

CBSE Class 12 Economics
Sample Paper 10 (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. One of the various quantitative instruments used by the central bank in during inflation is _____.
 - a. Reduce bank rate
 - b. Introduce bank rate
 - c. Fix bank rate
 - d. Raise Bank rate

OR

Reducing margin requirements by the central bank in India during deficient demand will be

- a. Inflationary
- b. Stabilisation
- c. Destabilisation
- d. Non-Inflationary

2. Fill in the blanks:

The levels of national income when aggregate supply falls short of aggregate demand _____.

3. Which of the following is not a function of central bank?

- a. Banker's Bank
- b. Government's banker
- c. Issue of currency
- d. Accepting deposits from public

4. Balance of trade is in surplus when:

- a. value of exports = value of imports
- b. None of these
- c. value of exports > value of imports
- d. value of imports > value of exports

5. Aggregate demand is sum of _____.

- a. $C + I + G + (x - m)$
- b. $C + I$
- c. $C + I + G$
- d. C

6. The supply of foreign exchange and the exchange rate has:

- a. Inverse relationship
- b. Exponential relationship
- c. Indirect relationship
- d. Direct relationship

7. **Read, the following hypothetical Case Study, carefully and answer the question**

Barter is an act of trading goods or services between two or more parties without the use of money (or a monetary medium, such as a credit card). In essence, bartering involves the provision of one good or service by one party in return for another good or service

from another party. Bartering allows individuals to trade items that they own but is not using for items that they need, while keeping their cash on hand for expenses that cannot be paid through bartering, such as a mortgage medical bills, and utilities. Bartering can also have a psychological benefit because it can create a deeper personal relationship between trading partners than a typical monetized transaction. Bartering can also help people build professional networks and market their businesses.

On a broader level, bartering can result in the optimal allocation of resources by exchanging goods in quantities that represent similar values. Bartering can also help economies achieve equilibrium, which occurs when demand equals supply. When two people each have items the other wants, both people can determine the values of the items and provide the amount that results in an optimal allocation of resources. A person can also exchange an item for something that the individual does not need because there is a ready market to dispose of that item.

- i. _____ system of exchange is based on the concept of C-C economy. (barter, monetary)
 - ii. _____ is a sign of interdependence. (exchange, purchase)
 - iii. Lack of a system for future payments or contractual payments is a drawback of _____ system of exchange. (barter, monetary)
 - iv. Double coincidence of wants is a requirement of _____ system of exchange. (barter, monetary)
8. 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.
9. Calculate 'Net Domestic Product at Factor Cost'.

S.no.	Contents	(Rs. in Crores)
(i)	Net Current Transfers to Abroad	15
(ii)	Private Final Consumption Expenditure	800
(iii)	Net Imports	(-) 20
(iv)	Net Domestic Capital Formation	100
(v)	Net Factor Income to Abroad	10
(vi)	Depreciation	50

(vii)	Change in Stocks	17
(viii)	Net Indirect Tax	120
(ix)	Government Final Consumption Expenditure	200
(x)	Exports	30

OR

From the following data, calculate National Income:

Items	(₹ in crore)
(i) Profit	1,500
(ii) Rent	1,300
(iii) Net indirect taxes	350
(iv) Mixed income of self-employed	600
(v) Compensation of employees	3,000
(vi) Reimbursement to the employees for medical expenses	300
(vii) Depreciation	200
(viii) Excess of factor income to rest of the world over factor income from rest of the world	50
(ix) Excess of imports over exports	40
(x) Interest	1,100

10. Government takes measures to restrict autonomous imports of gold. Explain the economic values desired to be achieved from this.
11. How should the following be treated in the calculation of national income? Give reasons for your answer.
 - i. Interest on public debt
 - ii. Bonus given to railway employees

OR

Distinguish between real gross domestic product and nominal gross domestic product. Can real gross domestic product be used as an index of welfare of the people? Give two reasons.

12. Can an economy be in equilibrium when there is underemployment in the economy? Explain.
13. As a result of an increase in investment by Rs. 100 Crore, national income rises by Rs. 500 crores. Find out the value of investment multiplier.

OR

Explain the role of the following in correcting the inflationary gap in an economy.

- i. Bank rate
 - ii. Margin requirements
 - iii. Legal reserve
 - iv. Open market operations
14. Distinguish between revenue expenditure and capital expenditure.

