CBSE Class XII Economics(58/2/3) Set III Question Paper with Solutions

Time Allowed : 3 Hours	**Maximum Marks :** 80	**Total Questions :** 34

General Instructions

Read the following instructions carefully and 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 a few questions. Only one of the choices in such questions has to be attempted.

SECTION A

Macro Economics

1. Identify which of the following will appear on the debit side in the Capital Account of India's Balance of Payments:

(A) An Indian sending remittances from England.

(B) Investing in assets abroad by Indians.

(C) An American company purchasing shares of an Indian company.

(D) Export of spices from India.

Correct Answer: (B) Investing in assets abroad by Indians.
Solution: Investing in assets abroad by Indians represents an outflow of funds from the economy, which is recorded as a debit entry in the Capital Account of the Balance of Payments.

Quick Tip

Capital account debit entries represent outflows of funds, such as investments abroad or repayment of loans.

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2. Identify which of the following is *not* one of the merits of a fixed exchange rate system:

(A) Ensures stability in exchange rate.

(B) Possibility of under or overvaluation of foreign currency.

(C) Prevents speculations in foreign exchange market.

(D) Coordination of macroeconomic policies becomes convenient.

Correct Answer: (B) Possibility of under or overvaluation of foreign currency.
Solution: The possibility of under or overvaluation of foreign currency is a limitation of the fixed exchange rate system, not a merit. Fixed exchange rates provide stability but can lead to currency misvaluation.

Quick Tip

Fixed exchange rates provide stability but can lead to currency misvaluation due to lack of market adjustment.

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3. Read the following statements carefully:
Statement 1: A consumption function describes the relationship between consumption and savings.
Statement 2: Consumption function consists of two components—autonomous consumption and induced consumption.
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: (B) Statement 1 is false and Statement 2 is true.
Solution: Statement 1 is false because the consumption function describes the relationship between consumption and income, not savings. Statement 2 is true because the consumption

function has two components: autonomous consumption (independent of income) and induced consumption (dependent on income).

Quick Tip

The consumption function reflects the relationship between consumption and income, not savings.

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4. Read the following statements carefully:
Statement 1: Economic territory and political frontier of a nation are one and the same thing.
Statement 2: American Embassy in India is a part of the economic territory of India.
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: (D) Both statements 1 and 2 are false.
Solution:
Statement 1: Economic territory and political frontier of a nation are not necessarily the same. While they overlap in most cases, economic territory includes embassies abroad and excludes foreign embassies within the nation's borders. Hence, Statement 1 is false.

Statement 2: The American Embassy in India is not part of India's economic territory; it is considered part of the United States' economic territory. Therefore, Statement 2 is also false.

Thus, the correct answer is (D), as both statements are false.

Quick Tip

Economic territory often overlaps with political boundaries but includes embassies and consulates abroad while excluding foreign embassies within a nation.

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5. Identify the *incorrect* statement with reference to Cash Reserve Ratio (CRR):

(A) It is a certain percentage of demand and time deposit liabilities that every bank must keep as cash reserves with the Central Bank.

(B) It is fixed by the Central Bank.

(C) It is not binding on the commercial banks.

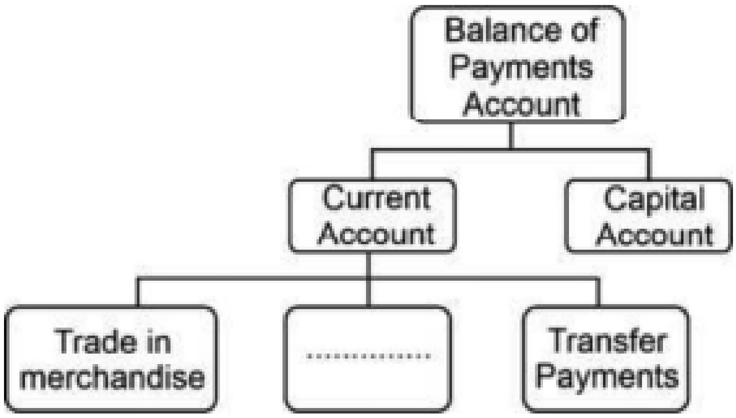
(D) It is a tool used by the Central Bank to control the credit creation in the economy.

