

SAMPLE QUESTION PAPER - 2
SUBJECT- ECONOMICS (030)
CLASS XII (2023-24)

Time Allowed: 3 hours

Maximum Marks: 80

General Instructions:

1. This question paper contains two sections:
Section A – Macro Economics
Section B – Indian Economic Development
2. This paper contains 20 Multiple Choice Questions type questions of 1 mark each.
3. This paper contains 4 Short Answer Questions type questions of 3 marks each to be answered in 60 to 80 words.
4. This paper contains 6 Short Answer Questions type questions of 4 marks each to be answered in 80 to 100 words.
5. This paper contains 4 Long Answer Questions type questions of 6 marks each to be answered in 100 to 150 words.

SECTION A – MACRO ECONOMICS

1. **Statement I:** Trade surplus refers to the excess of the payments for value of import of visible items over the value of receipts of export of visible items (goods) during a year. [1]
Statement II: Current Account Deficit signifies that the nation is a borrower from the rest of the world.

a) Both the statements are true.	b) Both the statements are false.
c) Statement II is true and statement I is false.	d) Statement I is true and statement II is false.
2. In the terminology of economics and money demand, the terms M3 and M4 are also known as : [1]

a) Long money	b) Short money
c) Broad money	d) Narrow money
3. If Marginal Propensity to Save (MPS) is 0.25 and the initial change in investment is ₹ 250 crores, then the final change in income would be _____. [1]

a) ₹ 1,000 crores	b) ₹ 1,200 crores
c) ₹ 500 crores	d) ₹ 3,500 crores

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- a) Automatic adjustment of balance of payments b) None of these
- c) Easy to borrow from world bank d) Encourages exports

11. Giving reason, explain the treatment assigned to the following while estimating national income: [3]

- i. Subsidy on the wheat produced.
- ii. Contribution to the provident fund by the employees.
- iii. Contribution to the provident fund by the employ.

12. Explain the meaning of deficit in BOP. [3]

OR

Are the concepts of demand for domestic goods and domestic demand for goods the same?

13. Show the inflationary gap using a well-labelled diagram. Suggest any two fiscal measures to correct the situation of the inflationary gap. [4]

14. Define full employment, voluntary unemployment and involuntary unemployment. [4]

OR

State whether the following statement are true or false. Give reason for your answer.

- a. When investment multiplier is 1, the value of MPC is zero.
- b. The value of average propensity to save can never be greater than 1.

15. Explain the banker to the Government⁹ function of the Central bank. [4]

16. **Answer the following questions:** [6]

- (i) i. Calculate Net Value added at factor cost: [3]

(i) Consumption of Fixed Capital (Rs.)	600
(ii) Import Duty (Rs.)	400
(iii) Output sold (units)	2000
(iv) Price per unit of output (Rs.)	10
(v) Net change in stock (Rs.)	(-)50

(vi) Intermediate cost (Rs.)	10000
(vii) Subsidy (Rs.)	500

- ii. Use the following information of an imaginary country: [3]

Year	2017-18	2018-19	2019-20
Nominal GDP	6.5	8.4	9
GDP deflator	100	140	125

- For which year is real GDP and nominal GDP same and why?
- Calculate real GDP for the given years. Is there any year for which real GDP falls?

(ii) **OR**

- i. Calculate **Net National Product at Factor Cost** and **Gross National Disposable Income** from the following: [3]

Items	(Rs.in Arab)
Social security contributions by employees	90
Wages and salaries	800
Net current transfers to abroad	(-) 30
Rent and royalty	300
Net factor income to abroad	50
Social security contributions by employers	100
Profit	500
Interest	400
Consumption of fixed capital	200
Net indirect tax	250

- ii. Giving reasons, explain how are the following treated in estimating national Income by the income method. [3]
- Interest on a car loan paid by an individual
 - Interest on a car loan paid by a Govt. owned company.

