

KOTHARI INTERNATIONAL SCHOOL, NOIDA
PRE BOARD EXAMINATION-1, SESSION: 2023-24
GRADE: 12 SUBJECT: ECONOMICS (030)

SET – A

(ANSWER KEY)

DATE & DAY: THURSDAY, NOVEMBER 30, 2023

MAXIMUM MARKS: 80

NAME: _____

TIME ALLOTTED: 1 HOUR

ROLL NO: _____

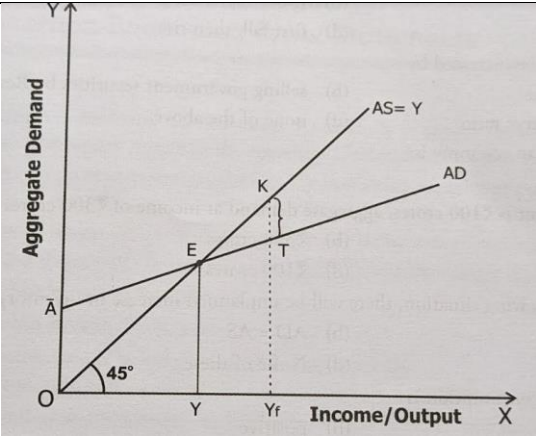
GENERAL INSTRUCTIONS:

- i). This Question Paper contains two sections
Section A – Macro Economics
Section B – Indian Economic Development
- ii). This paper contains 20 questions of 1 marks each.
- iii). This paper contains 4 short answer questions of 3marks each to be answered in 60 to 80 words.
- iv). This paper contains 6 short answer questions of 4marks each to be answered in 80 – 100 words
- v). This paper contains 4 Long answer questions of 6marks each to be answered in 100 - 150 words .

SECTION – A

Q1.	<p>Identify which of the following statements is true?</p> <ul style="list-style-type: none"> (a) The flexible exchange rate system gives the government more flexibility to maintain large stocks of foreign exchange reserves. (b) In Managed floating exchange rate system, the Government intervenes to buy and sell foreign currencies. (c) In Managed floating exchange rate system, the Central Bank intervenes to moderate exchange rate fluctuations. (d) In Fixed Exchange rate system, market forces fix the exchange rate. <p>Ans: (c)</p>	(1)																								
Q2.	<p>Find the missing figures and choose the correct alternative:</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-bottom: 10px;"> <thead> <tr> <th style="width: 25%;">Rounds</th> <th style="width: 25%;">Primary Deposit</th> <th style="width: 25%;">Cash Reserves (20%)</th> <th style="width: 25%;">Credit Creation</th> </tr> </thead> <tbody> <tr> <td>I</td> <td>500</td> <td>100</td> <td>400</td> </tr> <tr> <td>II</td> <td>400</td> <td>...(i)...</td> <td>320</td> </tr> <tr> <td>III</td> <td>----</td> <td>----</td> <td>----</td> </tr> <tr> <td>IV</td> <td>----</td> <td>----</td> <td>----</td> </tr> <tr> <td>Total</td> <td>---(ii)...</td> <td>---(iii)---</td> <td>----(iv)---</td> </tr> </tbody> </table> <p>Alternatives:</p> <ul style="list-style-type: none"> (a) 2000, 80, 2500, 500 (b) 80, 2500, 500, 2000 (c) 500, 80, 2500, 2000 (d) 2500, 80, 500, 2000 <p>Ans: B</p>	Rounds	Primary Deposit	Cash Reserves (20%)	Credit Creation	I	500	100	400	II	400	...(i)...	320	III	----	----	----	IV	----	----	----	Total	---(ii)...	---(iii)---	----(iv)---	(1)
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<p>Q3.</p>	<p>As per the Reserve Bank of India (RBI) press report, dated 29th December, 2022: "Net external commercial borrowings to India recorded an outflow of US\$ 0.4 billion in the second quarter (2022-23)" The above transaction will be recorded in the _____ account on _____ side of Balance of payments account of India. (Choose the correct alternative to fill up the blanks)</p> <p>Alternatives: a) current, credit b) current, debit c) capital, credit d) capital, debit</p> <p>Ans: d) capital, debit</p>	<p>(1)</p>
<p>Q4.</p>	<p>According to a report forwarded by the Reserve Bank of India, there was a fall in rate of inflation as measured by Consumer Price Index (CPI) on year-on-year basis to 5% from 8% in the previous year. Which of the following statements represents the situation?</p> <p>Alternatives: (a) CPI has fallen (b) CPI has risen at a lower rate than the preceding year (c) CPI is constant (d) None of the above</p> <p>Ans: B</p>	<p>(1)</p>
<p>Q5.</p>	<p>The Reserve Bank of India is said to have intervened lately to arrest the rupee's slide by selling Dollars on a large scale. Source: The Economic Times, March 03, 2021</p> <p>Which of the following statements regarding the above news is FALSE?</p> <p>(a) The transaction above will be termed as an accommodating transaction. (b) The foreign exchange rate for one rupee must be rising before intervention. (c) The value of the rupee against one dollar must be rising before the intervention. (d) The transaction will be categorised as a below-the-line item in the balance of payments.</p> <p>Ans: C</p>	<p>(1)</p>
<p>Q6.</p>	<p>Which one of the following is an intermediate expenditure?</p> <p>(a) Expenditure on purchase of furniture by a firm for its own use (b) Expenditure on maintenance by a firm (c) Expenditure on purchase of tractor by a firm for its own use (d) Machine bought by a household</p> <p>Ans: B</p>	<p>(1)</p>
<p>Q7.</p>	<p>In case of an underemployment equilibrium, which of the following alternative is not true?</p> <p>(a) Aggregate demand is equal to Aggregate supply (b) There exist excess production capacity in the economy</p>	<p>(1)</p>

