

CBSE Class 12 Economics
Sample Paper 04 (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. Money supply includes _____.
 - a. only time deposits in banks
 - b. only demand deposits in banks
 - c. all deposits in banks
 - d. currency with the banks

OR

The fraction of deposits kept as Cash Reserves by the commercial banks is a

- a. Political requirement
 - b. Legal requirement
 - c. Social requirement
 - d. Economic requirement
2. Fill in the blanks:
If $MPC = 1$, the value of the multiplier 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. Identify one of the types of balances in BOP account
- a. All Invisible items
 - b. All visible items
 - c. None of these
 - d. Accommodating Items
5. With the increase in income, autonomous expenditure _____.
- a. will increase proportionately
 - b. will remain unaffected
 - c. will decrease
 - d. will increase
6. Nominal exchange rate is the price of
- a. None
 - b. domestic currency in terms of the Foreign currency
 - c. Both
 - d. Foreign currency in terms of the domestic currency
7. **Read, the following hypothetical Case Study, carefully and answer the question:**
The expenditure method is a system for calculating gross domestic product (GDP) that combines consumption, investment, government spending, net exports. It is the most common way to estimate GDP. It says everything that the private sector, including consumers and private firms, and government spend within the borders of a particular country, must add up to the total value of all finished goods and services produced over a certain period of time. This method produces nominal GDP which must then be adjusted

for inflation to result in the real GDP.

The expenditure method is the most widely used approach for estimating GDP, which is a measure of the economy's output produced within a country's borders irrespective of who owns the means to production. The GDP under this method is calculated by summing up all of the expenditures made on final goods and services. There are four main aggregate expenditures that go into calculating GDP: consumption by households, investment by businesses, government spending on goods and services, and net exports.

- i. _____ method is also known as consumption method. (expenditure, income)
 - ii. Expenditure by the farmers on the purchase of tractors or threshers comes under the head of _____ expenditure. (private final consumption, investment)
 - iii. While calculating national income through expenditure method _____ is taken. (exports-imports, exports)
 - iv. Expenditure on the purchase of goods for consumption by the defense personnel comes under _____ of the expenditure method. (private final consumption, government final consumption)
8. Circular flow principle is based on the assumption that one's expenditure will become other's income. Explain the given statement.
9. Find Net Value added at Market Price.

S.no.	Items	(Rs. in Lakhs)
(i)	Fixed Capital Good with a Life Span of 5 Years	15
(ii)	Raw Materials	6
(iii)	Sales	25
(iv)	Net Change in Stock	(-) 2
(v)	Taxes on Production	1

OR

Compute National Income from the following:

		(₹ in crores)
(i)	Mixed income of self-employed	2,500
(ii)	Net factor income from abroad	(-) 50
(iii)	Rent	500
(iv)	Consumption of fixed capital	400

(v)	Profits	300
(vi)	Compensation of employees	1,600
(vii)	Net indirect taxes	500
(viii)	Net current transfers from abroad	150
(ix)	Net exports	(-) 40
(x)	Interest	500

10. If planned saving is less than planned investment, what changes will bring an economy in equilibrium?
11. Define monetary policy. Also mention the instruments of monetary policy.

OR

What are the characteristics or features of money?

12. A surplus current account means that the nation is a lender to other countries and a deficit current account means that the nation is a borrower from other countries. With respect to the given statement, analyze the components of Balance on Current Account.
13. Explain the concept of excess demand in macroeconomics. Also, explain the role of open market operation in correcting it.

OR

Given saving curve, derive the consumption curve and state the steps in doing so. Use the diagram.

14. Distinguish between the following
 - i. Revenue receipts and capital receipts
 - ii. Revenue deficit and fiscal deficit.

PART B - INDIAN ECONOMIC DEVELOPMENT

15. The calorie requirement is higher in rural areas because:
 - a. Food items are expensive
 - b. They are engaged in mental work
 - c. They do not enjoy as much as people in the urban areas
 - d. People are engaged in physical labour
16. What was the purpose of British rule in India?
 - a. To develop agriculture in India.

