CBSE 12 Economics (58/5/1) Question Paper with Solutions

Time Allowed : 3 Hour	**Maximum Marks :** 100	**Total Questions :** 34

General Instructions

Read the following instructions very carefully and strictly follow them:

1. This question paper contains 34 questions. All questions are compulsory.
2. This question paper contains two sections :
   Section A : Macro Economics
   Section B : Indian Economic Development
3. This question paper contains 20 Multiple Choice type questions. Each question carries 1 mark.
4. This question paper contains 4 Short Answer Type-I questions. Each question carries 3 marks. Answer these questions in 60 to 80 words.
5. This question paper contains 6 Short Answer Type-II questions. Each question carries 4 marks. Answer these questions in 80 to 100 words.
6. This question paper contains 4 Long Answer type questions. Each question carries 6 marks. Answer these questions in 100 to 150 words.
7. Attempt all parts of a question together.
8. In addition to this, note that a separate question has been provided for Visually Impaired candidates in lieu of questions having visual inputs, map etc. Such questions are to be attempted by Visually Impaired candidates only.
9. There is no overall choice in the question paper. However, an internal choice has been provided in few questions. Only one of the choices in such questions has to be attempted.

1 SECTION A
(Macro Economics)

1. Read the following statements carefully:
Statement 1: Ex-post savings and Ex-post investments are equal at all levels of income. Statement 2: Under the effective demand principle, the equilibrium output is equal to ex-ante Aggregate Demand (AD).
In the light of the given statements, choose the correct alternative from the following:
(A) Statement 1 is true and Statement 2 is false.
(B) Statement 1 is false and Statement 2 is true.
(C) Both Statements 1 and 2 are true.
(D) Both Statements 1 and 2 are false.

Correct Answer: (C) Both Statements 1 and 2 are true.
Solution:
Statement 1 is correct: In an economic system, ex-post savings and investments are always equal, ensuring that all generated savings are utilized for investment purposes.
Statement 2 is correct: According to the principle of effective demand, equilibrium output is achieved when ex-ante Aggregate Demand (AD) matches the actual output, signifying full employment in the economy.
Conclusion: Both assertions are valid: There is equality between ex-post savings and investment, and the equilibrium output is determined by ex-ante Aggregate Demand.

Quick Tip

Remember, in any well-balanced economy, savings and investments are aligned. Equilibrium in output occurs when Aggregate Demand meets actual production levels.

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2. Identify which of the following is not considered as 'Normal Resident' of India?

(A) An Indian citizen working in U.S.A. embassy located at New Delhi.
(B) An Indian official working in the Indian embassy in China.
(C) An Indian diplomat visiting Canada for a summit.
(D) An Indian working in an American Company located in New York for a period of more than 1 year.

Correct Answer: (D) An Indian working in an American Company located in New York for a period of more than 1 year.
Solution: Definition of a Normal Resident:
A normal resident in India is an individual who has resided in India for 182 days or more during the preceding financial year.
Option (D): An Indian citizen who is employed abroad for a period exceeding one year does not qualify as a normal resident of India, as they are categorized as non-residents for taxation and other financial purposes.
Conclusion: Option (D) is correct as it pertains to an individual working abroad beyond one year, thereby not qualifying as a "normal resident" of India.

Quick Tip

To be classified as a normal resident, an individual must spend over 182 days within India during the financial year. Those who reside outside India for more than a year are deemed non-residents.

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3. In a hypothetical economy, if entire additional income is consumed, the value of investment multiplier would be ——.
(Fill up the blank with the correct alternative.)

(A) One (1)
(B) Zero (0)
(C) Between zero (0) and one (1)
(D) Infinity

Correct Answer: (D) Infinity
Solution: The formula for the investment multiplier is $\frac{1}{1-\text{MPC}}$, where MPC stands for marginal propensity to consume.
If the whole income is spent (MPC = 1), the multiplier becomes infinite because $\frac{1}{1-1} = \infty$.
Therefore, under these conditions, the investment multiplier reaches infinity.
Conclusion: The investment multiplier attains an infinite value when all additional income is entirely consumed, implying that every increment in income results in an equal rise in consumption, perpetually driving economic growth.

Quick Tip

When every bit of income is consumed (MPC = 1), the investment multiplier escalates to infinity, showcasing an economy where every income increment fuels further consumption without bounds.

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4. If in an economy the Balance of Trade is showing a deficit of Rs.200 crore and the value of import is Rs.900 crore, then the value of exports would be Rs.—-crore.
(Fill up the blank with the correct alternative.)

(A) 200
(B) 1100
(C) 700
(D) 900

Correct Answer: (C) 700
Solution: The Balance of Trade (BOT) is determined by the formula: Exports minus Imports. Given that the BOT equals Rs. -200 crore and the Imports are Rs. 900 crore, we apply the equation:

$$\text{Exports} - \text{Imports} = \text{BOT}$$

Plugging in the known values:

$$\text{Exports} - 900 = -200$$

Calculating for Exports:

$$\text{Exports} = 700$$

Conclusion: To achieve a trade deficit of Rs. 200 crore, the exports must amount to Rs. 700 crore.

Quick Tip

Remember, a Balance of Trade (BOT) deficit occurs when the value of imports surpasses that of exports, reflecting a deficit in the trade balance.

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5. "Mr. Sahotra borrowed funds from bank for purchasing a new house." From the above statement, identify the indicated function of money:

(A) Medium of exchange
(B) Store of value
(C) Unit of account
(D) Standard of deferred payments

Correct Answer: (D) Standard of deferred payments
Solution: In this scenario, money's role as a Standard of deferred payments is highlighted by Mr. Sahotra using it to borrow for a future expenditure. This illustrates money's function as a medium for extending payments over a period rather than requiring immediate settlement, aligning with the concept of deferred payments.
Conclusion: Here, money is effectively utilized as a tool for deferred payments, facilitating Mr. Sahotra's capability to finance his house purchase gradually over time.

Quick Tip

Money's function as a "Standard of deferred payments" facilitates engagements that involve delayed payments, typical in scenarios involving credit or loans.

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6. From the given table, identify that level of income, where Average Propensity to Save (APS) becomes zero:

Income (Rs. crore)	**Consumption (Rs. crore)**
0	50
50	75
100	100
200	150
300	200
400	250

(A) 50

(B) 100
(C) 200
(D) 0

Correct Answer: (B) 100
Solution: The formula for the Average Propensity to Save (APS) is expressed as:

$$\text{APS} = \frac{\text{Savings}}{\text{Income}} = \frac{\text{Income} - \text{Consumption}}{\text{Income}}$$

Given that Income = 100 crore and Consumption is also 100 crore, Savings will be:

$$\text{Savings} = \text{Income} - \text{Consumption} = 100 - 100 = 0$$

Therefore, APS is 0 when the income is 100 crore.
Conclusion: At an income level of 100 crore, the APS is zero because the entire income is consumed, leaving no savings.

