

ICSE SEMESTER 2 EXAMINATION
SPECIMEN QUESTION PAPER
ECONOMIC APPLICATIONS

Maximum Marks: 50

Time allowed: One and a half hours

Answers to this Paper must be written on the paper provided separately.

You will not be allowed to write during the first 10 minutes.

This time is to be spent in reading the question paper.

The time given at the head of this Paper is the time allowed for writing the answers.

*Attempt **all** questions from **Section A** and **any four** questions from **Section B**.*

The intended marks for questions or parts of questions are given in brackets [].

SECTION A

*(Attempt **all** questions)*

Question 1

Choose the correct answers to the questions from the given options. (Do not copy the question, Write the correct answer only.)

[10]

(i) Which of these is the apex bank of the Indian Banking System?

- (a) State Bank of India
- (b) Central Bank of India
- (c) Reserve Bank of India
- (d) Canara Bank

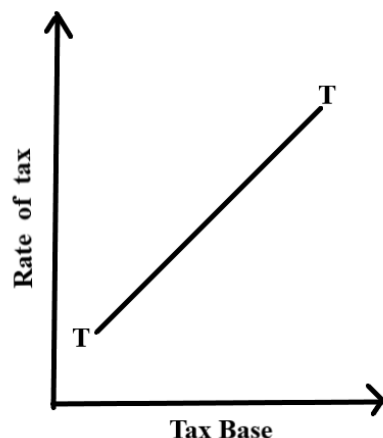
(ii) SLR stands for:

- (a) Statutory Limit Rationing
- (b) Standard Liquid Requirement
- (c) Statutory Liquidity Ratio
- (d) Standard Limit Rationing

(iii) *The policy of converting public ownership of an asset to private ownership is*

_____.

- (a) Nationalisation
 - (b) Liberalisation
 - (c) Globalisation
 - (d) Privatisation
- (iv) Which of these is generally a short term loan?
- (a) Cash credit
 - (b) Home loans
 - (c) Overdraft
 - (d) Car loans
- (v) Which of the following is a selective/qualitative method of credit control:
- (a) Bank Rate
 - (b) Cash Credit Ratio
 - (c) Open Market Operations
 - (d) Moralsuasion
- (vi) Identify the type of taxation shown in the figure below:



- (a) Progressive taxation
- (b) Regressive taxation
- (c) Proportional taxation
- (d) Degressive taxation

(vii) Study the relationship in the first pair of words and complete the second pair:

Creeping inflation : 2% to 3%

Running inflation : _____

- (a) 8% to 9%
- (b) 8% to 20%
- (c) 3.3% to 8%
- (d) 20% to 40%

(viii) Study the relationship in the first pair of words and complete the second pair:

Income tax : Direct tax

_____ : Indirect tax

- (a) Property tax
- (b) Entertainment tax
- (c) House tax
- (d) Road tax

(ix) Which of the following does not belong to the group?

- (a) Accepting deposits
- (b) Giving loans
- (c) Controlling credit
- (d) Creating credit

(x) *A compulsory payment by the citizens of the country to the government without any expectation of corresponding benefits for such payments.* This defines:

- (a) Tax
- (b) Subsidy
- (c) Discount
- (d) Concession

SECTION B

(Attempt **any four** questions from this Section.)

Question 2

- (i) Define money. [2]
- (ii) State two advantages of a bank account. [2]
- (iii) Mention any three demerits of Public Sector Enterprises. [3]
- (iv) What are direct taxes? State two merits of direct taxes. [3]

Question 3

- (i) What is Privatization? [2]
- (ii) Differentiate between *progressive taxation* and *proportional taxation*. [2]
- (iii) Briefly explain how Cash Reserve Ratio can be used to control credit. [3]
- (iv) Explain how money acts as a *measure of value*. [3]

Question 4

- (i) Name two instruments of Fiscal Policy. [2]
- (ii) Explain why the purchasing power of money falls when price level rises. [2]
- (iii) State three reasons why privatization is not always desirable. [3]
- (iv) What are Commercial banks? Name one commercial bank in India. [3]