- b. To reduce the country to be a feeder economy to promote British interests.
- c. To develop basic industries in India.
- d. To develop infrastructure in India.

17. **Assertion (A):** Farmers were forced to shift to commercial crops from conventional subsistence crops.

Reason (R): Indigo was required by the textile industry in Britain for bleaching of the textile.

- 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): The concept of economic planning for the country's growth and development was first conceived by the Soviet Union in 1928.

Reason (R): There was no difference in the nature of the planning model adopted by India compared with the Soviet Union.

- 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):** Growth of GDP has primarily been triggered by the growth of secondary and tertiary sectors.

Reason (R): Setback to the agricultural sector implies a setback to the principal source of livelihood of the masses in India.

- 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. UNDP stands for

- a. United Nations Development Programme
- b. Union Nations Development Programme
- c. United Nations Development Policy
- d. United Nations Development Plan

20. Which currency is universally accepted

- a. Dollar
- b. Rupee
- c. Yuan
- d. Euro

21. **Poverty reduction, poverty relief, or poverty alleviation**, is a set of measures, both economic and humanitarian that are intended to permanently lift people out of poverty. Poverty has been historically accepted in some parts of the world as inevitable as non-industrialized economies produced very little, while populations grew almost as fast, making wealth scarce. Poverty occurs in both developing countries and developed countries. While poverty is much more widespread in developing countries, both types of countries undertake poverty reduction measures. Poors are identified on the basis of two variants: relative poverty and absolute poverty. Relative poverty refers to poverty across different classes, regions or countries. Relative poverty is also interpreted in terms of equality of income within the country while absolute poverty divides people of a region as poor and non-poor.

Today, continued economic development is constrained by a lack of economic freedom. Economic liberalization requires extending property rights to the poor, especially to land. The government also adopted some measures to remove poverty (and unemployment) or poverty alleviation programmes.

i. In which countries poverty is globally spread:

- 1. Developing
- 2. Developed
- 3. Underdeveloping
- 4. None of the above

ii. _____ poverty is prominent in the Indian economy. (relative poverty/both relative

and absolute poverty)

- iii. _____ variant of poverty is interpreted in terms of inequality of income. (relative poverty/absolute poverty)
 - iv. Which measures are adopted by the government to reduce poverty
 - a. poverty enhancement programmes
 - b. poverty alleviation programmes
 - c. rules
 - d. all of the above
22. What are non-commercial sources of energy? Give its examples.

OR

State any three challenges facing rural development in India.

- 23. Compared to the 1970s, there has hardly been any change in the distribution of workforce across various industries. Comment.
- 24. Write the role of multinational companies in rural development.
- 25. Discuss briefly the rationale behind choosing Self-reliance as a planning objective for the Indian economy.

OR

India has certain advantages which makes it a favourite outsourcing destination. What are these advantages?

- 26. Define liberty indicators. Give some examples of liberty indicators.
- 27. Answer any two of the following questions:
 - i. Looking at the current crisis of air pollution in northern India, what measures would you suggest to improve the environment?
 - ii. What are three major sources of human capital formation?
 - iii. What are the objectives of privatisation?
 - iv. Analyse the recent trends in sectoral distribution of workforce in India.
- 28. Answer the following questions:
 - i. Why equity as a planning goal is very important?
 - ii. 'India is going to be a knowledge based economy in the near future'. Discuss.
 - iii. Why do we require grid for transmission of electricity?

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Solution

PART A - MACRO ECONOMICS

1. (b) only demand deposits in banks

Explanation: The total stock of money circulating in an economy is the money supply. The circulating money involves the currency, printed notes, money in the deposit accounts and in the form of other liquid assets.

OR

- (b) Legal requirement

Explanation: It's imposed by government.

2. Infinity

3. (a) Legal tenders and Fiat money

Explanation: Legal tenders and Fiat money

4. (d) Accommodating Items

Explanation: These transactions overcome the deficit or surplus arising from autonomous items.