PART B - INDIAN ECONOMIC DEVELOPMENT

15. Industrial sector creates infrastructure which helps in growth of
- a. All of these
 - b. Tertiary
 - c. Primary
 - d. Secondary
16. Tertiary sector produces:
- a. Services
 - b. None of these
 - c. Industrial goods
 - d. Agricultural goods
17. **Assertion (A):** Poverty is the cause as well as the consequence of poor health.
Reason (R): Poor health leads to poor health simply because poor people cannot afford expensive medical treatment of their diseases. Poor health also causes loss of physical and mental abilities to work.
- 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): Relative poverty is found in all the countries of the world.

Reason (R): Differences in the levels of income are the only criteria for judging relative poverty.

- 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):** One child policy adopted by China in 1979 has been very successful pursued.

Reason (R): One child policy in China has reduced the growth rate of the population to nearly half.

- 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. Which of the following is not the parameter of human development

- a. Adult mortality rate
- b. Life expectancy
- c. Population below poverty line
- d. Infant mortality rate

20. The main organisation for facilitating globalisation:

- a. IPP
- b. WTO

- c. WHO
- d. ILO

21. Read the following passage and answer the questions given below:

The industrial sector has maintained its supremacy in energy consumption, compared to other sectors like transport, agriculture and households. Its consumption is estimated to be nearly 37.8% of the total consumption of commercial energy, compared with 22% consumption of the transport sector, 21.9% consumption of the agriculture sector and 24.3% consumption of the household sector.

The consumption of commercial energy is very low in the agricultural sector. This suggests the dependence of this sector on manual labour and the use of hand-operated tools and implements. This had led to a low level of productivity in the Indian agricultural sector. Consequently, poverty prevails and the quality of life is miserably low. Over time, there has been a fall in percentage consumption of energy in the transport sector, while the share of the industrial sector has tended to rise. It suggests the massive expansion of the industrial sector in India and a shift from the household industry to a factory system of production.

- i. Low use of commercial energy in the agricultural sector led to _____ level of productivity. (low, high)
 - ii. The shift from household industry to production system led to _____ consumption of energy of the industrial sector. (increase, decrease)
 - iii. Due to the use of _____ tools, poverty prevails and quality of life is miserably low. (machine operated, hand-operated)
 - iv. _____ sector has top priority in consumption of energy. (transport, industrial)
- 22. Explain how rapid growth in population spreads poverty.**

OR

‘Agricultural marketing refers to the farmers’ act of bringing their produce to the market for sale’. Is the statement correct?

- 23. Compared to females, more males are found to be working. Why?**
- 24. What are the alternative channels available for agricultural marketing? Give some examples.**
- 25. Explain the self-reliance as a long-term objective of planning in India.**

OR

Explain the changing role of state in Indian economy since introduction of reforms.

26. Answer the questions on the basis of the following data.

- i. Which country is having the highest and least rate of poverty?
- ii. Suggest some measures that can be taken by India to reduce poverty.

Country	Poverty rate(%age of the total population)
India	21.9%
China	3.3%
Pakistan	29.5%

27. Answer any two of the following questions:

- i. Why economic development causes environmental problems?
- ii. How is human development a broader term as compared to human capital?
- iii. Distinguish between the Bilateral and multi-lateral trade.
- iv. Briefly discuss the relationship between population growth and unemployment in India.

28. Answer the following questions:

- i. Discuss briefly, the rationale behind equity with growth as planning objectives for Indian Economy.
- ii. Why is human capital more important than physical capital?
- iii. Which concept of poverty helps to assess the level of inequality in the country?

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Solution

PART A - MACRO ECONOMICS

1. (d) Raise Bank rate

Explanation: Bank rate raise leads to decrease in investment that reduces aggregate demand.

OR

- (a) Inflationary

Explanation: Doing so, the amount borrowed would increase leading to increase in effective demand.

2. Increases

3. (d) Accepting deposits from public

Explanation: Accepting deposits from the public is a function of a commercial bank. RBI deals with commercial banks in the same way commercial banks deal with the public.

4. (c) value of exports > value of imports

Explanation: A trade surplus is an economic measure of a positive balance of trade, where a country's exports exceed its imports. A trade surplus represents a net inflow of domestic currency from foreign markets. trade surplus helps to strengthen a country's currency; however, this is dependent on the proportion of goods and services of a country in comparison to other countries as well as other market factors. Countries can also highly control their currency through foreign investment efforts.

5. (a) $C + I + G + (x - m)$

Explanation: $AD = C + I + G + (X - M)$

6. (d) Direct relationship

Explanation: As foreign currency appreciates, imports for them become cheaper. So, they supply more foreign currency in the forex market.

