

CBSE Class 12 Economics
Sample Paper 02 (2019-20)

Maximum Marks: 80

Time Allowed: 3 hours

General Instructions:

- i. All the questions in both the sections are compulsory. Marks for questions are indicated against each question.
 - 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 80-100 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 and the above word limit be adhered to as far as possible.
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Section A

1. Fill in the blanks:

_____ refers to the excess of revenue expenditure of the government over its revenue receipts.

2. Give two examples of macroeconomic variables.

3. The Breakeven level of an economy is

a. $C = I$

b. $AD = AS$

c. $C = Y$

d. $C = AD$

4. The price of 1\$ has risen from Rs.48 to Rs.50. Has the Indian currency appreciated or depreciated?

OR

Is a rising reserve of India's foreign exchange a sign of our rising exports?

5. Public expenditure can be planned only

a. Can't say

b. True

c. Insufficient information

d. False

6. Fill in the blanks:

_____ relationship between MPS and Multiplier?

7. Fill in the blanks:

_____ is the situation under which aggregate demand exceeds aggregate supply at the full employment level.

8. State true or false:

Revaluation and appreciation of currency are one and the same thing.

9. Fill in the blanks:

A vicious circle set wherein the government takes more loans to repay earlier loans, which is called _____.

10. Match the following:-

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(a) Non tax receipt	(i) income tax
(b) Direct tax	(ii) capital receipt
(c) Indirect tax	(iii) fines
(d) Disinvestment	(iv) G.S.T

11. Is the following revenue expenditure or capital expenditure in the context of government budget? Give reason.

- i. Expenditure on collection of taxes.
- ii. Expenditure on purchasing computers.

12. Calculate APS and MPS from the following table :

Income (Rs. 000) :	0	100	200	300	400
Consumption Expenditure (Rs. 000) :	40	120	200	280	360

OR

Complete the following table.

Income (Y)	Saving (S)	Marginal Propensity to Consume (MPC)	Average propensity to Consume
0	-6		
20	-3
40	0
60	3

13. Define high-powered money.

14. Distinguish between the current account and capital account of balance of payments account. Is import of machinery recorded in current account or capital account? Give reasons for your answer.

OR

Distinguish between devaluation and depreciation of domestic currency.

15. Define tax. Give two examples of each of direct tax and indirect tax.
16. i. What are the activities or transactions that are not included from Gross National Product measurement? Give reason.
- ii. From the following about firm 'X', calculate Gross Value Added at Factor Cost by it:

Items	(in thousand)
(i) Sales	2000
(ii) Opening stock	120
(iii) Closing stock	80
(iv) Purchase of intermediate products	1200
(v) Purchase of machinery	600
(vi) Subsidy	160

OR

Calculate Disposable Income and Personal Income.

Items	(Rs. in Crores)
Net factor income from abroad	(-) 50
Net indirect taxes	110
Current transfers by government	40
Corporate tax	60
Net domestic product at factor cost	800
National debt interest	80
Net current transfers to abroad	10
Consumption of fixed capital	50

Domestic product accruing to government	70
Retained earnings of private corporations	10

17. Explain the role of the following in correcting deficient demand in an economy.

- i. Open market operations
- ii. Bank rate.

Section B

18. Define the globalization.

19. State true or false:

Physical capital and human capital both can be separated from their owners.

20. Match the following:

(a) Green Revolution	(i) Related with Dairy, Milk Production
(b) White Revolution	(ii) Related with Egg Production
(c) Silver Revolution	(iii) Related with Cotton Production
(d) Silver Fiber Revolution	(iv) Related with Agriculture Production

21. MSP announced ____ the sowing season

- a. None
- b. At the time of
- c. Before
- d. After

22. Fill in the blanks:

_____ portion of India's workforce is dependent on agriculture.

OR

Fill in the blanks:

Resources which get exhausted with time are called _____ of energy.