Correct Answer: (C) It is not binding on the commercial banks.
Solution: CRR is mandatory for all commercial banks as prescribed by the Central Bank. Option (C) is incorrect because it suggests that CRR is not binding, which is false.

> Quick Tip
>
> CRR is a mandatory monetary tool used by the Central Bank to regulate liquidity and credit in the economy.

6. Study the following figure carefully and choose the correct alternative to fill in the blank:

Balance of Payments Account



Alternatives:

(A) Investments

(B) Trade of Services

(C) External Borrowings

(D) External Assistance

Correct Answer: (B) Trade of Services
Solution: The Current Account in the Balance of Payments includes trade in goods (merchandise), trade in services, and transfer payments. Therefore, the correct alternative to fill in the blank is **Trade of Services**.

> Quick Tip
>
> The Current Account records trade in goods, trade in services, and unilateral transfers, while the Capital Account deals with investments and borrowings.

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7. Read the following statements carefully:
Statement 1: Money is a commodity which is generally accepted as a medium of exchange.
Statement 2: Money solved the problem of double coincidence of wants.
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 true because money is universally accepted as a medium of exchange, enabling trade and transactions. Statement 2 is also true because money eliminates the problem of double coincidence of wants by acting as a medium of exchange in the economy.

> Quick Tip
>
> Money resolves the limitations of the barter system by acting as a universal medium of exchange.

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8. Suppose in an imaginary economy, autonomous consumption = 500 crore and marginal propensity to consume = 0.8. The saving function for the economy would be _____.
(Choose the correct alternative to fill in the blank):

(A) $500 + 0.8Y$

(B) $-500 + 0.8Y$

(C) $500 + 0.2Y$

(D) $-500 + 0.2Y$

Correct Answer: (D) $-500 + 0.2Y$
Solution:

1. The consumption function is given as:

$$C = 500 + 0.8Y$$

2. The saving function (S) is derived as:

$$S = Y - C$$

Substituting C into the equation:

$$S = Y - (500 + 0.8Y) = -500 + 0.2Y$$

> Quick Tip
>
> The saving function can be calculated using $S = Y - C$, where C is the consumption function.

9. Read the following statements: Assertion (A) and Reason (R). Choose the correct alternative from those given below:

Assertion (A): The equilibrium level of income is determined when ex-ante spending and ex-ante output are equal.
Reason (R): The equilibrium level of income may or may not be the same as the full employment level of output.
Alternatives:

(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: (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is *not* the correct explanation of Assertion (A).
Solution: Assertion (A) is true because the equilibrium level of income is achieved when planned (ex-ante) spending equals planned (ex-ante) output, ensuring no unintended inventory changes. Reason (R) is also true because the equilibrium level of income may occur below or above the full employment level due to variations in aggregate demand. However, Reason (R) does not directly explain Assertion (A) because equilibrium income is based on planned spending and output rather than employment considerations.

> Quick Tip
>
> Equilibrium income is achieved when planned spending equals planned output, but it may differ from full employment output due to fluctuations in aggregate demand.

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10. Read the following statements: Assertion (A) and Reason (R). Choose the correct alternative from those given below:
Assertion (A): The maximum value of Marginal Propensity to Save (MPS) can be unity.
Reason (R): At the break-even level of income, savings are zero.
Alternatives:

(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: (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is *not* the correct explanation of Assertion (A).
Solution: Assertion (A) is true because the maximum value of MPS can be unity in a theoretical case where the entire additional income is saved. However, this rarely happens in real-world economies.

Reason (R) is also true because at the break-even level of income, all income is consumed, and savings are zero. However, Reason (R) does not directly explain Assertion (A), as break-even income is a point where savings transition from negative to positive, while MPS is a measure of how additional income is allocated.

> **Quick Tip**
>
> MPS can theoretically be unity if all additional income is saved. At break-even income, savings are zero as income equals consumption.