	<p>(c) Resources are not fully and efficiently utilized. (d) Resources are fully and efficiently utilized.</p> <p>Ans: D</p>	
Q8.	<p>In order to control the money supply in the economy, and thereby the situation of excess demand. the Central Bank may:</p> <p>(a) buy securities in the market (b) sell securities in the market (c) reduce cash reserve ratio (d) reduce repo rate</p> <p>Ans: A</p>	(1)
Q9.	 <p>In the given figure, what does the gap 'KT' represent?</p> <p>(a) A situation of Deficient Demand (b) A situation of Excess Demand (c) Full employment equilibrium (d) None of these</p> <p>Ans: A</p>	(1)
Q10.	<p>The savings function of an economy is given as: $S = -10 + 0.2Y$. If the ex-ante investment are 240 crore, what will be the additional investments needed to double the present level of equilibrium income?</p> <p>(a) 500 crore (b) 250 crore (c) 750 crore (d) 1000 crore</p> <p>Ans: B</p>	(1)
Q11.	<p>Giving reasons, state how will the following be treated in the estimation of National Income.</p> <p>(a) Payment of interest by an individual to a bank on a loan to buy a car. (b) Expenditure by Government on providing free services.</p>	(3)

Ans: (a) No, payment of interest by an individual to a bank on a loan to buy a car will not be included in the estimation of national income, because it is assumed that loan is taken for consumption purposes by the individual and not for productive purpose.

(b) Yes, the expenditure by government on providing free services will be included in the estimation of national income because it is government's final consumption expenditure.

Q12. ‘Current Account deficit in the economy must be financed by Capital Account surplus.’
Do you agree with the given statement? Give valid reasons for your answer. **(3)**

Ans: Yes, the statement can be agreed upon. Since, in accounting sense: Current Account + Capital Account = 0.

If an economy is facing the situation of current account deficit (CAD), the same must be financed through surplus in capital account. CAD may be setoff through net capital inflows. Transactions like selling off assets or borrowing from abroad, may be instrumental in balancing CAD in Balance of Payments account.