7. i. barter

ii. exchange

iii. barter

iv. barter

8. 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.
9. Net Domestic Product at Market Price is calculated as:

$$(NDP_{mp}) = \text{Private Final Consumption Expenditure} + \text{Government Final Consumption Expenditure} + \text{Net Domestic Capital Formation} - \text{Net Imports}$$
$$NDP_{mp} = 800 + 200 + 100 - (-20) = \text{Rs. } 1,120 \text{ crores}$$

Net Domestic Product at Factor Cost is calculated as:

$$(NDP_{fc}) = NDP_{mp} - \text{Net Indirect Tax}$$
$$NDP_{fc} = 1,120 - 120 = \text{Rs. } 1,000 \text{ crores.}$$

Therefore Net Domestic Product at factor Cost is termed as the Domestic Income.

OR

By using Income method,

National Income

= Compensation of employees + Profit + Rent + Interest + Mixed income of self-employed - Excess

of factor income to rest of the world over factor income from rest of the world

$$= ₹3,000 \text{ crore} + ₹1,500 \text{ crore} + ₹1,300 \text{ crore} + ₹1,100 \text{ crore} + ₹600 \text{ crore} - ₹50 \text{ crore}$$
$$= ₹7,450 \text{ crore}$$

$$\text{National income} = ₹7,450 \text{ crore}$$

10. The economic values desired to be achieved from the Government's measures to restrict autonomous imports of gold are mentioned below:
- i. This measure will restrict the imports of gold which will to a fall in the demand for foreign currency resulting in an appreciation in exchange rate.
- ii. There will be an increase in the foreign exchange reserves.
11. i. **Interest on public debt:** Since, interest on public debt is interest on loan taken by the government for consumption purpose and not for investment. Therefore it should not be included in the estimation of national income.
- ii. **Bonus given to railway employees :** It should be included in the estimation of national income because bonus given to employees is a payment received in cash which is a part of the compensation of employees.

OR

Real GDP is calculated at a base year price. While Nominal GDP is calculated at current year price in the market. This may give misleading picture of economic growth of a country because increase in GDP may be because in price rather than any physical output goods and services. Real GDP can be used as an index of welfare. Reasons are given as:

- i. it is affected by change in only the physical quantities.
- ii. It is affected by change in the employment level of the economy.

12. Yes,

- i. According to Keynes, equilibrium is mere intersection of AD and AS, full employment may or may not be there.
- ii. Under employment equilibrium refers to a situation when AD is equal to AS but resources are not fully utilised. It occurs prior to the full employment level.

13. Given,

Change in Income = 500

Change in Investment = 100

$$\text{Multiplier}(k) = \frac{\text{Change in Income}}{\text{Change in Investment}}$$

$$\text{Multiplier}(k) = \frac{500}{100} = 5$$

OR

Monetary policy is the policy relating to the regulation of (i) supply of money (ii) rate of interest and (iii) availability of money, with a view to combat situation of inflationary or deflationary gap in the economy.

i. **Bank rate :**

- i. Bank rate refers to the rate at which the Central Bank lends money to commercial banks as the lender of the last resort.
- ii. During inflation bank rate is increased to suck excess liquidity from the economy or to reduce the money supply.
- iii. Because of increase in bank rate commercial banks also increase the lending rates.
- iv. The increased lending rate discourages borrowers from taking loans.
- v. This overall supply of money/credit is reduced in the economy.
- vi. During deflation bank rate is reduced to increase the money supply.

- vii. Because of decrease in the bank rate commercial banks also decreases the lending rates.
- viii. The decreased lending rate encourage borrowers to take more loan.
- ix. Thus overall supply of money/credit is increased in the economy.

ii. **Margin requirements :**

A margin refers to the difference between market value of the security offered for loan and the amount of loan offered by the commercial bank. During inflation supply of money/credit is reduced by raising the requirement of margin and vice-versa.

iii. **Role of Legal Reserves in correcting inflationary gap in an economy :**

inflationary gap refers to the extent to which current aggregate demand becomes greater than the aggregate demand required for maintaining full employment. Legal reserves refers to the minimum percentage of bank deposits required to be kept with central bank. In case of inflationary gap in the economy, it becomes essential to control credit in the economy. In this situation the central bank will increase the amount of legal reserves required. It will reduce the cash resources with the bank and the bank will be forced to contract credit. It will help in controlling excess demand. In case of deflation the central bank will decrease the legal reserve ratio so that more cash deposits are available with the commercial banks.

iv. **Role of open market operations in correcting inflationary gap :**

Inflationary gap is a situation when aggregate demand is greater than aggregate supply .Under such a situation, to decrease the supply of credit in the economy :

- i. Central bank sell the securities in the open market.
- ii. The buyers usually the commercial banks or their customers, make payments .
- iii. As the commercial banks are buying these securities it will result in decrease in cash reserves of the commercial banks, and hence their lending capacity also decreases.
- iv. It will decrease the supply of money and credit which ultimately leads to decrease in aggregate demand.
- v. It will help in correcting deflationary gap in the economy.