23. Fill in the blanks:

_____ is a credit scheme extended to the poor through Self Help Groups (SHGs).

24. Which one of these is not a cause of poverty in India?

- a. Unequal distribution of land.
- b. Migration of people from rural to urban India
- c. Income inequalities
- d. Low level of economic development

25. Fill in the blanks:

_____ refers to the compost made from cattle dung, human waste and plant residue, used as fertilizer and soil conditioner.

26. Top most country in HDI ranking is

- a. Australia
- b. Norway
- c. United state
- d. Japan

27. Per Capita GNI means

- a. How much is country GDP
- b. How much on an average a country earn
- c. How much on an average a person earn
- d. How much is country national income

28. A truck driver had to pay Rs. 2,000 as challan as his truck was emitting black soot. Why do you think he was penalised? Was it justified? Give reasons.

OR

Discuss the role of three services needed in supply of electricity. Should they be in different hands?

29. 'There is a downward trend in inequality world-wide with a rise in the average education levels'. Comment.
30. Write a brief note on trade and investment policy reforms. How did it lead to economic growth?
31. Which economic system do you think was most suited to Indian economy and why?

OR

Discuss fiscal policy reforms under New Economic Policy 1991.

32. Comment on the growth rate trends witnessed in China and India in the two decades with the help of table given below.

GDP%	India	China
1991-2000	5.7	10.4
2001-2005	6.3	9.5
2017-2018	6.7	6.4

33. Organic farming is a holistic way of life'. Do you agree? Support your answer with arguments.
34. What problems are being faced by the power sector in India?

OR

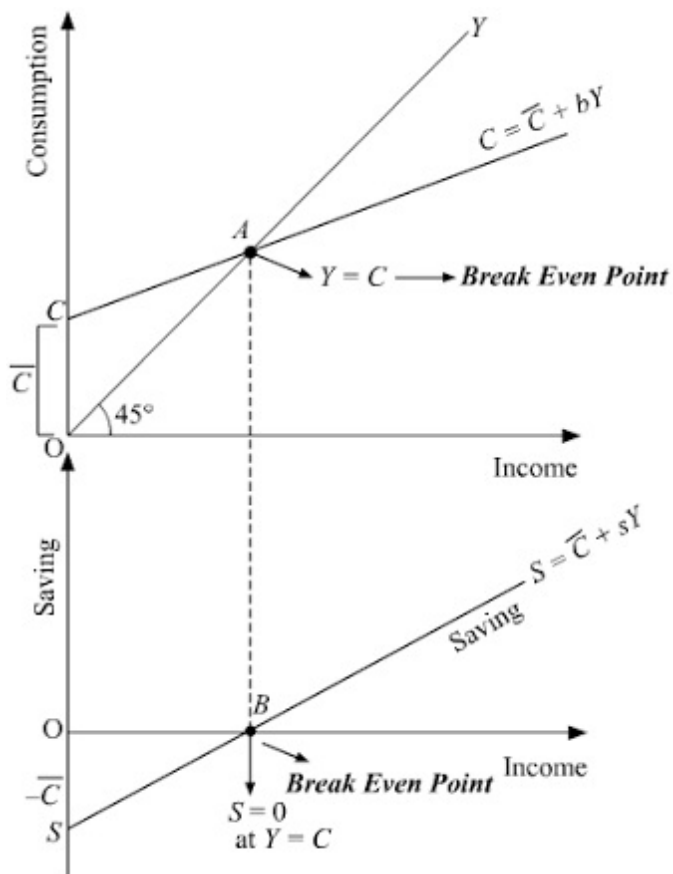
What are the causes of unemployment in India?

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Solution
Section A

1. Revenue deficit
2. National Income, Aggregate Demand and Investment.
3. (c) $C = Y$

Explanation: See the figure below:



4. Indian currency has depreciated.

OR

Not necessarily. In case of India, it is certainly not. Our forex reserves have tended to rise largely because of remittances from abroad by the NRIs.