Question 5

- (i) Give one difference between qualitative and quantitative credit control. [2]
- (ii) What is *galloping inflation*? [2]
- (iii) State three differences between a Commercial bank and a Central bank. [3]
- (iv) What type of tax is *Goods and Services Tax*? State two features of this type of tax. [3]

Question 6

- (i) Give two reasons as to why a Central Bank is needed. [2]
- (ii) Mention two important differences between Public Sector and Private Sector. [2]
- (iii) Explain how taxes can bring about equality in income distribution. [3]
- (iv) What are *term/time deposits*? Explain any one type of term deposit. [3]

Question 7

- (i) What is bank rate? [2]
- (ii) What are current accounts? [2]
- (iii) Can inflation lead to economic development? Give a reason for your answer. [3]
- (iv) Explain how an increase in sales tax can cause an increase in price. [3]



Section-A

Answer 1.

- (i) (c) Reserve Bank of India

Explanation :

Reserve bank of India is the apex bank of Indian banking system. It regulates money supply and credit in the country and controls monetary policy and banking system in India. It functions for the welfare of the economy and has the exclusive right to issue currency.

- (ii) (c) Statutory Liquidity Ratio

Explanation :

SLR stands for statutory liquidity ratio. It is the minimum percentage of deposits that a commercial bank has to maintain in the form of liquid cash, gold or other securities. It is the reserve requirement that banks are expected to keep before offering credit to customers. The SLR is fixed by RBI.

- (iii) (d) Privatization

Explanation :

Privatization is the process to transfer of public ownership of an asset to private ownership. Privatization is a process mainly adopted to convert the loss generating public enterprises into private enterprise.

- (iv) (a) Cash credit

Explanation :

A cash credit is a short term source of financing for a company. It enables a company to withdraw money from a bank account without having a credit balance. The account is limited to only borrowing up to the borrowing limit. The interest is charged on the running balance and not the borrowing limit which is given by bank.

- (v) (d) Moral suasion

Explanation :

Moral suasion is qualitative method of credit control, being used by Central Bank. It refers to advice, suggestions and persuasion which Central Bank exerts on member banks in order to follow its directives to regulate the supply of credit. It is a moral appeal of RBI to Commercial Bank urging them to restrain from certain line of credit operation.

- (vi) (a) Progressive taxation

Explanation :

A tax is called as progressive when the rate of taxation increases.

As the tax payers income increases. In this tax system, the rate of tax goes on increasing with every increase in income.

- (vii) (b) 8% to 20%

Explanation :

When the price rise moderately at the rate of 2 to 3 percent per annum it is called as creeping inflation. This type of inflation is considered good as it helps to boost consumer demand, and consumption driving economic growth.

When prices rise rapidly at the rate of 8 to 20 percent per annum it is called as running inflation. This type of inflation has tremendous adverse effects on the poor and middle class. Its control requires strong monetary and fiscal measures.

(viii) (b) Entertainment tax

Explanation :

Tax that a person and organization pays directly to the entity that imposed it is called as direct tax. Income tax is an example of direct tax.

Indirect tax is the tax imposed by the government on a taxpayer for goods and services rendered. Entertainment tax is an indirect tax imposed by the government.

(ix) (c) Controlling credit

Explanation :

Accepting loans, giving loans, creating credit are some of the function of commercial banks except controlling credit as it is performed by the Central Bank. With this function the Central Bank regulates the credit granted by the Commercial Bank to its customers.

(x) (a) Tax

Explanation :

Taxes are the compulsory payment by the citizens of the country to the government without any expectation of corresponding benefits for such payments. Tax is one sided payment made by the citizen of the country to its government.

Section-B

Answer 2.