17. **Answer the following questions:** [6]

- What are the functions of a government budget? [3]
- What problems can fiscal deficit create? [3]

SECTION B – INDIAN ECONOMIC DEVELOPMENT

18. Which of the following is a primary sector activity? [1]
- a) Construction b) Transport and Storage
- c) Mining and Quarrying d) Trade
19. What have been the common failure of India and Pakistan [1]
- a) Poor performance in HDI b) Political survival a dominating issue
- c) All of these d) Dismal Fiscal management
20. In accordance with the goal of the state controlling the commanding heights of the economy, _____ was adopted. This resolution formed the basis of the second Five Year Plan, the plan which tried to build the basis for a socialist pattern of society. [1]
- a) Industrial Policy Resolution, 1948 b) Industrial Policy Resolution, 1956
- c) Village and Small-scale Industries Committee 1955 d) None of these
21. Agricultural marketing **covers the services involved in moving an agricultural product from the farm to the consumer.** These services involve the planning, organizing, directing and handling of agricultural produce in such a way as to satisfy farmers, intermediaries and consumers. Which of the following is not related to agricultural marketing: [1]
- 
- a) Storage b) Processing
- c) Use of chemical fertilizers d) Gathering
22. **Assertion (A):** Industrial policy 1991 initiated liberalisation of the Indian economy. [1]
Reason (R): Industrial growth was very slow before 1991.



- a) Both A and R are true and R is the correct explanation of A. b) Both A and R are true but R is not the correct explanation of A.
- c) A is true but R is false. d) A is false but R is true.

23. The education commission (1964-66) had recommended that at least _____ of GDP be spent on education so as to make a noticeable rate of growth in educational achievements. [1]

- a) 4% b) 5%
- c) 7% d) 6%

24. The main aim of **Great Leap Forward** was to ensure rapid increase in _____ sector in China. [1]

- a) tertiary b) secondary
- c) primary d) All of these

25. India has _____% of human and _____% of livestock population with only _____% of land area when compared with world. [1]

- a) 2.5, 16.7, 20 b) 20, 25, 2.5
- c) 17, 20, 2.5 d) 16.6, 20, 2.5

26. **Statement I:** Under the colonial regime, the motive behind infrastructure development was to provide basic amenities to the people. [1]
Statement II: The real motive behind infrastructure development was to subserve various colonial interests.

- a) Statement I is true, but statement II is false. b) Both the statements are false.
- c) Statement II is true, but statement I is false. d) Both the statements are true.

27. Identify the correct sequence of alternatives given in Column II by matching them with respective terms in Column I: [1]

Column I	Column II
(a) Land Ceiling	(i) Increase in production of food grain using high yielding variety seeds
(b) Land reforms	(ii) Portion of agricultural produce sold in the market

(c) Green Revolution	(iii) Fixing the maximum limit of land holding for an individual.
(d) Marketed Surplus	(iv) Change in the ownership of land (land to tillers)

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

28. Is environmental crisis a recent phenomenon? If so, why? [3]

OR

Do you agree that the growth of human wants has led to resource depletion? Give reasons.

29. Some social scientists argue that housewives working at home without getting paid for that work must also be regarded as contributing to the gross national product and therefore as workers. Do you agree? Justify your answer. [3]

30. What are different types of growth strategies? [4]

31. The objective of new economic policy was privatisation. Discuss. [4]

OR

Discuss pains and gains of globalisation.

32. Give an account of growth of education sector in India. [4]

33. **Answer the following questions:** [6]

(i) i. What are the advantages of organic farming? [3]

ii. Briefly explain the role of buffer stocks in the context of agricultural marketing. [3]

(ii) **OR**

i. Explain the need for rural development. [3]

ii. Discuss the problems of fishing community and give some suggestions. [3]

34. **Read the following text carefully and answer the questions given below:** [6]

Foreign direct investment

Unlike India, FDI makes China a global player. In 2000, in cumulative terms, China was world's fifth-largest recipient of FDI, after the United States (USD1.3 trillion), the United Kingdom (USD497 billion), Benelux Economic Union states (USD482 billion)

and Germany (USD480 billion). But for 2004, China was to clock the second largest FDI inflow of USD62 billion—next only to the United States which makes this FDI inflows the most critical as also most visible indicator of its sustained and rapid economic development. Even India is expected to emerge as the next hot spot for FDI inflows. Amongst others, the UNCTAD-DITE Global Investments Prospects Assessment 2004, estimates for 2004-2007 put China and India at the top two ranks followed by the US as third. This, however, remains rather ambitious, especially for India. Even for China, while it is expected to continue to leapfrog, it is likely to stay at its second position and may not surpass the US for a very long time.