5. (d) False

Explanation: Public expenditure can be planned as well as non plan expenditure. Plan expenditure refers to the expenditure which is directly related to the economic and social development of the country whereas non plan expenditure refers to the expenditure which is not directly related to the economic and social development of the country.

6. Negative

7. Excess demand

8. False

9. Debt Trap

10. (a) - (iii), (b) - (i), (c) - (iv), (d) - (ii)

11. i. Expenditure on a collection of taxes is a revenue expenditure for the government as it neither adds to its assets nor reduces its liabilities.

ii. Expenditure on purchasing computers is a capital expenditure for the government as it results in an increase in assets.

12.

Income	Consumption	Saving	APS=S/Y	MPS
0	40	-40	-	
100	120	-20	$\frac{-20}{100} = 0.2$	0.2
200	200	0	0	0.2
300	280	20	$\frac{20}{300} = 0.6$	0.2
400	360	40	$\frac{40}{400} = 0.1$	0.2

OR

Income	Change in	Saving	Consumption	Change in Consumption	Marginal Propensity	Average Propensity
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(Y)	Income (ΔY)	(S)	(C)	Expenditure (ΔC)	to Consume	to Consume
0	-	-6	6	-	-	-
20	20	-3	23	17	0.85	1.15
40	20	0	40	17	0.85	1.00
60	20	3	57	17	0.85	0.95

Formulae used

$$C = Y - S, \text{ MPC} = \Delta C / \Delta Y, \text{ APC} = C / Y$$

13. High-powered money is money produced by the RBI and the government. It consists of two things:

- (i) Currency held by the public and
- (ii) Cash reserves with the commercial banks.
- (iii) Other deposits with RBI.

$$H = C + R + OD$$

14. (i) Current account: Current account is that account which records imports and exports of goods and services and unilateral transfers, income and transfer payments during a year.

(ii) Capital account: Capital account is that account which records all such transaction between residents of a country and rest of the world which cause a change in the asset or liability status of the residents of a country or its government.

(iii) Import of machinery is an import item. So, it will be included or recorded under the current account.

OR

Depreciation of a currency means a decrease in the price of the domestic currency in terms of the foreign currency. It corresponds to an increase in the exchange rate. For eg. if the value of a rupee in terms of US dollar falls from Rs. 60 to Rs. 65, more rupees, i.e. 65 rupees will be required to buy one US dollar. Depreciation of currency encourages exports and discourages imports.

Like depreciation, devaluation means fall in the external value of the domestic currency in terms of the foreign currency. Both devaluation and depreciation make domestic goods cheaper for the foreigners.

However, devaluation is done when a country has adopted fixed exchange rate system while depreciation is done when a country has adopted a floating exchange rate system.

15. A tax is defined as a compulsory payment imposed by the government on the households and producers or on the people of the country. It is a compulsory payment made by the people to the government without expectation of any direct returns or benefits to the taxpayer.

- i. Direct tax: It is a tax levied on income and wealth and its final burden cannot be shifted on to others. In other words, the burden falls on the same persons on whom it is levied.

Example: (1) Income tax (2) Corporate profit tax.

- ii. Indirect tax: It is a tax levied on goods and services and its financial burden can be shifted on to others.

Example: (1) Goods and services tax

16. (i) Activities or transactions that are not included from Gross National Product measurement are:

- **Purely Financial Transaction:** Buying and selling of security: - Because it does not rather add to any production services. Government transfer payments:- Because it is a one-sided payment made by the Government.
- **Transfer of used (Second hand) goods:** - Because it is already counted at the time of production and hence it will lead to double counting.
- **Non- market goods and services:** - Because it is not bought and sold into the market and thus it is not included.
- **The value of leisure:** - Because leisure does not refer any productive services.