> Quick Tip
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> APS reaches zero when the amount consumed equals the income earned, reflecting a lack of savings.

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7. If in an economy the initial deposits are Rs.4,000 crore and Reserve Ratio (RR) is 10 percent. The value of total deposit created would be Rs.—— crore.

(A) 4,000
(B) 40,000
(C) 2,000
(D) 20,000

Correct Answer: (B) 40,000
Solution: The formula for calculating the total deposits created in the banking system is:

$$\text{Total Deposits} = \frac{\text{Initial Deposit}}{\text{Reserve Ratio}}$$

Using the provided figures:

$$\text{Total Deposits} = \frac{4000}{0.10} = 40,000$$

Conclusion: A total of Rs. 40,000 crore in deposits can be generated with a reserve ratio of 10

> Quick Tip
>
> The creation of total deposits in a banking system is inversely related to the reserve ratio; a lower reserve ratio facilitates a higher volume of deposits.

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8. From the following, identify the correct reasons that may affect the supply of foreign exchange in an economy:

I. Purchase of land in England by an Indian II. Foreign tourists visiting Taj Mahal III. Donation of 500 million dollars from Microsoft IV. Indian students going to Australia for studies

(A) I and II
(B) II and IV
(C) II and III
(D) I and IV

Correct Answer: (C) II and III
Solution: Reason II (Influx of foreign tourists at the Taj Mahal) contributes to the increase in foreign exchange reserves due to the expenditure they make while visiting.
Reason III (A donation of 500 million dollars from Microsoft) further boosts the foreign exchange supply since it represents a direct inflow of funds into the country.
Conclusion: Option (C) is correct, indicating that both foreign tourists and sizable donations effectively enhance the foreign exchange supply.

> Quick Tip
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> Revenue streams from abroad, such as tourism expenses and financial donations, serve to directly augment the foreign exchange reserves of a nation.

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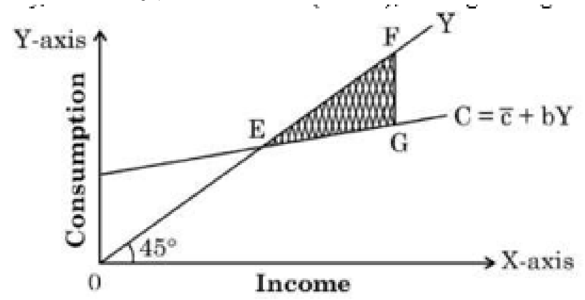
9. Identify, what does the shaded area (change in EFG), in the given figure indicate?



I. Consumption > Income
II. Saving = Zero (0)
III. Consumption < Income
IV. Saving < Zero (0)

(A) I and II
(B) II and III
(C) III and IV
(D) I and IV

Correct Answer: (B) II and III or (C) III and IV
Solution: The shaded region (EFG) typically illustrates scenarios where savings are zero or negative, with consumption either equal to or less than income:
II: Saving = Zero (0): At the point of equilibrium, where consumption equals income, savings are zero.

III: Consumption ¡ Income: In scenarios depicted by the shaded area where consumption is less than income, this indicates positive savings, although it could fall into a negative savings area under different circumstances. Hence, the appropriate selections are (B) II and III or (C) III and IV.

Conclusion: The shaded area on the graph is indicative of either zero savings or circumstances where consumption falls below income, which may lead to negative savings.

> Quick Tip
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> In graphs related to consumption and savings, shaded regions typically highlight conditions where savings are zero or negative, reflective of the relationship between consumption and income levels.

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10. The measurement of Balance of Payments deficit is based on ——transactions.

(A) Autonomous
(B) Accommodating
(C) Current account
(D) Capital account

Correct Answer: (A) Autonomous
Solution: The Balance of Payments (BOP) deficit is primarily assessed through autonomous transactions, which are market-driven transactions not influenced by the country's monetary policies. These include the exchange of goods and services, income transactions, and capital flows.
Conclusion: Option (A) is correct, as the BOP deficit calculations are rooted in autonomous transactions.

> Quick Tip
>
> Autonomous transactions are influenced by economic factors such as trade dynamics and capital flows and are not dictated by changes in monetary policy.

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11. Calculate Net Value Added at Factor Cost (NVAfc) from the following data:

S.No.	Particulars	Amount (in Rs. lakh)
(i)	Fixed capital goods (expected life span - 5 years)	15
(ii)	Domestic Sales	200
(iii)	Change in stock	(-) 10
(iv)	Exports	10
(v)	Single use producer goods	120
(vi)	Net indirect taxes	20

Solution: Depreciation of fixed capital goods $= \frac{15}{5} = 3$

Calculation of Net Value Added at Factor Cost (NVAfc):

$$NVAfc = (ii) + (iii) + (iv) - \text{Depreciation} - (vi)$$

$$NVAfc = 200 + (-10) + 10 - 3 - 20 = Rs.57 \text{ lakh}$$

> Quick Tip
>
> To determine the Net Value Added at Factor Cost, subtract the depreciation of fixed capital from the gross total.

11.2 (b) From the following data, estimate the value of Net Indirect Taxes (NIT):

S.No.	Particulars	Amount (in Rs.crore)
(i)	Net National Product at Market Price (NNPmp)	1,400
(ii)	Net Factor Income from abroad	100
(iii)	Gross National Product at Factor Cost (GNPfc)	1,300
(iv)	Consumption of Fixed Capital	100

Correct Answer:
Net Indirect Taxes $= (i) + (iv) - (iii)$

$$\text{Net Indirect Taxes} = 1,400 + 100 - 1,300 = Rs.200 \text{ crore}$$

Solution: To calculate the Net Indirect Taxes (NIT), we use the following relationship derived from the data provided:

$$\begin{aligned}\text{Net Indirect Taxes (NIT)} = &\text{NNP at Market Price (NNPmp)} \\ &+ \text{Consumption of Fixed Capital} \\ &- \text{GNP at Factor Cost (GNPfc)}\end{aligned}$$

Using the values given:

$$\text{NIT} = 1,400 + 100 - 1,300 = 200$$

Thus, the Net Indirect Taxes are Rs. 200 crore.

> Quick Tip
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> Net Indirect Taxes can be determined by adjusting the Gross National Product at Factor Cost with the Net National Product at Market Price and the Consumption of Fixed Capital, reflecting the additional taxes less subsidies not accounted for in the factor cost.

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12. "Trade Deficit must exist, if a country is facing situation of Current Account Deficit (CAD)." Defend or refute the above mentioned statement with valid arguments.