But there are indicators that FDI inflows to China (even India) will continue unhindered. For example, China today accounts for over 10% of US foreign trade destinations and China owns USD167 billion of US securities issued by the Federal Government. During the year 2000, the total US corporate revenue generated from China was USD7.2 billion, compared to USD4.6 billion from Mexico, USD3.5 billion from Singapore, and USD1.85 billion from Brazil. Though China faced some phases when FDI had gone down yet it has gradually witnessed rise from USD2.7 billion for 1984 to USD62 billion by 2004, largely staying within the range of USD45 to USD60 billion on an average year.

By comparison, India's FDI has been generally sluggish and, for the early 1990s India's contracted FDI stood at USD0.15 billion for 1991, USD0.23 billion for 1992, USD0.57 billion for 1993, USD0.95 billion for 1994, and USD1.96 billion for 1995. But from there, India's FDI has experienced some acceleration and rose to USD3.4 billion for 2002 and USD4.3 billion for 2003; and some experts also question calculation methods and suspect underplaying of India's FDI statistics. For year 2004, India's FDI was estimated to exceed a rather impressive USD8 billion. And, given this new enthusiasm of the United Progressive Alliance, the government has been talking of absorbing an FDI of USD15 billion for 2005 and USD30 billion for 2007 to reach a total of USD150 billion of fresh FDI in next ten years.

Among the reasons cited to explain India lagging behind, is the argument that China had decided to open up to FDI back in 1979 and created special economic zones (SEZs) in coastal regions that had the clear advantage of geographical proximity to Hong Kong—the hub of capital investment in Asia —, and that China had the added advantage of its political system, cheap labour and special incentives for foreign investors as for its armed forces which were to become major players in China's opening up experiments. Also important is overseas Chinese contributions. Non-resident Indians and overseas Chinese have been distinct categories in FDI inflows into their respective homelands. Beginning only from the early 1990s, while non-resident Indians do contribute a little to India's FDI, overseas Chinese are known to present a unique example by contributing over two-thirds of the whopping inflows of FDI into China.

Questions:

- i. Discuss the reason for India's FDI being sluggish compared to that of China.

ii. Analyse the growth of the Chinese Economy focusing on the role of SEZs towards boosting FDI.

Solutions

SECTION A – MACRO ECONOMICS

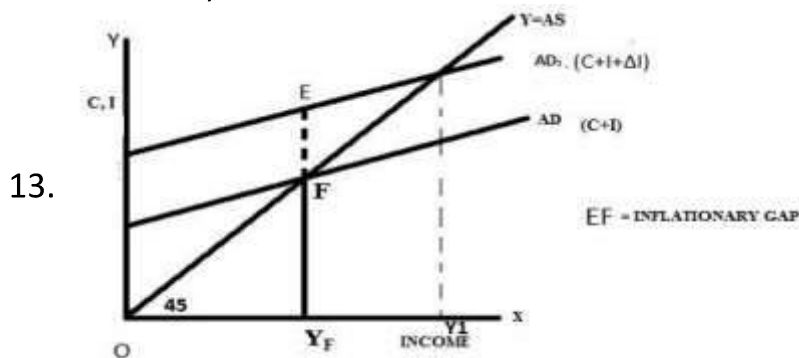
1.
(c) Statement II is true and statement I is false.
Explanation: Statement II is true and statement I is false.
2.
(c) Broad money
Explanation: Broad money
3. (a) ₹ 1,000 crores
Explanation: Change in income ₹ 1,000 crores
$$\frac{250}{0.25} = 1000$$
4.
(c) Foreign exchange rate
Explanation: Foreign exchange rate is the rate at which one unit of foreign currency is exchanged for some units of domestic currency.
5.
(b) 1.2
Explanation: $APC = \frac{C}{Y} = \frac{1200}{1000} = 1.2$
6.
(d) Both under employment equilibrium and deflationary gap
Explanation: Both under employment equilibrium and deflationary gap
7.
(d) 1
Explanation: 1 (because change in income is 100 cr. and change in consumption is 100 cr).
8.
(d) Scarcity
Explanation: Scarcity is the main cause of all economic problems.
9.
(c) saving account deposits and current account deposits
Explanation: saving account deposits and current account deposits (Demand deposits that can we withdrawn any time through saving account or current account)
10. (a) Automatic adjustment of balance of payments
Explanation: Automatic adjustment of balance of payments
11. i. Subsidy on the wheat produced is not included while estimating national income. It simply lowers the market value of the final goods and services. It is given to the producers as a transfer payment.