Q13. From the following data about a Government Budget, find out (a) Fiscal deficit and (b) Primary Deficit. Also state the implications of Revenue Deficit. **(4)**

Item No	Particulars	Amount Rs in crores
i	Capital receipts net of borrowing	95
ii	Revenue Expenditure	100
iii	Interest Payments	10
iv	Tax Revenue	60
v	Non Tax Revenue	20
vi	Capital Expenditure	110

Ans:

(a) Revenue Deficit = (ii) – (iv + v) = 100 – (60 + 20) = Rs 20 crores

(b) Fiscal Deficit = (ii + vi) – (iv + v + i) = (100 + 110) – (60 + 20 + 95) = Rs 35 crores

(c) Primary deficit = Fiscal Deficit – Interest Payments = 35 – 10 = Rs 25 crores

Because of Revenue Deficit the govt may have to cut expenditure on welfare programmes leading to a loss on social welfare.

The Govt may have to raise funds through Borrowing and may be compelled to disinvest.

Q14. Calculate ‘Value Added by Firm X and firm Y’ from the following data. **(4)**

	Items	Rs in lakhs
i)	Sales by Firm X to households	100
ii)	Sales by Firm Y	500
iii)	Purchases by households from Firm Y	500
iv)	Exports by Firm Y	50
v)	Change in stock of Firm X	20
vi)	Change in stock of Firm Y	10

vii)	Imports by Firm X	70
viii)	Sales by Firm Z to Firm Y	250
ix)	Purchases by Firm Y from Firm X	200

Ans:

	Sales (1)	Change in stock (2)	Purchases from other Firms (3)	Value Added
Firm X	100 + 200 = 300	20	70	250
Firm Y	500	10	250 + 200 = 450	60
Firm Z	250			

Value added By Firm X = (1) + (2) – (3) = 300 + 20 - 70 = Rs 250 lakh

Value Added by Firm Y = (1) + (2) – (3) = 500 + 10 – 450 = Rs 60 lakh

Q15.

Explain how 'open market operations' are helpful in controlling credit creation.

(4)

Ans: Open market operations refers to sale and purchase of government securities in the open market by the central bank of the country. By selling the securities, the central bank withdraws cash balances from the system and by buying the securities, the central bank injects cash balances into the system.

To control credit creation by the commercial banks, cash reserves needs to be reduced. For reducing cash reserves, securities are sold off by the central bank. Sale of securities sucks purchasing power from the money market. When liquidity is sucked (as during inflation), cash reserves of the commercial banks are squeezed. Implying a cut in their credit creation capacity. Because any change in cash reserves of the banks causes a multiple change in the supply of money in the economy.

Q16.

A: Giving reasons, state whether the following statements are true or false:

- When marginal propensity to save is less than marginal propensity to consume, the value of investment multiplier will be greater than 5.
- Value of investment multiplier varies between one and infinity.

B: On which side and in which sub-account of Balance of Payments, will foreign investment in India' be recorded? State valid reason for your answer.

(6)

B:Ans. Foreign investment in India' will be recorded on the credit side of the Capital account in the Balance of Payment account.

Foreign investment in India' is of capital nature (increasing the assets of the country) also leading to inflow of foreign currency of the country.

A:Ans:

- False. We know, MPC + MPS = 1. When MPS < MPC, the value of MPS can be anything less than 0.5 and greater than 0. Let us assume MPS = 0.4. The value of investment multiplier (K) in this case will be: 1**

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

$$= \frac{1}{0.4} = 2.5$$

Which is less than 5

Similarly when the value of MPS = 0.3, the value of K will be 3.33 which is less than 5 when MPS = 0.2, K will be 5 which is also not greater than 5 but equal to 5. Hence only when the value of MPS is less than 0.2 that the value of investment multiplier will be greater than 5.

Ans (ii): True. Value of investment multiplier varies between one and infinity. The minimum value of investment multiplier is = 1, when MPC = 0. The maximum value of investment multiplier is = ∞, when MPC = 1.

In case MPC = 0, $K = \frac{1}{1-MPC} = \frac{1}{1-0} = \frac{1}{1} = 1$

In case MPC = 1, then $K = \frac{1}{1-1} = \frac{1}{0} = \infty$

So that the value of the multiplier always varies between 1 and ∞

Q17.

