

CBSE Class 12 Economics
Sample Paper 01 (2020-21)

Maximum Marks: 80

Time Allowed: 3 hours

General Instructions:

- i. This question paper contains two parts: Part A - Macro Economics (40 marks) and Part B - Indian Economic Development (40 marks).
- ii. Marks for questions are indicated against each question.
- iii. Question No. 1-7 and Question No. 15 – 21 (including two Case Based Questions) are 1 mark questions and are to be answered in one word/sentence.
- iv. Case Based Questions (CBQ's) are Question No. 7 and Question No. 15.
- v. Question No. 8-9 and Question No. 22 – 23 are 3 marks questions and are to be answered in 60 - 80 words each.
- vi. Question No. 10-12 and Question No. 24 – 26 are 4 marks questions and are to be answered in 80-100 words each.
- vii. Question No. 13-14 and Question No. 27 – 28 are 6 marks questions and are to be answered in 100-150 words each.
- viii. Answers should be brief and to the point and the above word limit be adhered to as far as possible.

PART A - MACRO ECONOMICS

1. Which one of the following is not a secondary functions of money
 - a. Standard of deferred payments
 - b. Medium of exchange
 - c. Cant' say
 - d. Store of value

OR

Open market operations is:

- a. Buying and selling of foreign exchange by the central bank
- b. Buying and selling of securities by the central bank
- c. Buying and selling of currency by the central bank
- d. Buying and selling of securities by the commercial banks

2. Fill in the blanks:

The levels of national income when aggregate supply exceeds aggregate demand is _____.

3. Currency notes and coins are called as:

- a. Legal tenders and Fiat money
- b. Flat money
- c. Fiat money
- d. Legal tenders

4. A disequilibrium in Balance of payment can be corrected by

- a. Devaluation
- b. Depreciation
- c. Appreciation
- d. Revaluation

5. In $S = -a + (1 - b)Y$ where b denotes:

- a. MPS
- b. $1 + MPC$
- c. $1 - MPC$
- d. MPC

6. The flexible exchange rate is determined by:

- a. Supply of foreign exchange
- b. Demand for foreign exchange
- c. Market forces of demand and supply
- d. Government

7. **Read the following extract and answer the questions given below:**

Factor Income is the progression of income that is obtained from the general factors of products utilized in the creation of merchandise or service so as to make a monetary benefit. Factor income on the utilization of land is called rent, income produced from work is called wages, and income created from capital is called benefit. The factor income of every single typical occupant of a nation is alluded to as the National income, while

factor salary and current exchanges together are alluded to as private income.

Factor income is used to analyze macroeconomic situations and to find out the difference between gross domestic product and gross domestic income which is also the difference between the total value of the goods and services produced in a country and the net income of the citizens of the country. This helps the government understand the magnitude of income of the country's citizens and the citizens living abroad.

Transfer payment (also called a **government transfer** or simply **transfer**) is a redistribution of wealth by means of the government making a payment, without goods or services being received in return. These payments are considered to be non-exhaustive because they do not directly absorb resources or create output.

- i. _____ are one-sided i.e. unilateral payments. (factor income, transfer payments)
 - ii. _____ payments are only included in the estimation of national income. (factor income, transfer payments)
 - iii. Due to _____ flows, there is a production of goods and services in the economy. (factor income, transfer payments)
 - iv. _____ payments cause merely the transfer of income from one sector to the other without anything in return. (factor income, transfer payments)
8. Should the purchase of wheat in the wholesale market be treated as the purchase of the final good?
9. Giving reason, explain how the following should be treated in the estimation of National Income.
- i. Payment of interest by a firm to a bank.
 - ii. Payment of interest by a bank to an individual.
 - iii. Payment of interest by an individual to a bank.

OR

Calculate Gross Value Added at Factor Cost.

S.no.	Contents	(Rs. in Crores)
(i)	Units of Output Sold (units)	1,000
(ii)	Price Per Unit of Output	30
(iii)	Depreciation	1,000

(iv)	Intermediate Cost	12,000
(v)	Closing Stock	3,000
(vi)	Opening Stock	2,000
(vii)	Excise Duty	2,500
(viii)	Sales Tax	3,500

10. $C = 100 + 0.75 Y$ is a consumption function (where C = consumption expenditure and Y = national income) and investment expenditure is 800. On the basis of this information calculate:
- The equilibrium level of national income.
 - Saving at the equilibrium level of national income.
11. What is money multiplier? What determines the value of this multiplier?