- ii. Contribution to the provident fund by the employees is not separately included in the estimation of national income as it is paid out of their income.
- iii. Contribution to the provident fund by the employers is included in national income because it is paid by the employers on behalf of the employees. It is included in national income as a part of the compensation of employees.

12. When autonomous foreign exchange payments exceeds autonomous foreign exchange receipts, the difference is called balance of payments deficit. In other words it means that the country imports more goods, services and capital than it exports.

OR

No, the two concepts are not same. The demand for domestic goods is the sum total of demand for goods made by both domestic and foreign countries. On the other hand, domestic is the sum total of domestic demand for domestic goods and foreign goods. In a closed economy, the demand for domestic goods and domestic demand for goods are similar terms. However, in an open economy, these two terms have different meanings. Demand for domestic goods includes both domestic and foreign demand for domestic goods. Whereas domestic demand for goods refers to the domestic market demand of a country, that is either produced domestically or abroad (foreign countries).



The inflationary gap represents the situation where the actually obtained aggregate demand exceeds the aggregate demand required to maintain a full-employment level.

Fiscal measures to correct it:

- i. Reduction in Govt. expenditure
- ii. Increase in Taxes
- iii. Public Borrowings
- iv. Decrease in Subsidy (Write any two)

14. When the entire labour force of the country is in gainfully employed, it is called the state of full employment.

Voluntary unemployment refers to a situation when person is unemployed because he himself is not willing to work at the existing wage rates.

Involuntary unemployment is a situation in which people are willing and able to work at the existing wage rate but they do not get the job.

OR

a. True,

$$K = \frac{1}{(1-MPC)}$$

$$K = \frac{1}{(1-0)}$$

$$K = \frac{1}{1} \text{ or } 1$$

b. True as savings can never be more than Income

15. The Central bank acts as a banker to the central and state government. Central bank is a banker, agent and financial adviser to the government.

1. As a banker : Central bank performs the same function for the government as commercial banks perform for their customers. It maintains the accounts of the central as well as the state governments. It receives deposits from the government and makes short term advances to the government. It collects cheques and drafts deposited in the government accounts.
2. As a Fiscal agent: The central bank collects taxes and other payments on behalf of the government. It raises loans from the public and thus manage public debt.
3. As a Financial adviser: The central bank gives advice to the government on economic, monetary, financial and fiscal matters such as deficit financing, devaluation, trade policy and foreign exchange etc. According to De Kock, "The central bank operates as govt's banker because of the intimate connection between public finance and monetary affairs".

16. Answer the following questions:

(i) i. $NVA_{FC} = (iii \times iv) + v - vi - ii + vii - i$

$$= (2000 \times 10) + (-50) - 10000 - 400 + 500 - 600$$

$$= \text{Rs. } 9450.$$

ii. i. For the year 2017-18, real GDP and nominal GDP are same. These are same as it is the base year and thus, GDP deflator is 100.

ii. The real GDP of last 3 years is-

Year	2017-18	2018-19	2019-20
Nominal GDP	6.5	8.4	9
GDP deflator	100	140	125
Real GDP = $(\frac{\text{Nominal GDP}}{\text{GDP deflator}} \times 100)$	6.5	6	7.2

The real GDP declined in the year 2018-19. It is due to high rate of inflation.

Price level has risen by 40% between 2017-18 and 2018-19.