5. (b) will remain unaffected

Explanation: If income increases then autonomous expenditure will remain unaffected.

6. (d) Foreign currency in terms of the domestic currency

Explanation: The nominal exchange rate is defined as the number of units of the domestic currency that can purchase a unit of a given foreign currency. A decrease in this variable is termed nominal appreciation of the currency.

7. i. expenditure

ii. investment

iii. exports-imports

iv. government final consumption

8. In a two-sector circular flow model, there are obviously only two-sector, namely, households and businesses.

The households are the owners of factors of production. They provide factor services to

the businesses and earn factor incomes in return.

The businesses, on the other hand, use these factors to produce goods and services. The households purchase these goods and services and pay consumption spending to the businesses. In this way, one's expenditure is the other's income.

9. Depreciation on Fixed Capital Good

$$= \frac{\text{Value of Fixed Capital Good}}{\text{Life Span}} = \frac{15}{5} = \text{Rs. 3 lakhs}$$

Therefore, Net Value Added at Market Price (NVA_{MP}) = Sales + Net Change in Stock - Raw

Materials - Depreciation on Fixed Capital Good

$$= 25 + (-2) - 6 - 3 = \text{Rs. 14 lakhs}$$

OR

National Income = Domestic income + net factor income from abroad

= Rent + Compensation of employees + Interest + Profits + Mixed income of self-employed
+ Net factor income from abroad

$$= 500 + 1,600 + 500 + 300 + 2,500 + (-) 50$$

$$= 5,400 - 50$$

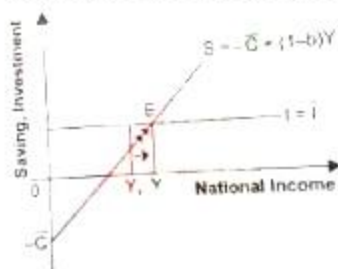
$$= ₹ 5,350 \text{ crores}$$

10. $AD = AS$

$$C + I = C + S$$

$$I = C + S - C = S$$

- i. when planned saving is less than planned investment, then national income will decrease as shown in the below diagram.



- ii. When, investment > saving [at Y_1], then production will have to be increased to meet the excess demand. Consequently, national income will increase leading to rise in saving until saving becomes equal to investment. It is here that equilibrium level of income is established because what the savers intend to save becomes equal to what the investors intend to invest.

11. It is the policy to control the flow of credit/ money supply in the economy. Instruments of

monetary policy: They are broadly classified as:

- i. Quantitative Instruments: These are those instruments of monetary policy which affect overall supply of money/credit in the economy. These instruments relate to two policy rates and two policy ratios. The two policy rates are bank rate and repo rate and the two policy ratios are CRR and SLR. These instruments do not direct or restrict the flow of credit to some specific sectors of the economy.
- ii. Qualitative Instruments: These are those instruments of monetary policy which focus on the alternative uses of credit in the economy. They focus on select sectors of the economy. These instruments control the flow of credit to select sectors not by varying the policy rates and ratios but by offering advisories to the commercial banks. These instruments direct or restrict the flow of credit to specified areas of economic activity.

OR

- i. Durability: Money must be durable and not likely to deteriorate rapidly with frequent handling. Currency notes and coins are being used repeatedly and shall continue to be used for many years to come.
 - ii. Medium of exchange: Money acts as a medium of exchange for the sale and purchase of goods and services.
 - iii. Weight: Money must be light in weight. Paper money is better than metal coins because it is light in weight.
 - iv. Measure of value: It not only serves as medium of exchange but also acts as a measure of value. The value of all the goods and services are expressed in terms of money and because of the existence of money as a common unit of value, we are able to construct consumer price index, wholesale price index, and rate of inflation in the country.
12. Balance on Current Account has two components:
- Balance of Trade or Trade Balance
 - Balance on Invisibles

Balance of trade is the difference between the value of exports and value of imports of goods of a country in a given period of time. Export of goods is entered as a credit item in BOT, whereas import of goods is entered as a debit item in BOT. It is also known as Trade Balance.