OR

Distinguish between loan and overdraft.

12. How does balance of payments reflect supply, demand status of foreign exchange for a country?
13. Explain the role of the following in correcting deficient demand in an economy.
- Open Market Operation
 - Bank Rate

OR

Explain the consumption function, with the help of a schedule and diagram.

14. Explain the meaning of the following:
- Revenue deficit
 - Fiscal deficit
 - Primary deficit

PART B - INDIAN ECONOMIC DEVELOPMENT

15. When was "Expert Group" formed?
- 1989
 - 2012

- c. 1962
- d. 1979

16. Which of the following is false regarding Positive effect of British rule?

- a. Provide transport facilities
- b. Provision of post and telegraph service
- c. Development of ports
- d. Monopoly on foreign trade

17. **Assertion (A):** During the British regime, India's exports exceeded imports, implying a surplus of balance of trade.

Reason (R): Trade surplus was used for the growth and development of the country.

- a. Assertion and reason both are correct statements and reason is correct explanation for assertion.
- b. Assertion and reason both are correct statements but reason is not correct explanation for assertion.
- c. Assertion is correct statement but reason is wrong statement.
- d. Assertion is wrong statement but reason is correct statement.

OR

Assertion (A): Full employment does not mean a situation of zero unemployment.

Reason (R): In an economy, there is always some natural rate of unemployment, which is the minimum rate of unemployment caused by structural changes in the system of production.

- a. Assertion and reason both are correct statements and reason is correct explanation for assertion.
- b. Assertion and reason both are correct statements but reason is not correct explanation for assertion.
- c. Assertion is correct statement but reason is wrong statement.
- d. Assertion is wrong statement but reason is correct statement.

18. **Assertion (A):** Domestic competition has increased since 1991.

Reason (R): Except for 7 industries, rest has de-licensed.

- a. Assertion and reason both are correct statements and reason is correct explanation for assertion.
- b. Assertion and reason both are correct statements but reason is not correct

explanation for assertion.

- c. Assertion is correct statement but reason is wrong statement.
- d. Assertion is wrong statement but reason is correct statement.

19. One child policy was introduced in _____.

- a. Pakistan
- b. China and India
- c. China
- d. India

20. In which year China initiated the Great Leap Forward Campaign?

- a. 1958
- b. 1959
- c. 1956
- d. 1957

21. Indian experience shows that an increase in national income fails to be reflected in the quality of life of people, owing to a rapid rise in population. Per capita income continues to be low because the population is rising to neutralize the rise in national income.

Poverty can be removed only if the growth rate of the population is moderated so that increase in GDP is translated into an increase in per capita GDP. Control of population would also mean a reduction in the size of the labour force. This would correct the structural imbalance between labour supply and capital stock.

The rate of participation would increase. An increase in the rate of participation implies a corresponding decrease in the percentage of population below the poverty line, other things remaining constant.

i. Rate of participation means:

- a. percentage of labour force gainfully employed
- b. percentage of labour force gainfully unemployed
- c. population above the poverty line
- d. population below the poverty line

ii. In which situation rise in National income is neutralized:

- a. when per capita income continues will be low
- b. when per capita income continues will be high
- c. when per capita income does to change
- d. when per capita income does not exist

- iii. When national income is divided by population we get, _____ (per capita expenditure/per capita income)
- iv. Growth rate of population is slowed down _____. (due to infrastructure/to remove poverty)
22. 'Commercial energy is mostly used for commercial purposes in factories, farms and commercial establishments'.
- In the context of above statement, describe three sources of energy which are mostly used in India for commercial purposes in factories.

OR

Why is it important to develop proper storage facilities in rural areas?

23. Empowerment of women is related to employment of women. Comment
24. Point out any four concerns in Indian agriculture.
25. Explain the modernisation as a long-term objective of planning in India.

OR

What are the benefits of globalisation?

26. Make a comparative study between India, China and Pakistan in the context of sex ratio, fertility and Urbanisation by understanding the given data.