(ii) OR

i. **INCOME METHOD**

$NDP_{FC} = \text{Compensation of Employees} + \text{Operating Surplus} + \text{Mixed Income of Self-employed}$

- Compensation of Employees = Wages and Salaries in Cash + Wages and Salaries in kind + Employer's contribution to social security scheme

- Operating Surplus = Rent + Royalty + Interest + Profit

Compensation of employees = $800 + 0 + 100 = \text{Rs.}900$

Operating surplus = $300 + 0 + 500 + 400 = \text{Rs.}1200$

$\text{NDP}_{\text{FC}} = 900 + 1200 + 0 = \text{Rs.}2100 \text{ Arab}$

$\text{NNP}_{\text{FC}} = \text{NDP}_{\text{FC}} + \text{Net factor income from abroad (or - Net factor income to abroad)} = 2100 - 50$

$= \text{Rs.}2050 \text{ Arab}$

Gross National Disposable Income = Net National Disposable Income + Depreciation(i)

Net National Disposable Income = National income (NNP_{FC} + Net Indirect taxes + Net current transfers from rest of the world

$\text{NNDI} = 2050 + 250 - (-30) = \text{Rs.}2330 \text{ Arab}$, Putting in(i)

$\text{GNDI} = 2330 + 200 = \text{Rs.}2530 \text{ Arab}$

- No, it will not be included in the national income because it is a non factor receipts as the loan is not used for production but for consumption.
- Yes it will be included in the national income as such interest is paid on loan taken for productive purpose.

17. Answer the following questions:

(i) Following are the functions of a government budget:

- Allocation function-** One of the functions of the government budget is to provide public goods such as national defence, roads, government administration etc. to promote social welfare.
- Distribution function-** Another function of the government budget is to bring about a distribution of income which is considered fair by society i.e., to reduce inequalities by charging high taxes from the richer section and giving transfer payments to poorer section.
- Stabilisation function-** Another function of the government budget is to prevent economic fluctuations and to maintain economic stability.

(ii) Fiscal deficit can create the following problems:

- Fiscal deficit compels the government to borrow money to meet budget expenditure. Borrowing increases the government's future liability to repay loans and interest thereon.
- Fiscal deficit leads to inflationary pressure in the economy. Borrowing from RBI increases the money supply in the economy. Increase in money supply leads to an increase in the general price level.
- High fiscal deficit generally leads to wasteful and unnecessary expenditure by the government.
- Ultimately the government may be compelled to borrow more to finance even interest payment leading to a debt-trap.

SECTION B – INDIAN ECONOMIC DEVELOPMENT

18.

(c) Mining and Quarrying

Explanation: Mining and Quarrying is a primary sector activity.

19.

(c) All of these

Explanation: India and Pakistan are completing five decades of their independence. Since the partition, the relationship between the two countries has been uneasy and characterized by a set of paradoxes. Both countries face a set of common problems -- the inherited legacy of a control mind-set among the government and rent-seeking private sector, widespread corruption, poor fiscal management, weak financial system and congested and overcrowded urban services.

20.

(b) Industrial Policy Resolution, 1956

Explanation: Industrial Policy Resolution, 1956

21.

(c) Use of chemical fertilizers

Explanation: Use of chemical fertilizers because it is not associated with agriculture marketing.

22. **(a)** Both A and R are true and R is the correct explanation of A.

Explanation: Battling the economic crisis of 90s, the Government of India initiated a series of economic reforms, which came to be known as new economic policy. Three broad components of NEP are the policy of liberalisation, the policy of privatisation and the policy of globalisation.

23.

(d) 6%

Explanation: 6%

24.

(b) secondary

Explanation: secondary

25.

(c) 17, 20, 2.5

Explanation: India has about 17% of the world's total human population and 20% of the world's total animal population, whereas, it has only 2.5% of world's total geographical area.

26.

(c) Statement II is true, but statement I is false.

Explanation: Statement II is true, but statement I is false.

27.

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

Explanation: (a) - (iii), (b) - (iv), (c) - (i), (d) - (ii)

28. Yes, the environmental crisis is a very recent phenomenon. The sparks of such crisis were never visible in the past. In recent years, the population has increased. It has increased demand for natural resources while the supply of natural resources is fixed. It creates excess demand and exerts pressure on natural resources. Consequently, the mounting pressure on the carrying capacity of the environment is paving the way for environmental crises.