Solution: The assertion is **incorrect**.
A Current Account Deficit (CAD) arises when a country's total imports of goods, services, and transfers surpass its exports. This condition does not necessarily lead to a trade deficit.
A trade deficit occurs explicitly when the import value of goods surpasses their export value.
A nation can experience a CAD without a trade deficit if it has substantial earnings from services or foreign investments that compensate for the goods trade shortfall.
For example, a country might maintain a surplus in its service sector and income transfers, which could result in a CAD despite a balanced or surplus goods trade.
Conclusion: Conclusively, a Current Account Deficit does not invariably suggest a trade deficit because the current account encompasses more than just goods—it includes services, income, and transfers as well.

> Quick Tip
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> Remember, a Current Account Deficit encompasses more than goods—it includes services and income, distinguishing it from a mere Trade Deficit, which strictly involves goods.

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13. Suppose, an economy is in equilibrium. From the following data, calculate investment expenditure in the economy:

Given:

- National Income (Y) = 10,000 crore
- Marginal Propensity to Consume (MPC) = 0.8
- Autonomous Consumption (C) = 100 crore

Solution:
At equilibrium, National Income (Y) equals the sum of consumption (C) and investment (I), as follows:

$$Y = C + I$$

The consumption function (C) is formulated as:

$$C = C_0 + MPC \times Y$$

where C_0 represents autonomous consumption. Plugging in the values, we get:

$$C = 100 + 0.8 \times 10,000 = 100 + 8,000 = 8,100\,\text{crore}$$

Inserting this into the equilibrium formula gives:

$$Y = C + I \Rightarrow 10,000 = 8,100 + I$$

Calculating for investment, we find:

$$I = 10,000 - 8,100 = 1,900\,\text{crore}$$

Conclusion: The amount of investment in the economy is Rs. 1,900 crore.

> Quick Tip
>
> At economic equilibrium, the Investment level (I) is the difference between National Income (Y) and Consumption (C).

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14 (a) (i) "With an objective to reduce inflation, government may reduce public Expenditure." Discuss the rationale behind such a step which may be taken by the Government.

Solution:

In response to rising inflation, the government might cut public spending to mitigate inflationary pressures within the economy.

Government expenditures, particularly on public services and welfare initiatives, escalate aggregate demand (AD).

A reduction in spending diminishes AD, which consequently lessens price pressures, thus helping to control inflation.

This approach is crucial during periods of demand-driven inflation, where excessive money is pursuing limited goods.

Curtailing public expenditure may also decrease consumption and investment, leading to a slowdown in economic activity and stabilization of prices.

Conclusion: Trimming public expenditure represents a contractionary fiscal strategy designed to combat demand-pull inflation by suppressing overall economic demand.

> Quick Tip
>
> Implementing contractionary fiscal policies, such as cuts in public spending, is effective in managing demand-pull inflation.

14.(a) (ii) Define Effective Demand Principle.

Solution:

The Principle of Effective Demand posits that employment levels within an economy are governed by the aggregate demand (AD) for goods and services.

If aggregate demand falls short of the total output produced, unemployment ensues.

According to this principle, employment levels will align with the point where aggregate demand matches the total output available for purchase.

Essentially, the demand within an economy sets the pace for production, which in turn dictates employment levels.

Conclusion: The Principle of Effective Demand underscores the connection between the overall demand for goods and services and employment rates in an economy.

Quick Tip

Aggregate demand profoundly influences employment levels; inadequate demand results in higher unemployment.

OR
14. (b) (i) State the meaning of 'unintended accumulation of inventories'.
Solution:
Unintended inventory accumulation occurs when actual sales do not meet anticipated sales, causing businesses to retain higher stocks of unsold goods.
This often happens when aggregate demand falls below expectations, resulting in overproduction and an increase in unsold inventory levels.
Such accumulation serves as a signal of weak economic demand, prompting companies to potentially cut back on production or reduce their workforce.
Conclusion: The unintended buildup of inventories serves as a warning of economic underperformance, indicating that the existing demand is inadequate to meet the current supply of goods.

Quick Tip

Excessive inventories typically reflect poor demand within the economy, suggesting an imbalance where supply exceeds demand, leading to inefficient resource utilization.

14.(b) (ii) "In an economy, Aggregate Demand (AD) is more than Aggregate Supply (AS)." Elaborate the possible impacts of the same, on the level of output, income and employment.
Solution:
When aggregate demand (AD) surpasses aggregate supply (AS), several economic effects may ensue:
1. Increased output and income:
Companies respond to heightened demand by scaling up production, which elevates overall output and income.
This rise in income enhances consumer spending, further stimulating demand and fostering a growth cycle.
2. Higher employment:
To accommodate increased production, businesses will require more labor, thereby boosting employment rates. This expansion in output necessitates the recruitment of additional personnel.
3. Price inflation:
With AD surpassing AS, companies often increase prices due to the heightened demand, which can introduce inflationary pressures within the economy.
4. Potential resource strain:
Sustained excess of AD over AS might lead to shortages and overuse of resources, causing inefficiencies and elevated costs over time.

Conclusion: Exceeding aggregate supply by aggregate demand typically results in elevated output, income, and employment initially; however, persistent imbalances can precipitate inflationary challenges.

Quick Tip

While an excess of aggregate demand over aggregate supply initially boosts output and employment, it can also precipitate inflation if sustained.

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15. 'Open Market Operation by the Reserve Bank of India (RBI) helps in regulating money supply in the economy." Justify the given statement.

Solution:

Open Market Operations (OMO) are one of the key tools used by the Reserve Bank of India (RBI) to regulate the money supply in the economy.

Buying securities (OMO Purchase):

When the RBI buys government securities from the market, it injects money into the banking system. This increases the reserves of commercial banks, encouraging them to lend more, thereby increasing the money supply.

Selling securities (OMO Sale):

When the RBI sells government securities, it pulls money out of the banking system. This reduces the reserves of commercial banks, restricting their lending capacity and thereby decreasing the money supply.

Through OMOs, the RBI can control liquidity in the economy, manage inflation, and stabilize the financial system.

Conclusion: Open Market Operations are an effective tool for managing the money supply in the economy, influencing interest rates, and ensuring economic stability.

Quick Tip

OMO is a vital tool for controlling inflation and managing the liquidity in the economy by regulating the money supply.

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16. (a) (i) Distinguish between Revenue Expenditure and Capital Expenditure of a government, with suitable example.

Solution:

Revenue Expenditure refers to the government's expenditure on items that do not result in the creation of assets or reduction of liabilities. These are typically incurred to meet day-to-day expenses of the government. Examples include:

Salaries of government employees

Interest payments on loans

Subsidies and grants given to individuals or organizations

Capital Expenditure refers to the expenditure that is incurred to create physical or financial assets or to reduce liabilities. It typically involves the purchase of assets or investment in projects that lead to future economic benefits. Examples include:

Expenditure on infrastructure like roads, bridges, and buildings
Investment in machinery or technology
Government investment in public sector enterprises
Conclusion: Revenue expenditure is meant for routine operational costs, while capital expenditure is aimed at creating long-term assets that improve the nation's productive capacity.