Country (2015)	Sex ratio	Fertility	Urbanisation
India	929	2.43	33
China	941	1.50	56
Pakistan	947	2.62	39

27. Answer any two of the following questions:
- How do the Affluent consumption standards factor contribute to the environmental crisis in India? What problem do they pose for the government?
 - Human Capital Formation gives birth to innovation, invention, and technological improvements.** Do you agree with the given statement? Support your answer with valid arguments.
 - Identify the aspects of economic reforms introduced in 1991:

- a. Disinvestment of shares of public sector enterprises.
 - b. Reduction in custom duties.
 - c. Freedom of fixing prices of goods and services.
 - d. Lifting of restrictions on imports.
 - e. Easy entry of foreign direct investment.
 - f. transfer of ownership of PSUs to private sector.
- iv. Why do we find hidden (disguised) unemployment in agriculture? Can it be in other sectors also?

28. Answer the following questions:

- i. How did government ensure that the small farmers also benefit from the Green Revolution as the rich farmers?
- ii. How migration promotes human capital formation?
- iii. What is a 'global burden of disease'?

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Solution

PART A - MACRO ECONOMICS

1. (b) Medium of exchange

Explanation: Medium of exchange is a primary function of money.

OR

- (b) Buying and selling of securities by the central bank

Explanation: Doing so is the responsibility of central banks to control credit in the economy.

2. Decreases

3. (a) Legal tenders and Fiat money

Explanation: Legal tenders and Fiat money

4. (b) Depreciation

Explanation: Depreciation leads to fall in external purchasing power of home currency. Depreciation occurs in a free market system wherein demand for foreign exchange far exceeds the supply of foreign exchange in foreign exchange market of a country.

5. (d) MPC

Explanation: Since, $MPS = 1 - b = 1 - MPC$.

Hence, 'b' must be MPC.

6. (c) Market forces of demand and supply

Explanation: It is determined by market forces because every currency area must decide what type of exchange rate arrangement to maintain. Between permanently fixed and completely flexible, however, are heterogeneous approaches. They have different implications for the extent to which national authorities participate in foreign exchange markets.

7. i. Transfer payments

ii. Factor income

iii. Factor income

iv. Transfer payments

8. Final goods refer to those goods which are used either for consumption or for investment. Intermediate goods refer to those goods which are used either for resale or for further production in the same year. The purchase of wheat in the wholesale market is often done by the traders. Wheat is a consumption good and traders are not the final users of wheat. Therefore, the purchase of wheat in the wholesale market is to be treated as the purchase of intermediate goods. However, sometimes the households buy wheat in bulk from the wholesale market. In such situations, the purchase of wheat should be treated as a purchase of the final good.
9. i. **Payment of interest by a firm to a bank:** It will be 'included' in the estimation of National Income, as it is a factor income. Also, firms take loans for investment purposes.
- ii. **Payment of interest by a bank to an individual:** It will be 'included' in the estimation of National Income as it is a factor income.
- iii. **Payment of interest by an individual to a bank:** It will 'not be included' in the estimation of National Income as consumer takes a loan for consumption purposes.

OR

Sales = Units of Output \times Price Per Unit of Output

Sales = 1,000 \times 30

Sales = Rs. 30,000 crores

Value of Output is given by = Sales + Change in Stock

Value of Output = 30,000 + (1,000)

Value of Output = Rs. 31,000 crores, where

Change in Stock = Closing Stock - Opening Stock

Change in Stock = 3,000 - 2,000 = Rs. 1,000 crores

Hence, **Gross Value Added at Factor Cost is given by**

$(GVA_{FC}) = \text{Value of Output} - \text{Intermediate Cost} - \text{Net Indirect Taxes (Excise Duty + Sales Tax)}$

$= 31,000 - 12,000 - (2,500 + 3,500)$ Gross Value Added at Factor Cost (GVA_{FC})

$= \text{Rs. 13,000 crores}$

Therefore, Gross value added at factor cost is Rs 13,000 crores.

10. i. Given, $C = 100 + 0.75 Y$ and $I = 800$

At the equilibrium level,

$$Y = C + I$$

$$Y = 100 + 0.75 Y + 800$$

$$Y = 900 + 0.75 Y$$

$$Y - 0.75 Y = 900$$

$$0.25 Y = 900$$

$$Y = \frac{900}{0.25} = 3,600$$

ii. Consumption,

$$C = 100 + 0.75 Y$$

$$= 100 + 0.75 \times 3,600 = 2,800$$

We know that,

$$Y = C + S$$

$$\Rightarrow S = Y - C$$

$$= 3,600 - 2,800$$

$$= 800$$

11. Money Multiplier or deposit multiplier measures the amount of money that the banks are able to create in the form of deposits with every unit of money it keeps as reserves. It is calculated as

$$\text{Money Multiplier} = \frac{1}{LRR}$$

The deposits held by the banks are used for giving loans. However banks cannot use the whole of deposit for lending. It is legally compulsory for the banks to keep a certain minimum fraction of their deposits as reserves. This fraction is called the Legal Reserve Ratio and this is fixed by the Central bank.