OR

Yes, we agree that the growth of human wants has led to resource depletion. Wants have to be satisfied with producing goods and services. The growth of human wants requires more inputs needed for production. Hence, the rapid growth of the population has led to more extraction of resources from the environment which has resulted in resource depletion.

29. Yes, I agree. It is the real flow of goods and services which is considered important in estimation of national income and not money flow. Therefore, even if housewives are not paid for their services, they must be considered as workers. According to a non government survey, if we find the opportunity cost of services of a housewife, will be Rs. 12,000 on an average. It can be explained with the help of a funny story. A man fell in love with the maid of his house. They married each other. What will be the impact on national income? Answer is national income will decrease by the amount of maid's salary. She still does all domestic chores but is not compensated for it anymore and the work which was productive before they married became unproductive after their marriage. It sounds senseless. Therefore, we must consider services of a housewife as productive as we consider of a paid employee. Calculation may be a problem but opportunity principle can be used.

30. There are mainly two types of development strategies:

1.Balanced Growth Strategy means proper development of all sectors of the economy with almost same rate of growth. It requires that the different sectors like agriculture, industry, transport, communication, power etc. should grow together.

2.Unbalanced Growth Strategy implies the development of certain key sectors of the economy only. According to this strategy, all sectors of the economy cannot grow together because of scarcity of resources. When there is development of key sectors, other sectors automatically develop because of forward and backward linkages. For example, development of power sector will induce farmers to install tube wells and industrialists to set up factories.

31. When we analyse, we find that privatisation is common to liberalisation and globalization. Without privatisation, an economy can neither be globalized nor liberalised. Findings of many studies demonstrated that privatization did not contribute to growth but helped to reduce income inequality, inflation contributed negatively to both economic growth and income equalization.

The New Economic Policy was introduced with the objective to deregulate the economy and ensure economic development. So, privatisation was crucial for the success of this

policy as it ensures high productivity, a competitive environment which promotes innovation and efficiency, diversification of activities and consumer sovereignty.

In order to encourage private sector, the following measures have been adopted:

- i. The government through its economic policy reduced the number of industries reserved for public sector from 17 to 3 at present.
- ii. It has now been planned to reduce the share of public sector investment to 45%. It increases the share of private sector to 55%.
- iii. Financial corporations cannot force the industries for conversion of their loans into equity shares.
- iv. It has now been decided to increase the participation of the general public and workers by selling them the shares of public enterprises.

OR

Globalisation:

Globalisation means integrating the economy of a country with the economies of other countries under conditions of free flow of trade and capital, and movement of persons across borders. Globalisation has both positive and negative impacts on an economy.

These are discussed below:

Case in favour of Globalisation:

1. It will improve allocative efficiency of resources, capital output ratio, increase labour productivity, exports and inflow of capital.
2. It will bring world class technology, increase competition, and boost the rate of economic growth.
3. It will help to restructure the production and trade pattern in a capital scarce, labour abundant economy in favour of labour intensive goods and techniques.
4. Foreign capital will be attracted and with its entry, updated technology will also enter the country.
5. With the entry of foreign competition and the removal of import tariff barriers, domestic industry will be subjected to price reducing and quality improving effects in the domestic economy which will benefit consumers.
6. It creates employment opportunities in the economy.
7. It has resulted in the unrestricted flow of goods and services among different countries of the world.

Case against Globalisation:

1. It leads to redistribution of economic power and increases inequalities among nations.
2. One study reveals that in the globalising world, the economies are moving away from each other rather than coming closer.
3. Globalisation is increasing pressure on economies for structural and conceptual readjustments.
4. Public is going through the pains and uncertainties of structural and conceptual readjustments for the sake of benefits yet to come.

5. Globalisation is unfair from the view point of developing countries as none of the MN Cs has set up manufacturing plants in India or signed any technology transfer agreement with any Indian company like INTEL, AMO and CISCO.
6. It has also resulted in unemployment because of the use of capital intensive techniques.