> Quick Tip
>
> Revenue expenditure covers routine government spending, whereas capital expenditure involves investments in long-term assets.

16.(a) (ii) "Under the 'Production Linked Incentive' scheme, the Government of India offers various benefits like reduced import-export duties, incentives to investors, tax-rebates etc." In the light of the above statement, identify and explain the Budget objective and its likely consequences.
Solution:
The Budget objective highlighted in this statement is to boost domestic manufacturing and attract investment by providing financial incentives. The scheme is aimed at encouraging firms to increase production, reduce reliance on imports, and enhance competitiveness in the global market.
Likely Consequences of the scheme:
Increased Production:
By offering tax rebates and other incentives, the government encourages companies to scale up production and make India a more attractive destination for manufacturing.
Employment Generation:
Increased production capacity and foreign investment can lead to higher employment in the manufacturing sector, which benefits the economy.
Improved Trade Balance:
By promoting local manufacturing, the country could reduce imports, improve its trade balance, and boost exports, leading to a more sustainable economic growth model.
Conclusion: The scheme aims to foster industrial growth, attract foreign investment, and create jobs, ultimately contributing to economic growth.

> Quick Tip
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> The Production Linked Incentive scheme aims to boost domestic production, attract investment, and reduce reliance on imports, fostering long-term economic growth.

OR
16. (b) (i) "Under 'Zero Defect, Zero Effect' (ZED) scheme, the government of India provides up to 80% subsidy to Mini, Small and Medium Enterprises (MSMEs)." Identify and explain the objective of government budget, highlighted in the above text.
Solution:

The focus of the government's budget is on enhancing the growth and development of MSMEs in India through the ZED scheme, which emphasizes zero defect production (creating defect-free products) and zero effect on the environment (promoting sustainable production practices).
The government provides a subsidy of up to 80 percent to assist MSMEs in upgrading their processes, adopting new technologies, and improving product quality. This initiative aims to boost the competitiveness of Indian MSMEs in the global market.

Anticipated Outcomes:
Enhanced Quality:
The scheme will lead to improved product quality among MSMEs, minimizing defects and increasing customer satisfaction.
Environmental Sustainability:
Adoption of zero effect production practices will enhance the environmental sustainability of industries, meeting global environmental norms.
Employment Growth:
Support for MSMEs is expected to generate additional employment opportunities within the sector, thus boosting overall employment.
Conclusion: The ZED scheme is designed to elevate product quality, foster environmental sustainability, and bolster the competitiveness of the MSME sector, contributing significantly to economic development and job creation.

> Quick Tip
>
> The ZED scheme enhances MSMEs by focusing on quality and sustainability, which not only benefits the environment but also strengthens the economy.

16.(b) (ii) Distinguish between Direct tax and Indirect tax with suitable examples.
Solution:
Direct Tax: This type of tax is imposed directly on individuals or entities and is paid straight to the government. Examples include:
Income Tax: Imposed on the earnings of individuals and organizations. Corporate Tax: Applicable to the profits earned by companies.

Indirect Tax: This tax is applied to goods and services and is collected by an intermediary from the consumers. Examples include:
Goods and Services Tax (GST): Charged on the sale of goods and services. Excise Duty: Imposed on the production of goods within a country.

Conclusion: Direct taxes are assessed on income or profits, directly affecting taxpayers, while indirect taxes are imposed on transactions and are borne by consumers.

> Quick Tip
>
> Direct taxes target income and profits directly from taxpayers, whereas indirect taxes are added to the price of goods and services, affecting consumers.

17. (a) As per The Economic Times report, dated April 11, 2023: "Electric Vehicle sales cross 10 Lakh mark in financial year 2022-23." Analyse the likely impacts of this news on Gross Domestic Product (GDP) and Welfare.
Solution:
Impact on GDP:
The surge in Electric Vehicle (EV) sales boosts consumption expenditure, a vital GDP component. This increase not only augments output in the automobile sector but also stimulates growth in related industries such as battery manufacturing, charging infrastructure, and renewable energy. The cumulative effect of these developments is a notable rise in the Gross Domestic Product (GDP).

Impact on Welfare:
Shifting to Electric Vehicles enhances environmental quality, given that EVs emit significantly fewer pollutants than traditional internal combustion engines. This transition elevates social welfare by diminishing air pollution, which in turn improves health outcomes and ensures cleaner air. Additionally, reducing reliance on fossil fuels enhances energy security and mitigates the economic impacts of global oil price volatility.

Job Creation:
The growing demand for EVs is likely to create new employment opportunities in manufacturing, infrastructure development, and research and innovation.

Health Benefits:
Lower emissions can lead to a decrease in respiratory diseases and other pollution-related health issues, promoting overall public health.
Conclusion: The rise in EV sales positively impacts GDP by bolstering consumption and production activities and improves welfare through significant environmental benefits and potential increases in employment.

> Quick Tip
>
> The expansion in Electric Vehicle sales not only drives GDP growth through enhanced consumption but also improves environmental and public health outcomes.

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17. (b) Discuss briefly, the circular flow of income in a two sector economy model.
Solution:
In the two-sector economy model, the economic activities are primarily divided between two main players: households and firms.

1. Households:
Households possess all the factors of production, including land, labor, capital, and entrepreneurship. They supply these factors to firms, receiving income in the form of wages, rents, interest, and profits as compensation.

2. Firms:
Firms act as the producers within the economy. They utilize the factors of production obtained from households to create goods and services, which are then sold back to the households. The payments firms make to households for using their factors of production constitute the households' income.

Flow of Income and Expenditure:
Households use their income to purchase goods and services from firms, termed as Consumption Expenditure.
In return, firms supply goods and services to households, generating revenue from these sales.
Circular Flow:
This process of goods and services moving from firms to households and the corresponding flow of income from households to firms is continuous and forms what is known as the circular flow of income.
Equilibrium in the Circular Flow:
Economic equilibrium is achieved when the total income generated from the sale of goods and services is equivalent to the total expenditure on these goods and services by households.
Conclusion: The two-sector model depicts the economy as a closed loop, where households provide the essential factors of production to firms, and in return, firms compensate households by providing them income through the exchange of goods and services.

Quick Tip

The circular flow of income in a two-sector model illustrates the seamless movement of money between households and firms, ensuring a balance between production and consumption in an economy.

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2 SECTION B
(Indian Economic Development)

18. Read the following statements: Assertion (A) and Reason (R). Choose the correct alternative from those given below:
Assertion (A): India could not develop a sound Industrial-base during the British rule. Reason (R): Britishers followed restrictive trade policies, which strengthened Indian handicraft industries.
(A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.

Correct Answer: (C) Assertion (A) is true, but Reason (R) is false.
Solution:
Assertion (A) is correct: India did not establish a robust industrial base during British rule, as the colonial focus was on extracting resources from India to benefit British industries, not to aid in India's industrial development.
Reason (R) is incorrect: Rather than supporting, the British implemented restrictive policies that weakened India's handicraft industries. By imposing high tariffs on Indian products and promoting British goods, these policies led to the decline of India's indigenous industries.