Value of Money Multiplier Depends on two factors:

- Amount of initial deposits (Primary Deposits)
- LRR (Legal Reserve Ration)

OR

Basis of Distinction	Loan	Overdraft
Security	The loan is given against security or without security.	Overdraft is granted without security

Interest	Interest is payable on the full amount of the loan, whether withdrawn or not.	Interest is payable on the amount actually withdrawn by the borrower
Nature	It does not require a current account or saving account of the borrower.	It requires the current account of borrowers with lender banks.
Time Period	It is generally for a long period or short periods.	It is for short period.

12. Unfavourable BOP of a country like India shows our greater financial obligations to rest of the world than our financial claims against rest of the world. It also reflects a situation of low forex reserves of the country. Together these facts imply that (i) Availability of forex reserves is low and (ii) Demand for forex reserves is high. This pushes up our demand for forex in the international market. Accordingly, the price of 'forex' or the rate at which we can buy (say) a dollar or a pound tends to rise. More rupees are to be paid for a dollar or a pound. Thus, exchange rate becomes unfavourable for India in the international forex market.
13. i. Open market operation refer to the sale and purchase of securities by the Central Bank. In case of deficient demand when AD falling short of AS at full employment, the Central Bank buys securities in the open market and makes payment to the sellers. The money flow out of the Central Bank and reaches the Commercial Bank as deposits. This raises the lending capacity of the banks, people can borrow more. This will raise AD.
- ii. Incase of deficient demand Central Bank decrease the bank rate which the Central Bank charges on the loan given to commercial bank. This forces the Commercial Banks to reduce lending rate. Since borrowing become cheaper and people borrow more. This will raise AD.

OR

The functional relationship between the consumption expenditure and income is known as consumption function Symbolically,

$C = f(Y)$, Which is read as 'Consumption is a function of income'

Consumption function in terms of an algebraic expression can be written as

$$C = \bar{C} + bY$$

Where,

C = Consumption expenditure

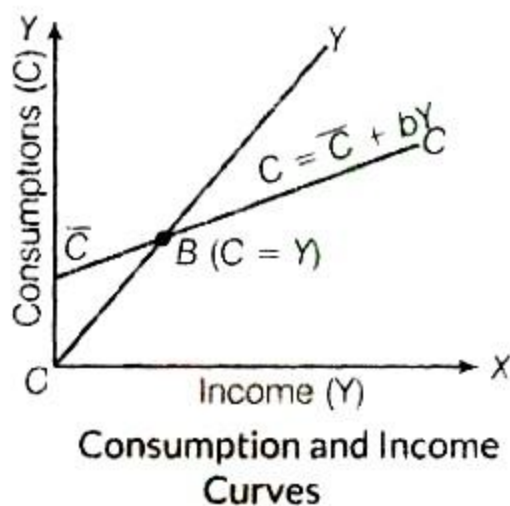
\bar{C} = Autonomous consumption at zero levels of income

b = Marginal Propensity to Consume

Y = Income

Let us understand it with the help of a schedule and diagram.

Consumption (C)	Income (Y)	Marginal Propensity to Consume = $\langle MPC \rangle = \frac{\Delta C}{\Delta Y}$	Change in Consumption (ΔC)	Change in Income (ΔY)
100	0	-	-	-
170	100	0.7	70	100
240	200	0.7	70	100
310	300	0.7	70	100
380	400	0.7	70	100
450	500	0.7	70	100



The point B represents the break even point where the consumption expenditure equals the income. To the left of point B, consumption is greater than income and to the right of point B, consumption is less than income.

14. a. **Revenue Deficit:** When revenue receipts are less than the revenue expenditures in a government budget, this shortfall is termed as Revenue Deficit. It signifies that the

government current expenses are greater than current income. The bulk of these expenses is interest payment, wages for government employees and defence. Revenue Deficit = Revenue Expenditure – Revenue Receipts.