(ii) Gross Value Added at Factor Cost by Firm X

= Sales + Change in stock (Closing stock – Opening stock) + Subsidy – Purchase of

intermediate products

$$\begin{aligned} &= 2000 \text{ thousand} + (80 \text{ thousand} - 120 \text{ thousand}) + 160 \text{ thousand} - 1200 \text{ thousand} \\ &= 2000 \text{ thousand} - 40 \text{ thousand} + 160 \text{ thousand} - 1200 \text{ thousand} \\ &= 920 \text{ thousand} \end{aligned}$$

OR

Gross National Disposable Income = Net National Disposable income** + Depreciation

$$\text{GNDI} = 850 + 50 = 900 \text{ Crore.}$$

**Net National Disposable Income (NNDI)

$$= \text{NNP}_{\text{FC}}^* + \text{NIT} + \text{Net Current Transfers from rest of the world}$$

$$= 750 + 110 + (-10)$$

$$= \text{Rs } 850 \text{ crore}$$

$$*\text{NNP}_{\text{FC}} = \text{NDP}_{\text{FC}} + \text{NFIA}$$

$$= 800 + (-50) = \text{Rs. } 750$$

Personal Income = Private Income - Corporate Tax - Retained Earnings

Private Income = Income from domestic product accruing to private sector (IDPAPS) + NFIA + Current transfers from Govt. + Net current transfer from the rest of the world + National Debt Interest (NDI)

$$\text{NDP}_{\text{FC}} = \text{IDPAPS} + \text{IDPA Public sector}$$

$$800 = \text{IDPAPS} + 70$$

$$730 = \text{IDPAPS}$$

$$\text{Private Income} = 730 + (-50) + 40 + (-10) + 80$$

$$= \text{Rs. } 790 \text{ crore}$$

$$\text{Personal Income} = 790 - 60 - 10 = \text{Rs. } 720 \text{ crore}$$

17. i. Open market operations refer to the sale and purchase of securities by the central bank. Deficient demand refers to AD falling short of AS at full employment. In this situation the central bank buys securities in the open market and makes payment to the sellers. The money flows out of the central bank and ultimately reaches the commercial banks as deposits. This raises the lending capacity of the banks.

People can borrow more. This will raise AD.

- ii. Bank rate is the rate of interest which the central bank charges on the loans given to commercial banks. In case of deficient demand central banks can reduce the bank rate. This forces the commercial banks to reduce lending rate. Since borrowing becomes cheaper people borrow more. AD rises.

Section B

18. Globalization is the free movement of goods, services and people across the world in a seamless and integrated manner.

19. False

20. (a) - (iv), (b) - (i), (c) - (ii), (d) - (iii)

21. (c) Before

Explanation: The minimum support prices are announced by the Government of India at the beginning of the sowing season for certain crops on the basis of the recommendations of the Commission for Agricultural Costs and Prices (CACP)

22. 3/5

OR

Non renewable sources

23. Micro finance

24. (b) Migration of people from rural to urban India

Explanation: High population growth rate is one of major reasons of poverty in India. This further leads to high level of illiteracy, poor health care facilities and lack of access to financial resources. Caste system and unequal distribution of income and resources is another reason of poverty in India.

25. Bio-composting

26. (b) Norway

Explanation: The Human Development Index (HDI) is a composite statistic of life expectancy, education, and income per capita indicators. A country scores

higher HDI when the life expectancy at birth is longer, the education period is longer, and the income per capita is higher.

27. (c) How much on an average a person earn

Explanation: GNI per capita - Gross national income (GNI) is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad

28. He was penalised because of the rules of Pollution Control Board. As per the rules, an owner of a vehicle needs to keep it under pollution control for which he needs to get is serviced regularly and obtain a certificate of "pollution under control" from an authorised station. It was justified because the negative opportunity cost of environment degradation is irreversible and hence we need to take preventive steps. Paying penalty is actually the extent of negative externality the truck driver has given to society. Once the environment is polluted, it can't be cured so it must be prevented before hand.