- (i) According to crowther : "money is defined as anything that is generally acceptable as a means of exchange and at the same time, act as a measure and store of value."
- (ii) Advantages of a Bank account are as follows:
 - 1. **Secured deposits:** Bank accounts are safe and secure place to deposit money for short as well as long term and a customer can withdraw their money whenever they require.
 - 2. **Safe transaction:** Through bank a customer can transfer his money from one place to another in simple, easy and safe manner.
- (iii) The main demerits of public sector enterprise are:
 - 1. **Lack of initiative:** As public enterprises do not face any competition because of which their employees do not take initiative towards profit increment, innovation and loss reduction.
 - 2. **Political Interference:** Due to regular political and boreaucratic interference in the free and frequent transfer of employees from one palce to another, public sector enterprises face many problems daily administration of the enterprise.
 - 3. **Under utilization of capacity:** A large number of public sector enterprises face losses due to underutilization of their capacity. Such underutilisation of capacity leads to an increase in the cost of production. A large number of public enterprises operates at 50% of their installed capacity.
- (iv) Direct taxes refer to those taxes which are imposed on income, wealth and property. It is paid by those on whom they are legally imposed.

Merits of direct taxes

 - 1. **Economical:** The cost of collecting direct taxes are low because of which they are economical option for the government.

2. **Certainty:** Direct taxes are certain as the tax payer knows how much tax is due him and when so he can adjust his income and expenditure. The government also knows the definite amount of tax revenue it will receive and can adjust its income and expenditure.

Answer 3.

- (i) Privatization refers to the transfer of ownership, management and control of public sector enterprise to the private sector. By this the government transfers the ownership of a government enterprise to the private stakeholders. The main objective of Privatisation is to make use of Privately owned resources for collective welfare of people.

(ii)

Progressive Taxation	Proportional Taxation
A tax is said to be progressive when the rate of tax increases as the tax payer's income increases.	A proportional tax is one in which the rate of tax remains the same and unaffected by the changing income.
In this type of taxation more tax is charged from high income groups and vice versa.	In this type of taxation same percentage of tax is applicable for all income groups.

- (iii) CRR refers to that portion of total deposits of a commercial bank which it has to keep with reserve bank in form of cash reserves. Thus all scheduled banks are required to maintain a certain proportion (CRR decided by the reserve bank) of their total deposits with reserve bank. By changing this ratio of reserves the reserve bank seeks to influence the credit creation power of commercial banks and use to control credit ratio in the country. Raising of the CRR leads to credit contraction and any reduction in the CRR brings about credit expansion.
- (iv) The fundamental functions of money include measure of value which means that money serves as a unit of measurement in terms of which the values of all goods and services are measured and expressed. For example a phone may cost ₹ 10,000 or more, a laptop may cost ₹ 30,000 or more etc. When we express the value of commodity in terms of money it is called its price by which we justify the value of any commodity. Thus we can say money act as a measure of value.

Answer 4.

- (i) Two instruments of Fiscal policy are:

1. **Taxation:** Taxes transfer income from people to the government either in direct or indirect manner. It reduces disposable income. Increase in taxation helps to control inflation.
2. **Public Debt:** It refers to loans raised by a government within the country or outside the country. It transfer the funds from the public to government.

- (ii) By purchasing power of money we mean the amount of goods and services that a unit of money (e.g. rupee In India) can buy. Inflation (rise in price in the market) reduces the purchasing power of money. During inflation, people will be able to buy lesser amount of goods and services than before with same income. In other words real income declines. So we can say purchasing power of money falls when price level rises. For example – The petrol Prices in

Year 2020- 1 litre petrol price was ₹ 90

Year 2021- 1 litre petrol price rose to ₹ 100

Purchasing power of consumer having hundred rupees decreased as petrol price level increased.

- (iii) Arguments in favour that why privatization is not always desirable are as discussed:

1. **Public interest:** Private sector always focuses towards their profit motive as their primary objective. Privatisation of many industries such as healthcare, education is not a good idea to follow.
2. **Losing profits:** Government losses out their dividends as some of privatised companies turn out to be profitable in long run.