- b. **Fiscal Deficit:** The excess of the total expenditure (revenue and capital expenditure) over the total receipts excluding borrowings (revenue and capital receipts) over a period of one accounting year, is termed as Fiscal Deficit. Fiscal Deficit is met by the borrowings of the government. It increases the liability of the government in the form of repayment of loans with interest. Fiscal Deficit = Total Budget Expenditure – Total Budget Receipts (Excluding Borrowing).
- c. **Primary Deficit:** The difference between the fiscal deficit and interest payment is termed as Primary Deficit. It indicates the borrowing requirements of the government to meet fiscal deficit excluding interest payments. Primary Deficit = Fiscal Deficit – Interest Payments.

PART B - INDIAN ECONOMIC DEVELOPMENT

15. (a) 1989

Explanation: In september 1989, the Planning Commission constituted an "Expert Group" to consider methodological and computational aspects of estimation of proportion and number of poor in India. The chairman of the "Expert Group" was Prof. DT Lakadwala. The report of the "Expert Group" was submitted in july 1993.

16. (d) Monopoly on foreign trade

Explanation: There were various positive contributions that were made by the British is false in India though Monopoly on foreign trade was not made with the objective of welfare for Indians but for the British interests.

17. (c) Assertion is correct statement but reason is wrong statement.

Explanation: During the British Regime, India's exports exceeded imports, employing a surplus of the balance of trade. But this surplus was owing largely to the export of primary goods which is a sign of economic backwardness. The trade surplus was not used for the growth and development of the country, instead, it was used to meet administrative expenses of the British government in India, as well as to meet expenses of wars fought by the British government.

OR

(a) Assertion and reason both are correct statements and reason is correct explanation

for assertion.

Explanation: Full employment by no means should be considered as a situation of zero unemployment. Structural changes by and large refer to changes related to the introduction of new technology in the production system. Because of these changes, people tend to remain unemployed for some time till they adapt themselves to these changes.

18. (a) Assertion and reason both are correct statements and reason is correct explanation for assertion.

Explanation: The launch of LPG policies has caused a significant shift in the structure of the Indian markets. Indian markets are now increasingly shedding its monopolistic character, and becoming more and more competitive in nature.

19. (c) China

Explanation: One child policy in China adopted since 1979, has reduced the growth rate of the population to nearly half from 1.33% in 1979 to 0.48 percent in the recent past.

20. (a) 1958

Explanation: 1958, focusing on widespread industrialisation of the country, encouraging people to set up household industries in their backyard.

21. i. (A) percentage of labour force gainfully employed
ii. (A) when per capita income continues will be low
iii. per capita income
iv. to remove poverty

22. The three sources of energy mostly used in India for commercial purposes in factories are:

- i. **Petroleum:** It is one of the important sources of energy in India. India produces about 3 lakh tonnes of petrol against the demand of 34 lakh tonnes. The country imports 31 lakh tonnes.
- ii. **Coal:** It is the primary source of energy and accounts for 54% of total energy consumption.
- iii. **Electricity:** It is the most useful and convenient source of energy in India. There are three main sources of electricity i.e. thermal, hydro and atomic power.

OR

Farmers are forced to sell their crops at very low prices to traders because of the fear of it

getting damaged from fire, rodents or pests due to lack of proper storage. It is essential to develop proper storage facilities in rural areas so that farmers are not compelled to sell their produce immediately after the harvesting of crops and can wait for a better price for their produce in the market. This enhances the bargaining power of the farmers. The government and cooperative societies have taken some important steps towards the provision of such facilities. As a result, many godowns and warehouses have been built at the village and mandi-town level.

23. Women empowerment has become a significant topic of discussion in development and economics. It can also point to the approaches regarding other trivialized genders in a particular political or social context.

Women's economic empowerment refers to the ability for women to enjoy their right to control and benefit from the resources, assets, income and their own time, as well as the ability to manage risk and improve their economic status and well being. For women empowerment it is recommended to provide more formal education opportunities for women that would allow for higher bargaining power in the home. They would have more access to higher wages outside the home; and as a result, make it easier for women to get a job in the market. Therefore getting a job outside home is also related to women empowerment.

24. Four concerns of Indian agriculture are:

- i. Agricultural credit;
- ii. Agriculture marketing
- iii. Diversification
- iv. Pricing policy

25. Modernisation refers to the advancement of technology and institutional innovations in the process of development. The objective of modernisation is to transform the traditional and backward economy into a modern and forward economy. The following are the components of modernisation:

- i. The shift in the composition of production.
- ii. Development of a diversified economy that produces a large variety of goods as in developed economies.
- iii. Provision of a progressive framework for the development of the economy by using new technology.
- iv. Change in social outlook such as recognition that women should have the same rights

as men.