OR

The three services needed in supply of electricity are as follows:

- i. Generation of electricity
- ii. Transmission of electricity
- iii. Distribution of electricity

All these services should be in different hands. The main service, i.e. transmission of electricity should be in the hands of the government and they should decide on issues relating to transmission. The government and private sector may operate in the areas of generation of electricity and distribution of electricity. Involving private sector enterprises in distribution will bring more and more financial resources in power sector as well as promote competition which will result in better services to the people.

29. It is believed that education level reduces global inequality. Education imparts the knowledge and technical skills which enhance the productivity of people. An educated person possesses higher productivity and efficiency and hence, a relatively

higher income earning capacity. The higher income earning capacity and greater acceptability of modern techniques with rise in average education level across the world has raised the living standards and quality of life in the underdeveloped nations.

Distribution of income has become less skewed and income disparity between the rich and the poor is reducing across the world with better-earning opportunities available due to rise in education levels. Governments of different countries have been investing heavily in the education sector as rise in average education levels not only reduce inequality but also other problems like poverty, unemployment and underutilisation of resources.

30. Liberalisation of trade and investment was initiated to increase international competitiveness of industrial production and also the flow of foreign investments and technology into the economy. Prior to these reforms, in order to protect domestic industries, India was following a regime of quantitative restrictions on imports and restrictions of foreign investments. Foreign trade and investment is an opportunity for the economy to grow faster and expand. Various reforms in policies are carried out to improve foreign trade and investment and at the same time keep domestic market safe. The liberalization of trade policy in 1991 was one of the major reforms which are still carried on in the economy. Reducing import duties and encouraging foreign investment is part of reforms under this sector.

These reforms are useful in the growth of country in the following ways:

1. It helps in lowering the cost of goods by removing tariff barriers.
 2. These reforms help in bringing economies of scale by increasing specialisation.
 3. These reforms help in maintaining friendly relations with other countries.
 4. These reforms increase competition, which in turn help firms to increase efficiency in production.
 5. It helps in earning foreign exchange.
31. i. In my opinion mixed economy system suited the most to attain a dual goal of efficiency and equity.
- ii. It was absolutely a right decision on part of our planners to opt mixed economy

approach. The conditions in which British had left us were such which could not be handed over completely to private sector.

- iii. Neither public sector had enough funds to be a socialist economy. We could also not de-rule law of inheritance in the situations of partition.
- iv. Therefore, we adopted a mixed economic system with a strong public sector and co-existence of private ownership with democracy.

OR

Fiscal reforms mean increasing the revenue receipts and reducing the public expenditure of govt. in a manner that production and economic welfare are not adversely affected. Its main objective was to reduce fiscal deficit which stood at 8.5 percent of GDP in 1990-91. Taxation system was made more scientific and rational. Income tax slabs were reduced upon the recommendations of TRC. The peak rate of customs duties has been reduced to **15%** in budget 2006-07. Excise duty on several commodities were reduced. Govt. made special efforts to cut public expenditure.

Rationalisation of Tax Systems: To rationalise the indirect tax system at the centre by removing distortion in the structure there is a need to remove multiplicity of tax rates of central excise duties on various goods and services. With tax reform initiated since 1991, this has been now achieved with few exceptions.

Now, there is a single excise duty called CENVAT (which is in the form of value added tax) on all products which enter a production chain. The argument for a single CENVAT is that it will remove the distortions in the tax system as a result of multiplicity of rates of excise duties.

The Fiscal Responsibility and Budget Management Act (FRBMA), 2003 has been implemented and it emphasises on

- a. Revenue led fiscal consolidation
 - b. Better expenditure outcomes.
 - c. Rationalisation of tax regime.
32. Undoubtedly, China is leader in the economic growth rate. Its growth has crossed 9% whereas India has crossed 5% growth rate upto 2005. The table shows that the growth rate of GDP between 1991-2000 was higher in comparison to India. But during the

period 2001-05, this difference reduced to some extent. Even the GDP in China was almost higher than that of India. But in 2017-18 the GDP growth rate of India was higher than that of China.