14.

Revenue Expenditure	Basis	Capital Expenditure
An expenditure that: Neither creates		Capital expenditure that: Either creates assets for the government or

any assets, nor causes any reduction of liability	Meaning	causes reduction in liabilities of the government.
It is of a recurring nature. It is incurred regularly. Its purpose is to keep the government machinery running.	Nature	It is a non-recurring type of expenditure. Its purpose is to add capital stock of the economy and raise production capacity.
Expenditure incurred on civil administration, defence forces, public health and education.	Example	Expenditure incurred on construction of building, dams, steel plants etc.
This is generally categorized as non-development expenditure.	Category	This is generally categorized as development expenditure.

PART B - INDIAN ECONOMIC DEVELOPMENT

15. (a) All of these

Explanation: Industrial infrastructure - electricity, roads, airports, water systems and telecommunications are the foundations of modern economies and its helps in growth of all sectors of economy .

16. (a) Services

Explanation: The service sector consists of the production of services instead of end products.

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

Explanation: Poverty is the cause as well as the consequence of poor health. Poor health leads to poor health simply because poor people cannot afford expensive medical treatment of their diseases. Poor health also causes loss of physical and mental abilities to work.

OR

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

Explanation: Relative poverty refers to poverty in relation to different classes, regions or countries. The country or class of people whose level of living is low is treated as poor or

relatively poor in comparison to the country or class of people having high level of living. Relative poverty is also interpreted in terms of inequality of income within the country.

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

Explanation: Both assertion and reason are correct, the one-child policy in China which was adopted in 1979 has reduced the growth rate of the population to nearly half, from 1.33% in 1979 to 0.48% in the recent past.

19. (a) Adult mortality rate

Explanation: Development Index (HDI) combines three dimensions: A long and healthy life: Life expectancy at birth, Education index: Mean years of schooling and Expected years of schooling, A decent standard of living: GNI per capita.

20. (b) WTO

Explanation: WTO is expected to establish a rule-based trading regime in which nations cannot place arbitrary restrictions on trade. It facilitates international trade through the removal of tariff and non-tariff barriers.

21. i. low

ii. increase

iii. hand operated

iv. industrial

22. Following points imply how population growth causes poverty:

i. Increase in the population results in more family expenses.

ii. Unemployment rate increases pushing families to poverty.

iii. Increased number of people in agricultural families results in decreased portion of divided land among the family members causing lower incomes.

iv. Increased pressure of satisfying the expanded family needs creates stress on the bread winner resulting in health related issues sometimes to the extreme of fatal. This would push the family to poverty.

Hence, poverty and population are 2 factors which mutually compliment each other in each other's growth causing serious repercussions on the development of states and nations.

OR

Agricultural marketing does not simply refer to the farmers' act of bringing their produce

to the market for sale. It includes all those activities/processes which help them in getting the maximum price for their produce. These processes include grading, packaging and storing. Hence we can say that the given statement is incorrect.

23. Compared to females, more males are found to be working because:
- Gender based social division of labour: It is assumed that men are meant to fulfill financial responsibilities and females are meant to take care of domestic chores.
 - Many of the household activities that are done by women are not recognised as work.
 - Skill requirement is also a reason.
24. Alternative marketing channels were developed to bring the farmers in direct contact with the consumers. Previously, farmers used to sell their products to traders who used to exploit them by faulty weighing and manipulation of accounts and also paid a lower price to the farmers. If farmers directly sell their product to consumers, it increases their incomes due to the elimination of intermediaries. These channels help in increasing farmers' share in prices paid by the consumers. Some examples of these channels are
- Apni Mandi (Punjab, Haryana and Rajasthan)
 - Hadaspar Mandi (Pune)
 - Rythu Bazars (vegetable and fruit markets in Andhra Pradesh)
 - Uzhavar Sandies (farmers markets in Tamil Nadu)

Further, several national and multinational fast food chains are increasingly entering into contracts/alliances with farmers to encourage them to cultivate farm products (vegetables, fruits, etc) of the desired quality by providing them with not only seeds and other inputs but also assured procurement of the products at pre-decided prices.