A: In a simple Keynesian two-sector model, government sector is expected not to involve in the production activity. Government is expected to stay out of market and maintain law and order. However, in a general economy, government has to play its part directly or indirectly. Directly, government is involved in production activities where market mechanism fails to attain desirable target. Indirectly, government is involved in terms of collecting tax and non-tax revenues. Explain the impact on aggregate demand, if government involves in the economy both directly and indirectly.

Ans: Aggregate demand is the sum total of consumption expenditure, investment expenditure and government expenditure (when included). With the involvement of government directly aggregate demand will increase, whereas if government is included indirectly through taxes, it impacts consumption expenditure. Increase in taxes decreases disposable income and hence consumption and vice-versa in case of decrease in taxes.

B: "Monetary measures offer a valid solution to the problem of inflationary gap in an economy". State and discuss any two monetary measures to justify the given statement.

Ans:

Inflationary gap refers to the situation when Aggregate Demand (AD) is more than Aggregate Supply (AS) at the full employment level.

Two measures which may be used to solve the problem of inflation are

(a) An increase in Cash Reserve Ratio (CRR) may reduce the credit creation capacity of the commercial banks in the economy. This may lead to a fall in the borrowings from banks causing a fall in consumption and aggregate demand in the economy and helps to correct the inflationary gap in the economy.

(b) Sale of government securities in the open market by the central bank will adversely affect the ability of the commercial banks to create credit in the economy. As a result, aggregate demand in the economy may fall due to fall in consumption and correct the inflationary gap in the economy.

(6)

	<u>SECTION – B</u>	
Q18.	<p>Identify the correct combination of the ‘Goals of Indian Five Year Plans’:</p> <p>a) Growth, Equality, Modernisation, Self-Reliance b) Development, Equality, Modernisation, Sustainability c) Good Health, Education, Modernisation, Sustainability d) Growth, Equity, Modernisation, Self-Reliance</p> <p>Ans: d) Growth, Equity, Modernisation, Self-Reliance</p>	(1)
Q19.	<p>_____ may be defined as the measure of the extent of demographic participation in the social and political decision making. (Choose the correct alternative to fill up the blank)</p> <p>a) Economic indicator b) Liberty indicator c) Health indicator d) Demographic indicator</p> <p>Ans: B</p>	(1)
Q20.	<p>Read the following statements carefully.</p> <p>Statement 1: The 'Skill India' programme was launched by the Government of India in order to increase human capital formation.</p> <p>Statement 2: Human capital formation refers to the stock of 'skill and expertise' of a nation at a point of time.</p> <p>In the light of the given statements, choose the correct alternative:</p> <p>(a) Statement 1 is true and statement 2 is false (b) Statement 1 is false and statement 2 is true (c) Both statements 1 and 2 are true (d) Both statements 1 and 2 are false</p> <p>Ans: A</p>	(1)
Q21.	<p>The shackles of agriculture during the colonial rule Revolution that resulted from the application of _____.</p> <p>I. High Yielding Varieties (HYV) II. Mechanization of Agriculture III. Chemical Fertilizers and Pesticides IV. Organic Fertilizers and Pesticides</p> <p>Alternatives: a) I, II, IV b) I, II, III c) II, III, IV d) I, III, IV</p>	(1)

	Ans: B	
Q22.	<p>Read the following statements: Assertion (A) and Reason (R). Choose the correct alternative from those given below. Assertion (A): In 1991, as an immediate measure to resolve the Balance of Payments crisis, the rupee was devalued against foreign currencies. Reason (R): Devaluation of currency was eminent, exchange reserves. 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 explanation of Assertion (A). c) Assertion (A) is true, but Reason (R) is false. d) Assertion (A) is false, but Reason (R) is true</p> <p>Ans: a)Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).</p>	(1)
Q23.	<p>Dr. Khurana, a dentist, ran his clinic in an economically backward area. He was earning a comparatively low income. So, he decided to move to a city and spent a huge amount for the same. Identify and explain the type of expenditure incurred by Dr. Khurana, which directly contributed to the process of human capital formation.</p> <p>Ans: Expenditure on Migration</p>	(1)
Q24.	<p>Read the following statements carefully.</p> <p>Statement 1: Gender bias in India is a hindrance in the process of skill formation. Statement 2: Benefits of education always exceed the cost of education.</p> <p>In the light of the given statements, choose the correct alternative: (a) Statement 1 is true and statement 2 is false (b) Statement 1 is false and statement 2 is true (c) Both statements 1 and 2 are true (d) Both statements 1 and 2 are false</p> <p>Ans: C</p>	(1)
Q25.	<p>Growth of SSI made a substantial contribution in achieving the objective of: Alternatives: (a) None of these (b) full employment (c) equitable distribution of income (d) growth with social justice</p> <p>Ans: D</p>	(1)
Q26.	<p>Which of the following statements describes marketable surplus?</p> <p>(a) Marketable surplus is a sign of subsistence farming. (b) Marketable surplus enables a farmer to meet current consumption and future production needs. (c) Marketable surplus refers to the difference between output produced and output sold.</p>	(1)