Net Invisibles is the difference between the value of exports and value of imports of invisibles of a country in a given period of time. Invisibles include services, transfers and

flows of income that take place between different countries. Services trade includes both factor and non-factor income. Factor income includes net international earnings on factors of production (like labour, land and capital). Non-factor income is net sale of service products like shipping, banking, tourism, software services, etc.

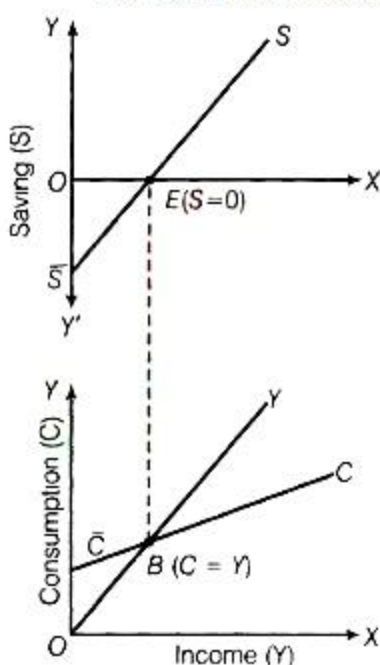
13. **Excess Demand:** Excess Demand is the situation of an economy when Aggregate Demand is more than the Aggregate Supply corresponding to full employment. Generally, excess demand results in inflation (continuous rise in prices) without an increase in output and employment.

Role of open market operations to correct the problem of excess demand are mentioned below:

- i. **Open market operations** refer to purchase and sale and of securities by the Central Bank on behalf of the government in the open market. It directly affects the supply of money in the hands of citizens of the country.
- ii. In the case of excess demand, the Central Bank sells its securities to the common public and financial institutions. It reduces the supply of money in the economy and reduces the money or credit creation power of commercial banks.
- iii. Thus, the Aggregate Demand comes down and the economy attains equilibrium.

OR

- **Various steps taken for derivation of consumption curve from saving curve are mentioned below:**



- i. Savings is negative (i.e. dissavings) at zero levels of income. In the graph, it is represented by OS. This is equal to the autonomous consumption level equal to OC
 - ii. A 45° line passing through the origin is drawn showing $C = Y$. This is the income line.
 - iii. Now, A vertical line from the point E is drawn, where saving is zero. In the Graph $C = Y$, at zero level of saving. Point B is the break event point.
 - iv. The consumption curve is derived by joining \bar{C} and B and extending it forward.
14. i. Difference between revenue receipts and capital receipts:

Basis	Revenue Receipts	Capital Receipts
Meaning	All government receipts which neither create liability nor reduce assets of Government are called revenue receipts.	All Government receipts which either create liability or reduce assets are treated as capital receipts.
Nature	Revenue receipts are recurring in nature.	Capital receipts are non-recurring in nature.
Term	These are short term receipts.	These are long term receipts.
Example	Tax receipts and non-tax receipts, i.e. fees, grants, donations etc.	Loans are taken by the government and disinvestment of PSUs etc.

- ii. Difference between revenue deficit and fiscal deficit are:

Basis	Fiscal Deficit	Revenue Deficit
Meaning	It is the difference between total revenue and total expenditure of the government (excluding borrowings).	It refers to an excess of revenue expenditure over revenue receipts during the given fiscal year.
Indicator	It is an indicator of the total borrowings needed by the government.	It indicates the dependency on loans in near future.
Arises	It arises due to the hike in capital expenditure.	It arises when the government's actual net receipts are lower than the projected receipts.

PART B - INDIAN ECONOMIC DEVELOPMENT

15. (d) People are engaged in physical labour

Explanation: Rural people engage themselves in more physical work than urban people. So they need high-calorie food.

16. (b) To reduce the country to be a feeder economy to promote British interests.

Explanation: The purpose of British rule in India to reduce the country to be a feeder economy to promote British interests.

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

Explanation: The farmers were forced to accept advance payments for the cultivation of Indigo. Because Indigo was required by the textile industry in Britain for bleaching of the textile.