3. **Monopoly:** Privatisation creates monopoly and there are certain sectors such as water, rail which need to be regulated in fair manner so that consumer should be protected against abuse.
- (iv) Commercial banks are those institutions which deal with money and credit. They accept deposits from the public, advancing loans creating credit, advancing loans and offers basic financial products to individuals and businesses. The general role of commercial bank is to provide financial services to the general public and business, ensuring economic and social stability and sustainable growth of the economy.
- HDFC is one of the many commercial banks in India.

Answer 5.

(i)

Qualitative credit control	Quantitative credit control
They focus on alternative uses of credit in an economy. These measures control the flow of credit to specified areas of economic activity by adopting various methods for example- margin requirement moral suasion etc.	These methods influence the total volume of credit without differentiating between essential and non-essential uses of credit by adopting various methods for example -bank rate, CRR, etc.

- (ii) When prices rise very fast at double or triple digit rates from more than 20 to 100 percent per annum or more it is usually called as galloping inflation. This situation brings total collapse of the monetary system because of the continuous fall in the purchasing power of money.

(iii)

Commercial Bank	Central Bank
Commercial Bank deals in money and credit for purposes of earning profit.	An apex institution of the monetary and banking structure of the country.
It just operates under the guidelines of the Central Bank	It regulates the entire banking system of the country.
It does not have monopoly right of note issue	It has the monopoly right note issue

- (iv) GST is a type of indirect tax which is introduced to boost the economic growth of India. GST has 3 Parts.

1. CGST (Central goods and Service Tax)
2. SGST (State goods and Service Tax)
3. IGST (Integrated goods and Service Tax)

Features of indirect tax are :

1. They are paid to the government by one person but their burden is borne by another person.
2. Indirect taxes are imposed on goods and services which people consumes.

Answer 6.

- (i) Two reasons why central bank is needed are:

1. Central bank plays a crucial role in ensuring economic and financial stability by making rules and regulations related to the banks and their functions.
2. They regulate monetary policy to achieve low and stable inflation and helps in economic development of the country.

(ii)

Public sector	Private sector
This sector is controlled and managed by the government.	This sector is owned by private individual
This sector is focuses on serving the general people of the country i.e., Public welfare	Activities in private sector are guided by the motive to earn profit.

- (iii) Government makes budgetary policies which include taxation policies which help in reducing inequalities of income and wealth. It aims to influence the distribution of income by imposing high taxes on rich section of society and reduce tax on essential goods for poor people. This will reduce the income of rich and thus reduce the inequalities in the distribution of income and wealth among people.
- (iv) It is an investment in which some amount is deposited at an agreed rate of interest for a fixed period of time. These deposits can be withdrawn only after the expiry of a certain fixed time period.

Type of term deposit:

Short term and long term deposit- These term deposits have been classified on the basis of holding period of the investment. A short term deposit has a period ranging from 1 to 12 months. Long term deposits have a lock in period ranging from 1 to 10 years. These deposits provide higher interest rate than short term deposits.

Answer 7.

- (i) Bank rate is the rate at which Central Bank lends money to commercial banks against approved securities. A change in Bank rate leads to change in other interest rate prevailing in the market. Central Bank use Bank rate as a instrument to control credit.
- (ii) In current account amount can be deposited and withdrawn any number of times. It is opened by businessman who conducts a higher number of regular transactions with the bank. Bank provide the overdraft facility to the current account holder. No interest is paid on this type of account.
- (iii) Inflation is good for the economy because as the economy grows demand for the goods also increases, increasing demand pushes the prices forward or higher and suppliers try to create more products by increasing production to cope up with the increasing demand. Increase in production creates more employment opportunities and need for more labour will arise in market. This will improve the economic conditions all over the country. So we can say that moderate inflation leads to economic development.
- (iv) Sales tax is a form of indirect tax and the imposition and increment in indirect taxes increases the market prices of the goods and services. The introduction of indirect tax increases the firms cost of production. It results in the equilibrium price to fall on a result the market supply curve shifts to the left. This result in new equilibrium at a lower quantity and higher price than initial equilibrium. It leads to increase in the price.

□□