(d) None of these.

Ans: B

Q27. **Read the following statement-Assertion (A) and Reason (R). Choose one of the correct alternatives given below:** **(1)**

Assertion (A): Supply of labour can increase or decrease even when the number of workers remains constant.

Reason (R): Supply of labour is measured in terms of man-days or person-days.

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). A()

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

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

Ans: A

Q28. “The pre-independent India’s occupational structure experienced growing regional variation.” Justify the above statement with valid explanation. **(3)**

Ans: The pre-independent India’s occupational structure experienced growing regional variation as:

- **Parts of Madras Presidency, Bombay and Bengal witnessed a decline in the dependence of the workforce on the agricultural sector with a commensurate increase in the manufacturing and the services sectors.**
- **There had been an increase in the share of workforce in agriculture in states such as Orissa, Rajasthan and Punjab.**



	<p>Discuss the rationale of celebrating Earth Day as depicted in the picture given to you.</p> <p>Ans: Consequences of deforestation and the harm to flora and fauna associated with it.</p>	
Q30.	<p>How can Brain Drain be a problem for Human Capital Formation in India?</p> <p>Ans: Brain drain (migration of person born, educated and trained in India to developed countries) is a serious threat to the process of human capital formation in the country. Those who migrate are persons of high calibre such as scientists, doctors, engineers, etc. This slows down the process of capital formation in the domestic economy.</p>	(4)
Q31.	<p>State some implications of inward looking trade strategy of India (1950-1990). Which forms of protection can be used as a medium to restrict imports?</p> <p>Ans: Following are the main implications of inward looking trade strategy of India (1950-34 1990):</p> <p>(i) Import substitution implies domestic production of those goods which the economy has been importing from rest of the world. This is a strategy to save foreign exchange by restricting the volume of imports.</p> <p>(ii) Foreign exchange (being extremely scarce) was to be utilised for developmental imports (referring to import of such plant and machinery which is essential for growth and development but cannot be produced domestically, owing to the lack of technology or the lack of investment funds).</p> <p>(ii) By adopting inward looking trade strategy, the government preferred to economise the use of foreign exchange (through import substitution) rather than maximise the generation of foreign exchange (through export promotion)</p> <p>Following are the forms of protection that can be used as a medium to restrict imports: Tariffs: A tariff is a duty on the imported commodity. It directly increases the price of imported commodities thereby offering protection to the domestic producers from foreign competition. Quotas: Under it, the government fixes the quota of import of different goods from different countries. Thus, the quota is fixed keeping in view the needs of the country. Both tariff and quota restrict the imports and, thereby, protect the domestic producers from foreign competition.</p>	(4)
Q32.	<p>India, Pakistan and China have travelled seven decades of developmental path with varied results. Support the given statement with valid arguments.</p> <p>Ans: Till the late 1970s, all of the three countries were maintaining the same level of low development. The last four decades have taken these countries to different levels. India: India, with democratic institutions, performed moderately. India's GDP growth rate increased from 5.7% p.a. to 7.3% p.a. during 1980-2018. But a majority of its people in India still depend on agriculture. Infrastructure is lacking and more than 20% of its population still live below poverty line.</p>	(4)