Conclusion: Given that Assertion (A) is true and Reason (R) is false, the correct answer is option (C).

Quick Tip

British colonial rule impeded rather than promoted the industrial development of India by prioritizing their own economic interests.

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19. From the events given in Column-I and facts given in Column-II about China, choose the correct pair:

	Column - I		Column - II
(a)	Structural transformation	(i)	Limited Urbanisation
(b)	Great leap forward campaign	(ii)	Reduced global demand for Chinese products
(c)	Less stress of usage on natural resources	(iii)	Low density of population
(d)	Slowdown in GDP, since 2014	(iv)	Aimed at massive industrialisation

(A) (a) – (i)
(B) (b) – (ii)
(C) (c) – (iii)
(D) (d) – (iv)

Correct Answer: (C) (c) – (iii)

Solution:
(a) Structural transformation in China involved transitioning from agriculture to industries and services, which actually facilitated significant urbanization, thus rendering option (A) incorrect.
(b) The Great Leap Forward aimed at rapid industrialization; however, it did not falter due to reduced global demand but because of internal inefficiencies and mismanagement, making (B) incorrect.
(c) The lower strain on natural resources in China is indeed associated with the country's low population density, making (C) correct.
(d) The decrease in GDP growth from 2014 is attributed to the overall slowdown in economic activities and challenges in sustaining high growth rates, not directly due to the effects of the Great Leap Forward, thus (D) is incorrect.

Conclusion: Option (C) is the correct choice, as it accurately links low population density with reduced pressure on natural resources.

> Quick Tip
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> In regions with low population density, such as certain areas in China, there is typically less stress on natural resources, aligning with broader patterns of urbanization and industrialization.

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20. After independence, the rationale behind choosing Modernization as a planning objective for the Indian economy were ——.

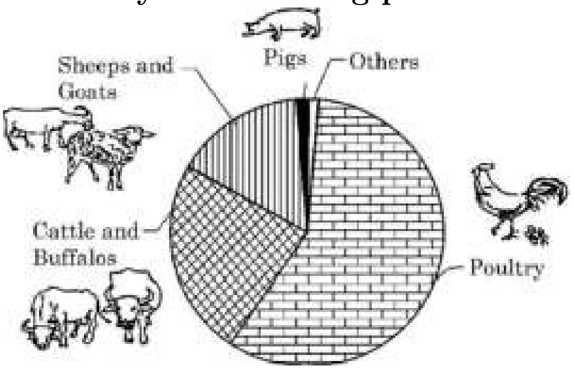
(A) I and II
(B) II and III
(C) I and III
(D) I and IV

Correct Answer: (C) I and III
Solution:
I: India's drive to modernize agriculture, industry, and services was aimed at fostering a positive change in the social outlook, enhancing the quality of life for its population.
III: Technological advancement was deemed essential for bolstering India's industrial and service sectors, crucial for sustainable long-term growth.
II: While equitable income distribution is significant, it was not the primary motive for prioritizing modernization in the early phases of India's economic planning.
IV: The objective of modernization was not to widen the economic divide but to diminish it.

Conclusion: Option (C) is correct, as both the improvement of social conditions and technological enhancement were central goals of India's modernization efforts.

> Quick Tip
>
> Modernization in India was strategically aimed at both social betterment and technological enhancements to stimulate comprehensive growth in various sectors.

21. Study the following picture:



Identify the kind of activities, which may be envisaged under _________ as diversification activity.

(A) Animal Husbandry
(B) Fisheries
(C) Horticulture
(D) Organic farming

Correct Answer: (A) Animal Husbandry
Solution:
Animal husbandry involves the breeding and rearing of livestock, which is a key diversification strategy in agriculture. It provides an additional income stream alongside crop production and enhances resource utilization efficiency.
While the other options (B) Fisheries, (C) Horticulture, and (D) Organic farming also represent agricultural diversification, Animal Husbandry aligns most closely with the concept as described in the context of the question.

Conclusion: Option (A) Animal Husbandry is the correct answer as it exemplifies diversification in agriculture, adding both economic resilience and operational variety to traditional farming practices.

Quick Tip

Agricultural diversification, such as through animal husbandry, plays a crucial role in risk mitigation and income stabilization for farmers.

---

22. Read the following statements carefully: Statement 1: Outsourcing is one of the important outcomes of the globalization process. Statement 2: Owing to globalization, many Indian companies have expanded their operation abroad.

(A) Statement 1 is true and Statement 2 is false.
(B) Statement 1 is false and Statement 2 is true.
(C) Both Statement 1 and 2 are true.
(D) Both Statement 1 and 2 are false.

Correct Answer: (C) Both Statement 1 and 2 are true.
Solution:
Statement 1 is accurate: Outsourcing is a significant aspect of globalization, where companies delegate various services or manufacturing processes to external entities, often in different countries. This practice is prevalent in sectors such as information technology, customer support, and manufacturing.
Statement 2 is correct: Due to globalization, Indian firms, especially those in the IT and service industries, have been able to grow their presence in international markets, benefiting from reduced operational costs and the potential to tap into new consumer bases.
Conclusion: Both statements are true, illustrating that outsourcing and the global expansion of Indian businesses are clear consequences of globalization.

Quick Tip

Globalization encourages outsourcing and enables companies to explore and establish operations in new global markets.

---

23. Introduction of Economic Reforms in Pakistan took place in the year ______.

(A) 1978
(B) 1980
(C) 1988
(D) 1991

Correct Answer: (C) 1988
Solution:
In 1988, under the leadership of Prime Minister Benazir Bhutto, Pakistan embarked on a significant economic reform program. These reforms were designed to liberalize the economy, diminish the dominance of state-owned enterprises, and foster growth within the private sector. The alternative dates do not align with any significant economic reform milestones in Pakistan's history.
Conclusion: Option (C) is accurate as it reflects the initiation of major economic reforms in Pakistan during 1988.

Quick Tip

The 1988 economic reforms in Pakistan were pivotal in transitioning the country towards a more market-driven economy.

---

24. Read the following statements carefully: Statement 1: China has used the Market system mechanism without losing political commitment to create additional social and economic opportunities. Statement 2: India, Pakistan, and China have similar physical endowments but totally different Political systems.

(A) Statement 1 is true and Statement 2 is false.
(B) Statement 1 is false and Statement 2 is true.

(C) Both Statement 1 and 2 are true.
(D) Both Statement 1 and 2 are false.

Correct Answer: (C) Both Statement 1 and 2 are true.
Solution:
Statement 1 is accurate: Since initiating economic reforms, China has transitioned towards a market-oriented economy, albeit under the aegis of stringent political oversight. This dual approach has broadened social and economic prospects for its population.
Statement 2 is correct: India, Pakistan, and China share similar geographical traits but diverge significantly in their political frameworks. India operates as a democracy, Pakistan has experienced multiple military interventions, and China is governed by a single-party communist system.