OR

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

Explanation: The concept of economic planning for the country's growth and development was first conceived by the Soviet Union in 1928. In the Soviet Union, it was a model of economic planning with the state as the owner of the means of production. While in India, it was based on the principle of a mixed economy. At the same time, planning in India was not simply directive planning as under capitalism. Instead, it was comprehensive planning covering both economic as well as social areas of planning.

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

Explanation: The agricultural sector has suffered serious neglect and its growth rate has depleted to a miserable low level. Neglect of agriculture implies the spread of poverty.

19. (a) United Nations Development Programme

Explanation: The United Nations Development Programme (UNDP) works to eradicate poverty and reduce inequalities through the sustainable development of nations. It provides expert advice, training and grants support to developing countries, with increasing emphasis on assistance to the least developed countries.

20. (a) Dollar

Explanation: First and foremost is the U.S. dollar, which is easily the most traded currency on the planet. The USD can be found in a pair with all the other major

currencies and often acts as the intermediary in triangular currency transactions.

21.
 - i. (a) Developing
 - ii. (c) both relative and absolute poverty
 - iii. (a) relative poverty
 - iv. (b) poverty alleviation programmes
22.
 - Non-commercial sources of energy are found in nature free of cost.
 - Non-commercial sources are generally renewable in nature.
 - Non-commercial sources include firewood, agricultural waste and dried dung.

OR

Three challenges faced by rural development in India are:

- i. development of human resources
 - ii. development of infrastructure
 - iii. Measures for the alleviation of poverty
23. It is not true that there has hardly been any change in the distribution of the workforce across various industries since 1970s. There has certainly been a change in distribution of workforce as we can see that in the industrial sector there has been a substantial shift from agricultural work to non-agricultural activities. In 1972-73, about 74% of workforce was engaged in primary sector, mainly agriculture related activities, but this proportion has declined to 53% in 2009-10. The shift can also be seen in the secondary and service sectors where we can see an increase from 11% to 21% and 15% to 25%, respectively. The distribution of workforce in different status indicates that over the last four decades (1972-2010), people have moved from self-employment and regular salaried employment to casual wage work as modern capital intensive techniques of productions reduced the necessity of labour in many jobs. This is not a healthy trend as this makes labour more vulnerable to exploitation. But self-employment still continues to be a major employment provider.
24. Economic reforms provide opportunities to multinational companies to expand their functions all around the country. Many multinational companies are entering in rural marketing.
They are doing well for the sake of farmers as stated below:
 - i. They are offering them pre-decided prices.
 - ii. They are making contracts with farmers.

- iii. They are providing them seeds and other inputs.
 - iv. They are motivating farmers to grow desirable food, fruits and vegetables of the desired quality.
25. The rationale behind choosing Self-reliance as a planning objective for the Indian economy are as follows:-
- i. **To reduce foreign dependence:** Planning objective of Self-reliance targeted to promote economic growth and modernization, the Indian five-year plans in the early years of the post-independence era stressed the use of domestic resources in order to reduce our dependence on foreign countries.
 - ii. **To avoid foreign interference:** In the post-independence era, it was feared that the dependence on imported food supplies, foreign technology, and foreign capital may increase foreign interference in the policies of our country.

OR

Most multinational corporations and even small companies are outsourcing their services to India because of the following advantages:

- i. **Availability of Cheap Labour :** India is a country with a large population and thus has abundant supply of labour. Due to this reason, labour in India is available at low wage rates. This helps the foreign companies in reducing their cost of operation by outsourcing their business processes to India.
- ii. **Skill and Accuracy:** India has made a pool of talent in the form of educated and trained youth who have the required skill and can work with accuracy in the business processes such as accounting, record keeping, IT consultancy, etc. There is an availability of English speaking persons and skilled human resources are plenty in India. They are highly conscious towards quality.
- iii. **Continuity and Risk Management :** Periods of high employee turnover add uncertainty to the operations of a company. Outsourcing will provide a level of continuity to the company while reducing the risk that a substandard level of operation would bring to the company.
- iv. **Reduced Overhead:** Overhead costs of performing back office functions are extremely high but due to the outsourcing these costs can be reduced.
- v. **Advanced Technology:** There is availability of advanced technology at par with western countries.

vi. **Flexible Human Resource:** We have flexible human resource to work in various time zones.

vii. **Multilingual Support:** Indians can also offer multilingual support to their customers.