Modernisation would result in the reduction of cost of production and ensuring large scale production of goods. Green revolution in Indian agriculture is a well-known example of how technology can transform a country from the net importer of food grains to net exporter of food grains. global it revolution has redefined the concept of domestic production through the BOP.

OR

Globalisation results in the following benefits for the economy

- i. It helps the economy to adopt new and flexible methods of production.
- ii. It results in raising the productivity of the industrial sector by reducing capital output ratio, increasing exports, raising the efficiency of the workforce, modernising the technology used and increasing capital flow in the country.
- iii. It helps in restructuring the production units of the country towards the production of those goods which the country can produce effectively and efficiently with the use of the domestically available factors of production.
- iv. It helps to increase the flow of foreign capital into the country.
- v. It helps to improve the quality of goods produced in the economy.
- vi. It helps to address the problem of unemployment.
- vii. Advantages from the free movement of labour between countries.
- viii. Gains from the sharing of ideas/ skills/ technologies across national borders.
- ix. Competitive pressures of globalisation may prompt improved governance and better labour protection.
- x. Encourages producers and consumers to benefit from the deeper division of labour and economies of scale.

26. The table reveals the picture as under:

- Sex ratio:- It is highest in Pakistan (947) followed by China (941) and India (929). In this way, Pakistan achieved the first rank whereas China achieved the second rank but India got the last rank among these countries.
- Fertility rate:- It is lowest in China (1.5) in comparison to India (2.43) and Pakistan (2.62). Due to the lowest fertility rate, the growth rate of the population is also the lowest in China.
- Urbanisation:- Urbanisation is highest in China (56%) but the lowest in India

(33%). It is 39% in the case of Pakistan. In this way, In comparison to India, the position of China and Pakistan is far better.

27. Answer any two of the following questions:

- i. **Affluent Consumption Standards** : The affluent consumption and production standards used by developed countries have placed a huge stress on the environment. In developed countries, the government exerts less strictness on society because they have small amount of population and abundant resources. Hence, they try to make affluent society. But in this way, sometimes the resources remain unutilized or sometimes they are over utilized. Either the resources are underutilized or over utilized, they generally lead to wastage of resources.
- ii. **Human Capital Formation** gives birth to innovation, invention, and technological improvements. Yes, I agree with this statement, because Research and Development are necessary for innovations which lead to technological advancement and the resultant creation of new products. This can be done only through investment in education human capital formation helps in preparing learned scientists and researchers in various subjects who bring out innovative products, technologies, and processes and thereby contributing to the economic growth of the economy.
- iii.
 - a. Privatisation
 - b. Globalisation
 - c. Liberalisation
 - d. Liberalisation
 - e. Globalisation
 - f. Privatisation
- iv. We find hidden unemployment (disguised unemployment) is agriculture when other employment opportunities are not available. People start working in their family occupations say agriculture. The fact is that family occupation does not require any additional hands. For example, two persons are employed in the field. Since there are no other employment opportunities, two more family members start working in the same field. But they do not add to total productivity. These two persons will constitute hidden unemployment. Hidden unemployment can be in household enterprises and other informal activities.

28. Answer the following questions:

- i. The new agricultural strategy implied the use of better and improved inputs of

agriculture, which required more capital. Green Revolution would have benefited only the rich farmers if the government had not played an important role in ensuring that the small farmers should also gain from the new technology. Government ensured that the small farmers also benefit from the Green Revolution as the rich farmers in the following way:

- a. The HYVs-High Yielding Varieties and fertilisers of seeds were subsidised.
 - b. The government provided loans at low rate of interest.
 - c. Easy and cheap credit was made available to the farmers so that they can buy expensive farm equipment.
- ii. **Migration** of people adds to the **human capital formation** as it facilitates the utilisation of inactive and underdeveloped skills of an individual. It helps the underdeveloped countries or developing countries to acquire technical skills, efforts reducing ways and new and efficient ways of performing tasks.
- iii. The Global Burden of Disease Study is a comprehensive regional and global research program of disease burden that assesses mortality and disability from major diseases, injuries, and risk factors. Global Burden of Disease (GBD) is an indicator used by experts to know the number of people dying prematurely due to a particular disease, as well as the number of years spent by them in a state of 'disability' owing to the disease.