Conclusion: Both statements are valid, highlighting the distinct economic and political landscapes of these nations.

> Quick Tip
>
> China's blend of market-driven economic policies and tight political control underscores a unique model that contrasts sharply with the political systems of its neighbors, India and Pakistan.

---

25. —— indicator may be defined as the measure of the extent of demographic participation in Social and Political decision making in a Country.

(A) Economic
(B) Health
(C) Demographic
(D) Liberty

Correct Answer: (D) Liberty
Solution:
Liberty indicators assess the extent of freedom and participation individuals enjoy within a society, focusing particularly on involvement in social and political decision-making processes. While economic, health, and demographic indicators also provide insights into overall quality of life, liberty indicators specifically gauge the political freedoms and civil rights afforded to individuals in a community.

Conclusion: Option (D) is correct, as liberty indicators are designed to measure levels of democratic participation and civil freedoms.

> Quick Tip
>
> Liberty indicators are crucial for evaluating how freely people can participate in the political and social decisions that affect their lives.

---

26. Read the following statements carefully: Statement 1: Casual workers are hired on a permanent basis and also get social security benefits. Statement 2: Workforce comprises, both employed and unemployed persons.

(A) Statement 1 is true and Statement 2 is false.
(B) Statement 1 is false and Statement 2 is true.
(C) Both Statements 1 and 2 are true.
(D) Both Statements 1 and 2 are false.

Correct Answer: (D) Both Statements 1 and 2 are false.
Solution:
Statement 1 is incorrect:
Casual workers are generally hired on a temporary basis and do not receive social security benefits due to the nature of their employment.
Statement 2 is incorrect:
The workforce specifically includes those who are employed. Unemployed individuals, while part of the labor force, do not constitute the employed segment of the workforce.
Conclusion: Since both statements are incorrect, the correct response is option (D).

Quick Tip
It's important to differentiate between casual workers, who lack long-term employment benefits, and the broader definitions of the workforce and labor force.

---

27. The scheme of 'Micro Finance' is extended through _________ credit provision.

(A) Self help groups
(B) Land Development Banks
(C) Regional Rural Banks
(D) Commercial Banks

Correct Answer: (A) Self help groups
Solution:
Microfinance is typically extended through self-help groups (SHGs), which are community-based organizations that provide credit to low-income households.
SHGs play a vital role in providing small loans without requiring collateral, thereby helping individuals who are not served by traditional financial institutions.
Conclusion: Option (A) is correct, as SHGs are the primary providers of microfinance.

Quick Tip
Self-help groups are crucial in extending microfinance to marginalized communities.

---

28. (a) "Opening up of Suez Canal helped in establishing the British monopoly control over India's foreign trade". Justify the given statement with valid arguments.
Solution:

The opening of the Suez Canal in 1869 significantly reduced the time it took to travel between Europe and India, from several months to a matter of weeks.
This enhanced the British monopoly over India's foreign trade by making it easier and faster to move goods such as cotton, tea, and opium from India to Britain.
It further entrenched British economic dominance by facilitating the movement of raw materials from India and finished goods from Britain.
Conclusion: The opening of the Suez Canal was crucial in strengthening British control over India's foreign trade by reducing transportation costs and time, reinforcing their economic monopoly.

> Quick Tip
>
> The Suez Canal played a key role in enhancing British control over India's trade by reducing shipping time and costs.

---

28. (b) "Development of Railways during British rule encouraged colonial exploitation of the Indian resources." Justify the given statement with valid arguments.
Solution:
The British developed railways in India primarily to transport raw materials such as cotton, indigo, and minerals to ports for shipment to Britain.
This transportation network was designed to extract India's resources efficiently for the benefit of Britain, rather than to foster economic development within India itself.
While it enabled faster movement of goods, it also facilitated the extraction of wealth, with limited focus on benefiting the Indian economy or improving local infrastructure.
Conclusion: The development of railways under British rule primarily served the interests of colonial exploitation by facilitating the extraction of resources rather than benefiting India's economic development.

> Quick Tip
>
> Railways under British rule were primarily built for resource extraction rather than domestic economic growth in India.

---

29. Explain the role of affordable healthcare facilities in promoting human capital in a country.
Solution:
Affordable healthcare is essential for human capital development as it directly enhances the health and overall well-being of the populace, making them more productive members of the workforce.
Ensuring that individuals have access to healthcare means they are healthier, have longer life expectancies, and can contribute more effectively and consistently to the economic system.
Additionally, it helps reduce absenteeism at work and boosts efficiency by lessening the impact of diseases and health issues on the economic productivity.
Conclusion: Affordable healthcare is critical in fostering human capital development by im-

proving health outcomes, which in turn boosts productivity and contributes to broader economic growth.

> 💡 Quick Tip
>
> Investing in affordable healthcare is key to enhancing human capital, which is pivotal for increasing both individual productivity and overall economic performance.

---

30. From the given data compare and analyse the Population Density and Fertility Rate of China and Pakistan, with valid reasons:

Demographic Indicators, 2017-18

Country	Estimated Population (in million)	Annual Growth of Population	Population Density (per sq. km)	Sex Ratio	Fertility Rate	Urbanisation
India	1352	1.03	455	924	2.2	34
China	1393	0.46	148	949	1.7	59
Pakistan	212	2.05	275	943	3.6	37

Solution:

Population Density:

Despite having a significantly larger population of 1.393 billion, China's population density is only 148 per square kilometer, which is much lower compared to Pakistan's 275 per square kilometer. This lower density in China is due to its vast geographical area and uneven population distribution across its regions.

Conversely, Pakistan, with its relatively smaller geographical area, exhibits a higher population density, reflecting a more tightly concentrated population.

Fertility Rate:

China's fertility rate is 1.7, markedly lower than Pakistan's 3.6. This disparity is largely a result of China's previously enforced one-child policy, which significantly curbed population growth over decades. In contrast, Pakistan's higher fertility rate is influenced by factors such as cultural preferences for larger families, limited access to contraceptive methods, and varying socio-economic factors.

Conclusion: China's lower population density and fertility rate, relative to Pakistan, are shaped by its expansive land area, historical population control policies, and differing economic conditions.

> 💡 Quick Tip
>
> Population density and fertility rates are influenced by a mix of geographical, policy, and socio-economic factors, impacting how densely populated or how quickly a population grows in a country.

---

31. (a) (i) "Infrastructural development is an essential element to obtain the full potential of the rural sector in India". Justify the given statement with valid arguments.