32. The expenditure on education by the government is expressed in two ways (i) as a percentage of 'total government expenditure' (ii) as a percentage of Gross Domestic Product (GDP). The percentage of 'education expenditure of total government expenditure' indicates the importance of education in the scheme of things before the government. The percentage of 'education expenditure of GDP' expresses how much of our income is being committed to the development of education in the country. During 1952-2002, education expenditure as percentage of total government expenditure has increased from 7.92% to 1317% and as percentage of GDP from 0.64% to 4.02%. A major share of government expenditure on education goes to elementary education. It is least for tertiary sector but expenditure per student is highest in tertiary sector. The per capita education expenditure differs considerably from region to region. It is Rs. 3,440 in Lakshadweep and Rs. 386 in Bihar. An education cess of 2% has been levied on all union taxes. In addition to this govt. has also sanctioned a large outlay for the promotion of higher education and new loan schemes for students to pursue higher education.

33. Answer the following questions:

- (i) i. Following are the mentioned below advantages of Organic Farming.
 - Farmers can reduce their production costs because they do not need to buy expensive chemicals and fertilizers.
 - Healthier farm workers.
 - They improve plant growth and physiological activities of plants.
 - In the long term, organic farms save energy and protect the environment.
 - There is an increasing consumer are willing to pay more for organic foods.
 - More animals and plants can live in the same place in a natural way. This is called biodiversity.
 - Pollution of ground water is stopped.
 - They reduce the need for purchased inputs
- ii. The Government of India has adopted the policy of buffer stocks to minimise the fluctuations in the food prices. Buffer stocks serve as shock absorbers in the economy and provide a defense mechanism against the widely fluctuating price levels.

Under the buffer stock policy, the government fixes the minimum support price (MSP) and builds up stocks of food through direct purchases from the farmers and releases these stocks for sale in the domestic market where prices are increasing. Also, buffer stock operations aim at eliminating unduly low prices consequent to bumper crops. Buffer stocks of rice and wheat are maintained by the Food

Corporation of India. The government safeguards the interest of farmers and supplies these buffer stock through fair price shops.

(ii) OR

i. More than two-thirds of India's population depends on agriculture and about 60% of India's population lives in rural areas. The development of all aspects within rural communities is vital for the effective development of the country. Hence, India's economic development requires speedy rural development. The following points highlight the need for rural development:

i. **Increase in Productivity-** Rural development is needed to provide rural people with various means that will help them increase productivity. This will make agriculture a profitable venture. There can be no development without rural development.

ii. **Employment-** Rural development is needed to create employment opportunities particularly in rural areas. This will be possible by promoting non-farm activities.

iii. **Better Living-** Rural development is needed to improve the standard of living of rural people by providing better access to healthcare, education and sanitation.

ii. Fishing community is suffering from:

a. Acute poverty

b. Rampant underemployment

c. Absence of mobility of labour to other sectors

d. High rate of illiteracy and

e. Indebtedness

f. low per capita income

Some of the suggestions to improve the situation are:

a. We need to spread training and education among fishing community.

b. We need to provide credit through SHGs at cheap rates to make it affordable for them.

34. i. Unlike India, China is a global player in the FDI market. Whereas India's FDI has been generally sluggish till the early 1990s but later in the 21st century improved. In 2000, China was the world's fifth-largest recipient of FDI. The possible reasons for this difference are:

a. The Chinese reform process began more strongly and comprehensively during the 1980s when India was in a mid-stream of a rather slow growth process.

b. The global exposure of the Chinese economy had been far wider than the Indian economy.

ii. China had been introducing economic reforms in phases. In the initial phase, reforms were initiated in the agriculture, foreign trade, and investment sectors. In the later phase, reforms were initiated in the industrial sector. To attract foreign investors, special economic zones (SEZs) were set up. These SEZs were judiciously set up in

coastal regions for its advantage of geographical proximity to Hong Kong—the hub of capital investment in Asia. China also has an upper hand in its political system, cheap labour, and special incentives for foreign investors. Besides, the overseas Chinese contribute over two-thirds of the inflows of FDI into the Chinese economy.