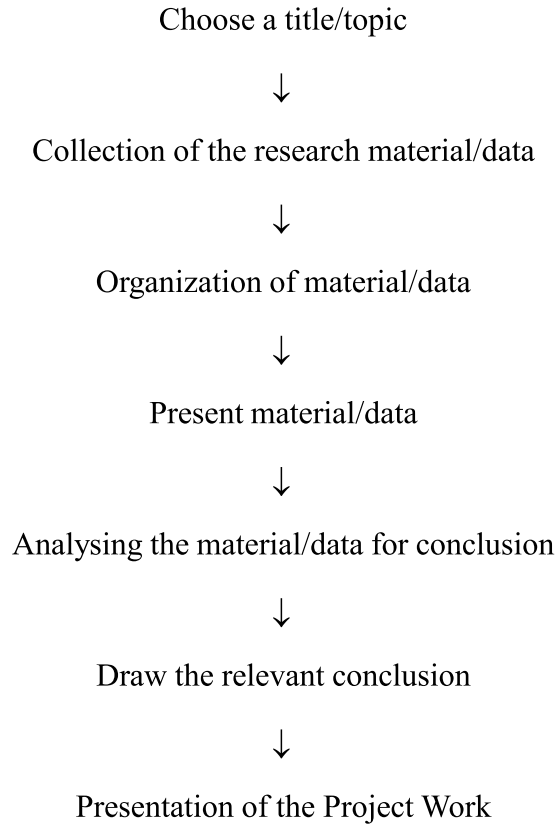
The teacher plays a critical role in developing thinking skills of the learners. A teacher should

- help each learner select the topic based on recently published extracts from the news media, government policies, RBI bulletin, NITI Aayog reports, IMF World Bank reports etc., after detailed discussions and deliberations of the topic
- play the role of a facilitator and supervisor to monitor the project work of the learner through periodic discussions
- guide the research work in terms of sources for the relevant data
- educate learner about plagiarism and the importance of quoting the source of the information to ensure authenticity of research work
- prepare the learner for the presentation of the project work
- arrange a presentation of the project file



**Scope of the project:**

Learners may work upon the following lines as a suggested flow chart:

**Expected Checklist:**

- Introduction of topic/title
- Identifying the causes, consequences and/or remedies
- Various stakeholders and effect on each of them
- Advantages and disadvantages of situations or issues identified
- Short-term and long-term implications of economic strategies suggested in the course of research
- Validity, reliability, appropriateness and relevance of data used for research work and for presentation in the project file

- Presentation and writing that is succinct and coherent in project file
- Citation of the materials referred to in the file in footnotes, resources section, bibliography etc.

**Mode of presentation/submission of the Project:**

At the end of the stipulated term, each learner will present the research work in the Project File to the External and Internal examiner. **The questions should be asked from the Research Work/ Project File of the learner. The Internal Examiner should ensure that the study submitted by the learner is his/her own original work.** In case of any doubt, authenticity should be checked and verified.

**Marking Scheme :**

Marks are suggested to be given as -

S. No.	Heading	Marks Alloted
1.	Relevance of the topic	3
2.	Knowledge Content Research Work	6
3.	Presentation Technique	3
4.	Viva-voce	8
	Total	20 Marks

**Suggestive List of Projects:**

Class XI

- |  |  |
|--|--|
| • Effect on PPC due to various government policies   | • Invisible Hand (Adam Smith)  |
| • Opportunity Cost as an Economic Tool (taking real life situation) life                   | • Effect of Price Change on a Substitute Good (taking real visiting local market                 |
| • Effect on equilibrium Prices in Local Market (taking real life situation or recent news) | • Effect of Price Change complementary good (taking prices from real life visiting local Market) |

- Solar Energy, a Cost Effective Comparison of Conventional Energy Sources
- Any other newspaper article and its evaluation on basis of economic principles
- Micro and Small Scale Industries
- Contemporary Employment situation in India.
- Goods and Services Tax Act and its Impact (state) on GDP
- Human Development Index
- Self-help group in
- Monetary policy committee and its functions
- Government Budget & its Components
- Exchange Rate determination - Methods and Techniques
- Livestock - Backbone of Rural India
- Sarva Siksha Abhiyan - Cost Ratio Benefits ratio
- Minimum Support Prices
- Waste Management in India - Need of the approach hour
- Digital India - Step towards the future
- Bumper Production- with Boon or Bane for the Farmer
- Any other topic
- Food Supply Channel in India
- Disinvestment policy of the government
- Health Expenditure (of any state)
- Inclusive Growth Strategy
- Trends in Credit availability India
- Role of RBI in Control of Credit
- Trends in budgetary condition of India
- Currency War - reasons and repercussions
- Alternate fuel - types and importance
- Golden Quadrilateral- Cost benefit
- Relation between Stock Price Index and Economic Health of Nation
- Minimum Wage Rate - and Application
- Rain Water Harvesting - a

solution

- Vertical Farming - an alternate way ahead past
- Make in India - The way ahead Bane
- Rise of Concrete Jungle-Trend Analysis the
- Any other newspaper article and its evaluation on basis of economic principles

to water crises

- Silk Route- Revival of the
- Bumper Production. Boon or for the farmor
- Organic Farming - Back to Nature
- Any other topic