26. Liberty Indicator may be defined as the measure of the extent of demographic participation in the social and political decision making. In other words, it is an index used to measure the participation of the people in making decisions. Some examples of liberty indicators are the measures of the extent of the Constitutional Protection Rights given to the citizens and the extent of the Constitutional Protection of the independence of the Judiciary and Rule of Law.

Some other 'liberty indicators' are measures of 'the extent of constitutional protection given to rights of citizens' or 'the extent of constitutional protection of the Independence of the Judiciary and the Rule of Law' which have not been introduced in HDI till now.

Without including such indicators and giving them adequate weight, the construction of a human development index remains incomplete and its use remains limited.

27. Answer any two of the following questions:

i. The following measures can help in reducing air pollution :-

- Use of public transport like buses and metro so as to reduce vehicular pollution.
- Use of CNG instead of petrol or diesel.
- The government should take immediate steps to educate the farmers about the ill effects of stubble burning and also provide alternate methods to dispose off the farm stubble.
- The inspection and maintenance system should be strengthened so that erring individuals/firms are fined.

ii. Three main sources of human capital formation are:

Health, skill and education.

When a labourer is healthy he can do a job and add to the process of production.

Despite, being healthy, a worker cannot carry out his job unless he does not know how to do it. So, skill will lead to further production.

Education enables a worker to make his job efficient and helps him develop his business smoothly.

iii. Following are the most common and important objectives of privatisation:

- To improve the performance of PSUs so as to lessen the financial burden on tax payers.

- b. To raise funds through disinvestment.
 - c. To reduce the administrative burden and the workload of the public sector.
 - d. To increase the efficiency of the government undertakings.
 - e. To provide better goods and services to consumers.
 - f. To bring healthy competition within an economy.
 - g. To make way for Foreign Direct Investment (FDI).
- iv. The three major sectors of the economy i.e. primary, secondary and tertiary collectively are known as occupational structure of an economy. The primary sector includes agriculture, forestry, fishing, mining, etc. The secondary sector consists of manufacturing and construction activities. Tertiary sector includes various services like transport, communication, trade, etc. Primary sector is the prime source of employment for the majority of the workers in India. Its contribution is the source of employment for the majority of the workers in India. Its contribution is as high as 57.3% of our total workforce, About 17.6% and 25.1% of the total workforce is employed in the secondary and the service sector respectively. People living in the urban areas are largely engaged in secondary and tertiary sectors and those in the rural areas are involved basically in primary sectors. Also, the tertiary sector is taking a lead over the secondary sector as a source of employment and increasing share in India's GDP. As far as the distribution of male and female is considered, a high percentage of total female workforce are engaged in the primary sector than in the secondary and tertiary sector.

28. Answer the following questions:

- i. If an economy is growing but large sections of its people are living in mass poverty, we cannot call it growth. Equity is important because the benefit of growth must reach all sections of society. If it does happen so then it will be called growth but not development. It will give birth to a dual economy in which extreme inequalities will exist.
- ii. India is soon emerging as a knowledge bank and has the potential to become a leading knowledge-based economy with its youth population and growing information technology The Indian software industry has been showing an impressive growth over the past decade. The use of e-mail, e-governance and development of information technology shows that India is slowly transforming itself into a knowledge based economy.

iii. We require a grid for transmission of electricity because of the following reasons:

- To synchronise power generation with transmission and distribution of electricity.
- Primary sources for electric power are unevenly distributed and the generation plants are also unevenly located. Thus, bulky transmission of electric power over long distances becomes necessary.
- Grid facilitates economising and increasing reliability. Grid avoids overloading of transmission lines, frequent breakdowns and loss of surplus power.