Solution:

Infrastructure development is crucial for enhancing the economic prospects of rural sectors in India. Key benefits include:

Improved Connectivity:
Investing in roads, bridges, and telecommunications bridges the gap between rural and urban areas, enabling better access to markets, which boosts the incomes of farmers and rural entrepreneurs.
Access to Basic Services:
Enhancements in electricity, water, healthcare, and education infrastructure significantly improve living standards and enable greater economic activity in rural regions.
Rural Industrialization:
Developing infrastructure supports the growth of small and cottage industries in rural areas, which creates jobs locally and reduces the need for migration to urban centers.
Agricultural Productivity:
Improvements in irrigation systems, storage facilities, and transport networks increase agricultural efficiency and output, supporting more stable rural economies.
In conclusion, robust infrastructure is key to unlocking the economic potential of rural India, aiding in job creation, poverty reduction, and overall economic development.

Quick Tip

Strategic infrastructure improvements in rural India are essential for accelerating agricultural productivity, improving market access, and fostering sustainable economic growth. Focus areas should include enhancing transportation networks, irrigation facilities, and digital infrastructure to support a vibrant rural economy.

31.(a) (ii) Meaning of 'Human Development':
Solution: Human development encompasses the broad enhancement of individual freedoms, opportunities, and general well-being. Key aspects include:

Health Enhancement: Providing access to comprehensive healthcare services that increase life expectancy and lower mortality rates.

Educational Growth: Facilitating access to quality education that equips people with the knowledge and skills necessary for improving their economic status and quality of life.

Economic Stability: Generating opportunities for meaningful employment, ensuring social security, and promoting income equity.

Human development is a comprehensive approach focused on expanding the capabilities and choices available to individuals, thereby improving their overall quality of life.

Quick Tip

Human development is fundamental to increasing overall quality of life and encompasses enhancing healthcare, education, and economic opportunities to ensure comprehensive improvement in individual well-being.

OR

31. (b) "In a nation like India, self employment provides an important avenue for employment generation." Defend or refute the given statement with valid arguments.

Solution:

Self-employment plays a crucial role in India's employment landscape, especially considering the following factors:

High Employment Capacity:

Given the vast rural demographic and limited formal employment opportunities, self-employment acts as a vital livelihood source. Common self-employment sectors include agriculture, handicrafts, and small-scale businesses.

Promotion of Entrepreneurship and Innovation:

Self-employment encourages entrepreneurial spirit and innovation, enabling individuals to start and manage businesses that meet the needs of their local and broader markets.

Accessibility:

Self-employment provides an accessible employment route with fewer barriers compared to formal sectors, which often demand specific qualifications or skill sets. This is particularly beneficial in rural areas where such prerequisites may be hard to meet.

Supportive Government Policies:

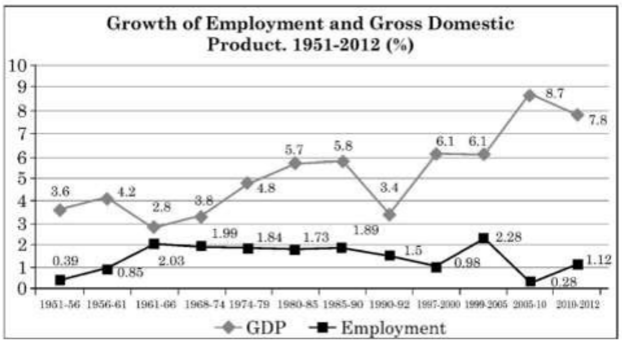
Government initiatives such as the Prime Minister's Employment Generation Programme (PMEGP) and MUDRA Yojana enhance this sector by offering financial aid, skill training, and other supportive resources.

In summary, self-employment is indispensable in India, serving as a significant employment generator across various population segments.

> Quick Tip
>
> Self-employment not only facilitates income generation in underdeveloped areas but also stimulates local economies through entrepreneurship and innovation. Government support is crucial in amplifying these benefits.

---

32. (a) (i) Study the following chart of Employment and Gross Domestic Product. Analyse the trend of the two variables between 1990-2012. Analysis of the trend between 1990-2012:



Solution: The graph illustrates the growth rates of Employment and GDP from 1951 to 2012, with a focus on the period from 1990 to 2012:

- GDP Growth: The GDP growth exhibited a variable trend. It started at a modest pace in the early 1990s, escalated significantly between 1995 and 2005, reaching highs of over 8 percent, indicative of robust economic expansion. Post-2005, there was a noticeable deceleration in GDP growth rates.
- Employment Growth: Throughout this period, the growth in employment lagged behind GDP growth. Starting off low in the early 1990s, there was some improvement, but the growth remained relatively modest, especially in comparison to the swift GDP increases.
- Jobless Growth: Particularly from 2000 to 2012, the disparity between GDP growth and employment growth widened markedly, characterizing a period of "jobless growth" where the economy expanded significantly without a corresponding increase in employment opportunities.

Conclusion: From 1990 to 2012, there was substantial economic growth, particularly noted during the 2000s. However, employment growth did not mirror this economic boom, indicating a phase of jobless growth where the economy advanced without proportional job creation.

32.(a) (ii) Define Worker-Population Ratio.

Solution: Worker-Population Ratio:

This ratio represents the percentage of the working-age population that is either employed or actively looking for work. It is determined by dividing the number of employed individuals by the total population within the working-age group.

Quick Tip

Jobless growth is characterized by an expanding economy that does not proportionally increase employment opportunities. Understanding the worker-population ratio is essential as it provides insight into the level of active engagement of the potential workforce in the economy.

---

33 (a). (i) "Indian economy has certain advantages, which have made it a favourite outsourcing destination." Do you agree with the given statement? Give valid reasons in support of your answer.

Solution: Why India is a Premier Outsourcing Destination:

India has leveraged several key strengths to position itself as a top destination for global outsourcing:

Skilled Labor Force: With an extensive pool of talented professionals, especially in IT, customer service, and administrative support, India offers a competitive edge. The widespread proficiency in English and a high number of educated individuals further enhance its attractiveness for outsourcing.

Cost Efficiency: Labor costs in India are considerably lower than in developed countries, providing significant cost savings for companies seeking to minimize operational expenses. This financial advantage is a major draw for firms outsourcing various functions such as IT, manufacturing, and customer service to India.

Supportive Government Policies: The Indian government has been proactive in cultivating a favorable environment for outsourcing. Initiatives include tax benefits, the establishment of Special Economic Zones (SEZs), and relaxed norms for foreign direct investment.

Advanced Technological Infrastructure: The continuous improvement of India's technological infrastructure, including widespread internet connectivity and sophisticated communication technologies, especially in tech-centric cities like Bengaluru, has been pivotal in its emergence as a leading outsourcing hub.

In conclusion, India's combination of skilled labor, cost benefits, progressive policies, and robust infrastructure positions it as a preferred choice for outsourcing.

Quick Tip

India's strategic advantages in outsourcing are underpinned by its skilled workforce, cost-effectiveness, enhanced technological capabilities, and supportive governmental policies. Furthermore, the time zone difference allows for around-the-clock operations, which is a crucial benefit for international businesses.