33. I agree that organic farming is a holistic way of life.

- a. Organic farming is the process of producing food naturally.
- b. This method avoids the use of synthetic chemical fertilizers and genetically modified organisms.
- c. It is eco-friendly and essential for sustainable development. It has a zero impact on environment.
- d. It substitutes costlier agricultural inputs such as HYV seeds, chemical fertilizers, pesticides, locally produced organic inputs etc. which are cheaper and thereby generate good returns on investments.
- e. It generates income through export as the demand, for organically grown crops are on the raise.
- f. It provides healthy food as organically grown food has more nutritional value than food grown through chemical farming.
- g. It can provide more employment opportunities in India as it requires more labourers for production than chemically produced goods.
- h. In the long run organic farming saves energy and protect the environment. It also slows down global warming.

34. i. At present, India is able to add only 20000 MW a year. India's installed capacity to generate electricity is not sufficient to feed an annual economic growth of 7-8%.
ii. State Electricity Boards (SEBs), which distribute electricity, incur losses exceeding Rs.500 billion, due to transmission and distribution losses.
iii. Electricity is stolen in different areas and tariffs are not paid which also adds to the losses of SEBs.
iv. Private sector power generators and foreign investors are not yet ready to enter the power generation sector in a major way, which has placed the responsibility largely on the public sector which is under financial pressure.
v. There is general public unrest due to high power tariffs and prolonged power cuts in different parts of the country.
vi. Thermal power plants which have the greatest share in India's power sector, are

facing a shortage of raw material.

- vii. India's installed capacity to generate electricity is not sufficient to feed an annual economic growth of 7%.

OR

1. Rapid Population Growth: It is the leading cause of unemployment in rural India. In India, particularly in rural areas, the population is increasing rapidly. It has adversely affected the unemployment situation largely in two ways. In the first place, the growth of population directly encouraged the unemployment by making large addition to labour force. It is because the rate of job expansion could never have been as high as population growth would have required.

2. Limited Land: Land is the gift of nature. It is always constant and cannot expand like population growth. Since, India's population is increasing rapidly, therefore, the land is not sufficient for the growing population. As a result, there is heavy pressure on the land. In rural areas, most of the people depend directly on land for their livelihood. Land is very limited in comparison to population. It creates the unemployment situation for a large number of persons who depend on agriculture in rural areas.

3. Seasonal Agriculture: In rural society agriculture is the only means of employment. However, most of the rural people are engaged directly as well as indirectly in agricultural operation. But, agriculture in India is basically a seasonal affair. It provides employment facilities to the rural people only in a particular season of the year. For example, during the sowing and harvesting period, people are fully employed and the period between the post-harvest and before the next sowing they remain unemployed. It has adversely affected their standard of living.

4. Defective Education: The day-to-day education is very defective and is confined within the class room only. Its main aim is to acquire certificates only. The present educational system is not job oriented, it is degree oriented. It is defective on the ground that it is more general than the vocational. Thus, the people who are getting general education are unable to do any work. They are to be called as good for nothing on the ground that they cannot have any job here, they can find the ways of self-employment. It leads to unemployment as well as underemployment.

5. Backward Method of Agriculture: The method of agriculture in India is very

backward. Till now, the rural farmers followed the old farming methods. As a result, the farmer cannot feed properly many people by the produce of his farm and he is unable to provide his children with proper education or to engage them in any profession. It leads to unemployment problem.

6. Decline of Cottage Industries: In rural India, village or cottage industries are the only means of employment particularly of the landless people. They depend directly on various cottage industries for their livelihood. But, now-a-days, these are adversely affected by the industrialisation process. Actually, it is found that they cannot compete with modern factories in matter of production. As a result of which the village industries suffer a serious loss and gradually closing down. Owing to this, the people who work in there remain unemployed and unable to maintain their livelihood.