	<p>Pakistan: There has been a decline in the annual growth of GDP in Pakistan due to political instability, over-dependence on remittances and foreign aid and volatile performance of agriculture sector. Yet, last five years, many macroeconomic indicators began showing positive and moderate growth rates reflecting the economic recovery.</p> <p>China: China used the 'market system without losing political commitment' and succeeded in raising the level of growth along with alleviation of poverty. By retaining collective ownership of land and allowing individuals to cultivate lands, China has ensured social security in rural areas.</p>	
<p>Q33.</p>	<p>“In India, after 1947 land reforms were introduced on a large scale.” In the light of the given statement, discuss any one such land reform.</p> <p>“In the post-reform period, the Government of India decided to retain profit-making Public Sector Undertakings (PSUs). It provided a special status to PSUs to enable them to expand in the global market.” Do you agree with the given statement? Give valid reasons in support of your answer.</p> <p>Ans: Land reforms were inevitable in the post-independence era. The policy makers of independent India introduced land reforms such as land ceiling, abolition of intermediaries etc. Land ceiling means fixing up the maximum size of landholding which could be owned by an individual. This step was essential to promote equity in the agricultural sector so as to reduce the concentration of land ownership in a few hands.</p> <p>Yes. In order to improve efficiency, infuse professionalism and enable Public Sector Undertakings (PSUs) to compete more effectively in the liberalised global environment, the government identified profit making PSUs. Government declared them as Maharatnas, Navratnas and Miniratnas. PSUs were given greater managerial and operational autonomy, in taking various decisions. As a result, over the years these Maharatnas, Navratnas and Miniratnas have performed exceedingly well and established themselves as market leaders.</p>	<p>(6)</p>
<p>Q34.</p>	<p>Read the following text carefully and answer the given questions on the basis of the same and common understanding:</p> <p>Subsidies are a created, administered device intended for use only until such a time the basic set-up of the programme of activity cant take up its own protection through its required competitiveness. If it fails to happen there is no reason to protect it. The trend that the beneficiaries of subsidies expect them for every new programme and hope continuance of subsidies is noteworthy, Economists advocate that subsidies should be selective, limited and specially targeted for weaker sections only. Subsidies alter relative prices and budget constraints and thereby affect decisions concerning production, consumption and allocation of resources. Like many other countries, subsidies in Indian economy are pervasive. These are explicit or hidden and include the areas such as education, health, environment and variety of economic activities including agriculture and transport.</p> <p>(a) Why do we need second Green Revolution? State the key issues that India needs to focus upon for the second Green Revolution.</p> <p>(b) While subsidies encourage farmers to use new technology, they are a huge burden on government finances. Discuss the usefulness of subsidies in the light of this fact.</p> <p>Ans: a) The need for second Green Revolution arises primarily from the fact that the impact of first Green Revolution is tapering off. Rise in crop-yield is slowing down, while the demand for food grains is constantly rising owing to an unabated growth of population. Once again the country is facing a challenge to self-sufficiency in food grain production.</p>	<p>(6)</p>

The key issues that India needs to focus upon for the second Green Revolution are as under:

(1) Better use of resources, particularly by way of soil conservation and water harvesting. Conservation of water requires extensive use of 'drip-irrigation' technology.

(ii) Development of agro-processing industry along with a constant rise in crop yield, so that income from farming is stabilised.

(ii) Product diversification with a view to achieving higher and higher degree of commercialisation of agriculture.

(b): It is true that subsidies have facilitated the use of HYV technology leading to Green Revolution in India. In the absence of subsidies, it would have been impossible for the farmers (particularly the small farmers) to buy expensive inputs related to HYV technology. However, it is equally true that subsidies have caused a huge financial burden on the government. It is not only direct subsidies, but also the MSP (Minimum Support Price) which is a form of indirect subsidy which has mounted the government expenditure on agriculture. In fact, the financial burden on the government is further compounded when it is compelled to cope with 'loan waivers' for the farmers. Briefly, subsidies are useful when these are based on economic considerations of helping the 'small holders'. But these lead to a drain of wealth when based on political considerations, and when the rich farmers tend to benefit more than the poor.