33.(a) (ii) "In the post-reform period the government of India decided to privatise profit making Public Sector Undertakings (PSUs)." Do you agree with the given statement? Give valid arguments in support of your answer.

Solution: Rationale for Privatizing Profit-making PSUs in India:

The initiative to privatize profit-making public sector undertakings (PSUs) in India post-economic reforms was supported by multiple factors:

Enhanced Efficiency and Market Competitiveness: The transition of ownership from public to private sectors was intended to boost the operational efficiency of PSUs and enhance their competitiveness internationally. The private sector's emphasis on profitability and effective management practices was expected to drive improvements.

Fiscal Benefits: Privatization generates significant revenue for the government, which can be utilized to diminish fiscal deficits or allocate resources towards social welfare initiatives. This influx of capital from the sale of profitable PSUs was anticipated to alleviate fiscal burdens.

Economic Liberalization: The privatization strategy was a component of the comprehensive economic reforms initiated in 1991, aimed at deregulating and opening the Indian economy to market dynamics, thereby stimulating growth across various sectors.

Attraction of Foreign Direct Investment (FDI): Selling stakes in PSUs to private entities, including foreign investors, was projected to increase foreign investments, contributing to the dynamism and expansion of the Indian economy.

Privatizing profit-making PSUs was thus viewed as a critical strategy to enhance economic efficiency and support the growth within a liberalized economic framework.

> Quick Tip
>
> Privatization of profit-making PSUs aligns with broader economic liberalization goals, aiming to boost efficiency, reduce public financial burdens, and attract more foreign investment, thereby stimulating economic growth.

OR

33. (b). (i) Explain the need and type of land reforms implemented in the agriculture sector.

Solution: Land reforms were implemented in India to rectify disparities in land distribution and enhance agricultural efficiency. The primary types of land reforms included:

Abolition of the Zamindari System:

This system historically allowed zamindars (landlords) to exploit tenants. The abolition was intended to eliminate this intermediary role and transfer land ownership directly to the farmers who worked the land, thereby promoting fairer land distribution.

Land Ceiling Legislation:

These laws were introduced to cap the amount of land that any single individual or family could own, with the surplus land being redistributed to landless farmers. The goal was to prevent excessive land accumulation by a few and promote broader land ownership among the rural population.

Tenancy Reforms:

These reforms aimed to secure the rights of tenants by preventing arbitrary evictions and ensuring more stable rent agreements, thereby offering greater security and incentives for tenants to invest in improving the land.

Consolidation of Holdings:

The consolidation efforts targeted the common issue of fragmented landholdings, aiming to amalgamate small, scattered plots into larger, more manageable parcels. This was expected to increase agricultural productivity and reduce cultivation costs.

Quick Tip

Land reforms are crucial for fostering equitable land distribution and enhancing agricultural productivity. They involve eliminating exploitative systems, imposing land ownership ceilings, securing tenant rights, and consolidating farmland, all aimed at reducing inequality and boosting agricultural output.

33. (b). (ii) "Industrial sector performed poorly in the economic reform period." Elucidate the given statement.

Solution: Industrial Sector's Poor Performance in the Reform Period:

While India's economic reforms from 1991 onwards led to significant growth in many sectors, the industrial sector faced challenges:

Slow Growth in Industrial Output:

Despite liberalisation, industrial growth remained slow for certain industries, especially traditional sectors that were not competitive globally.

Infrastructure Constraints:

The lack of proper infrastructure such as power supply, transport, and technology hindered the growth of the industrial sector. Inadequate infrastructure increased costs and made Indian products less competitive in the global market.

Lack of Investment in Manufacturing:

While services grew rapidly, the manufacturing sector struggled to attract investment. The focus on IT and services meant that manufacturing took a backseat in the post-reform period.

Global Competition:

The opening up of the economy exposed Indian industries to international competition. Many Indian industries were not well-prepared to compete with cheap imports, leading to a decline in their market share.

Thus, the industrial sector's performance was constrained by multiple factors during the reform period, preventing it from achieving the desired growth rates.

Quick Tip

Privatisation of PSUs can lead to better efficiency and global competitiveness, but it also requires careful management to ensure fair outcomes for workers and stakeholders.

---

34. Read the following text carefully:

India has aimed to reduce the country's carbon intensity by approximately 45 percent by 2030. To achieve this 'Green finance' plays a vital role. At the initial stages, green finance needs a big push from the government. The Indian government has identified projects worth Rs. 25,000 crore that will be financed by proceeds from Sovereign Green Bonds.

According to the framework approved by finance ministry, the sovereign green bonds will focus on financing public projects including renewable energy, climate change, clean transportation, sustainable water and waste management and pollution control.

Businesses that take green finance can get benefit in various ways. It can help them

follow different environmental norms and regulations and thus avoid possible fines. Adopting sustainable developmental practices enhances brand value of businesses. Customers tend to prefer brands that adopt clear sustainable development practices. The energy-efficient and other sustainable development practices promoted by green finance also often help in saving cost, boosting profitability of businesses etc.

-The Economic Times, April 22, 2023 (Modified) On the basis of given text and common understanding, answer the following questions:

34. (a) Define sustainable development.

Solution: Sustainable development involves advancing in a manner that satisfies current societal needs without undermining future generations' capacity to fulfill their requirements. This approach emphasizes the harmonization of three core elements: economic growth, social inclusion, and environmental protection.

> Quick Tip
>
> Sustainable development ensures a balanced approach to *economic prosperity, social equity, and environmental responsibility.*

---

34. (b) State the public project areas where Sovereign Green Bonds are focused.

Solution: Sovereign Green Bonds are issued to fund projects that have a beneficial environmental impact. These bonds typically support investments in:

- Renewable energy sources, such as solar, wind, and hydro power projects
- Infrastructure that improves energy efficiency, like green buildings
- Public transportation systems that contribute to reduced carbon emissions
- Practices in sustainable agriculture and responsible land use
- Initiatives for climate change adaptation and mitigation
- Conservation efforts aimed at preserving biodiversity and ecosystems

> Quick Tip
>
> Focus on "Renewables, Efficiency, Conservation, and Climate Action" when considering the impact of Sovereign Green Bond investments.

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34. (c) How can businesses benefit from green finance?

Solution: Businesses can capitalize on green finance through various benefits, including:

- **Access to Capital:** Securing funding for environmentally friendly projects.
- **Reduced Financing Costs:** Lower interest rates on green financial instruments such as green bonds.

- **Improved Corporate Reputation:** Enhancing public image by demonstrating commitment to sustainable practices.
- **Compliance with Regulations:** Aligning operations with environmental regulations to avoid penalties.
- **Increased Resilience:** Strengthening the ability to withstand environmental challenges and market shifts.

Quick Tip

Leveraging green finance offers businesses opportunities to reduce costs, enhance their reputation, and ensure compliance with evolving environmental standards.