25. Self-reliance means dependence on domestically produced goods, particularly foodgrains. As India was recently freed from colonial rules, self-reliance was considered necessary for a developing country like India to have developed through domestic resources. Self-reliance was adopted due to following reasons:
- To ensure reduction and ultimately elimination of dependence on foreign aid.
 - To ensure reduction and ultimately elimination of dependence on imports for certain critical commodities.
 - To ensure expansion and diversification of exports.
 - To ensure a more equal relationship with the world economy and to reduce our vulnerability to international pressures and disturbances.

OR

The changing role of state is reflected in the eighth five year plan which mentioned that the planning in India will be indicative increasingly. In order to give some correctness to the changing role of state the eighth five year plan has identified the principles governing public sector. These are :

- i. The public sector must withdraw from the areas where no public sector is served by its presence.
- ii. State should make investments only in those areas where investment is of main infrastructural nature where private sector is not likely to come forth to an adequate extent within a reasonable time perspective.

After that we saw a major shift in the Indian economy and the role of state has been changing from a controller, regulator and participator to that of a facilitator, observer and guide. The changes that took place in the role of state since 1991 are as under:

- a. Before economic reforms, government had its share in all sectors of the economy. It was producing bread, butter, biscuits, milk, running hotels and many of these were actually not required to be in public sector. Government withdrew herself from these sectors through delicensing, deregulation and disinvestment.
- b. As a regulator, during 1947-1990, Government regulated all activities with the laws and acts. But after 1991, except some basic and strategic goods and services, decisions were made to be market driven. For this purpose, regulatory authorities were set up for different sectors.
- c. Since 1991, Government has focused its attention on development of social sector like education, health, defence, law and order.

Overall, we can say that the role of state has changed from producer to production facilitator.

26.
 - i. Pakistan is having the highest and China is having the east rate of poverty.
 - ii. Various measures that India can take to reduce poverty are:-
 - labour-intensive method of production
 - Development of agriculture
 - stability in the price level
 - eradication of unemployment
 - Special focus on backward regions

- opportunities for self-employment

27. Answer any two of the following questions:

- Economic development causes environmental problems in the following ways:
 - Extraction of Resources-** Economic development is nothing but more and more production of goods and services. The environment is the absolute source of inputs for production. In this way, economic development means the extraction of resources from the environment.
When the demand for resources increases beyond the rate of regeneration of the resources, there will be environmental problems.
 - Pollution-** As a result of economic development activities, pollutants in the form of dust, smoke and chemicals are discharged into the environment. This process causes water pollution, air pollution and noise pollution.

ii. Human capital considers education and health as a means to increase labour productivity. Human development is based on the idea that education and health are integral to human well-being because only when people have the ability to read and write and the ability to lead a long and healthy life, they will be able to make other choices they value. In human capital view, any investment in education and health is unproductive, if it does not enhance output of goods and services. In the human development perspective, human beings are ends in themselves. So, human capital is a part of human development.

iii. **Bilateral and multilateral trade:**

Basis	Bilateral Trade	Multi-lateral Trade
Meaning	Bilateral Trade - is a trade in between 2 countries, which encourages economic cooperation between them. One-to-One Negotiations are made separately with each country.	Multi-lateral trade – is a kind of trade agreement which happens between more than 2 countries. It supposedly integrates many countries and encourages healthy globalization. The negotiations with different countries are made together at the same time.
Negotiations	Separate negotiations are required to be done with	Negotiations are done with many

	different countries on a one to one basis.	countries together, which saves time.
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- iv. There is a direct relationship between population growth and unemployment in India. Every economy requires an optimum population for maximum economic development. Any growth of the population beyond this point means an increase in the number of dependents who will be a burden on the economy. Population growth will not be a problem if the extra labour is absorbed by the productive sectors of the economy. Population growth in India has created a large number of unemployed person because agriculture and industrial sectors cannot absorb the increased workforce. Increase in urban population has been found more than twice as compared to the rural population.

28. Answer the following questions:

- i. The rationale behind equity with growth as planning objectives for Indian Economy is as follows:
Growth refers to an increase in the 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 is achieved, it may lead to the development of social justice, which may increase the per capita availability of goods and services.
- ii. Human capital is more important than physical capital because the latter is an effect of the former. All physical capital that we have today is subject to the acquisition of human capital. The more qualitative human capital, the more qualitative physical capital.
- iii. Relative concept of poverty helps to assess the level of inequality in the country. As per this concept, a comparison between the income level of top 5-10% with the bottom 5-10% is made, which reflects the relative standard of poverty. This concept of poverty indicates the relative position of different segments of the population in the income hierarchy. Relative poverty is when households receive 50% less than average household incomes, so they do have some money but still not enough money to afford anything above the basics.