11(a). "Accommodating transactions are undertaken to maintain stability in the Balance of Payments Account."
Justify the given statement with a valid explanation.
Solution:

1. Accommodating transactions in the Balance of Payments (BoP) are non-market-driven transactions undertaken by the government or central bank to correct imbalances in the BoP.
2. These transactions are used to bridge gaps when there is a deficit in the current account or capital account.
3. Example: Borrowing from international organizations like the IMF or drawing down foreign exchange reserves to address a deficit.

> **Quick Tip**
>
> Accommodating transactions aim to stabilize the Balance of Payments by addressing deficits through government or central bank interventions.

11(b). "Depreciation of currency may promote exports of a nation."
Defend or refute the given statement with valid arguments.
Solution: The given statement is defended. When the domestic currency of an economy depreciates, it means that its value has declined relative to foreign currencies. This depreciation makes domestically produced goods and services relatively cheaper in international markets compared to foreign goods. As a result, international buyers find it more cost-effective to purchase goods from the depreciating country, leading to an increase in exports.
Mechanism of Currency Depreciation and Its Impact on Exports:

1. **Increase in Export Competitiveness:** When a country's currency depreciates, its products become more affordable for foreign consumers. This makes the country's exports more competitive in global markets, leading to an increase in demand.
2. **Higher Foreign Demand:** Due to lower prices, foreign buyers tend to prefer purchasing goods and services from the country experiencing depreciation. This rise in demand stimulates production, employment, and overall economic growth.
3. **Trade Balance Improvement:** A rise in exports helps improve the trade balance by increasing the inflow of foreign exchange. This can help in reducing trade deficits or achieving a trade surplus over time.

4. **Effect on Domestic Producers:** With increased demand for exports, domestic industries benefit as they experience higher sales and profitability. This can lead to expansion in production and investment in the domestic market.

5. **Potential Drawbacks:** While depreciation promotes exports, it can also have some adverse effects. The cost of imports rises, making foreign goods more expensive for domestic consumers. This can lead to inflationary pressures as essential imported goods, such as oil and machinery, become costlier.

Example: If the Indian rupee depreciates against the US dollar (e.g., from 75/USD to 85/USD), Indian goods become cheaper for American buyers. This makes Indian exports more attractive, boosting India's export sector and increasing foreign exchange earnings.

Conclusion: Depreciation of a currency generally promotes exports by making them more competitive in global markets. However, it is important to monitor inflation and import costs to ensure economic stability.

> Quick Tip
>
> Currency depreciation enhances a nation's export competitiveness by reducing the price of its goods in foreign markets, increasing global demand. However, it can also raise import costs, leading to inflation.

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12. On the basis of the data given below, estimate the value of Gross National Product at Factor Cost (GNP_{FC}):

S.No.	**Items**	**Amount (in crore)**
(i)	Wages and Salaries	2,000
(ii)	Rent and Interest	800
(iii)	Corporate Tax	500
(iv)	Undistributed Profit	300
(v)	Dividend	200
(vi)	Depreciation	150
(vii)	Net Factor Income from Abroad	-50

Correct Answer: $GNP_{FC} = 3,900\,\text{crore}$
Solution:

1. The formula for GNP_{FC} is:

$$GNP_{FC} = Wages\,\&\,Salaries + Rent\,\&\,Interest + CorporateTax + UndistributedProfit + Dividend +$$

2. Substituting the given values:

$$GNP_{FC} = 2000 + 800 + 500 + 300 + 200 + 150 + (-50)$$

3. Simplifying:

$$GNP_{FC} = 2000 + 800 + 500 + 300 + 200 + 150 - 50$$

$$GNP_{FC} = 3,900\,\text{crore}$$

4. The calculated Gross National Product at Factor Cost (GNP_{FC}) is 3,900 crore.

Quick Tip

To calculate GNP_{FC}, sum all factor incomes, including wages, interest, corporate profits, and net factor income from abroad. Depreciation should be included if given.

13(a). "If actual demand for final goods falls short of the actual output of final goods corresponding to full employment level, it may lead to an unintended accumulation of inventories."
Do you agree with the given statement? Give valid reasons in support of your answer.
Solution:
Yes, the given statement is correct. If the actual demand for final goods falls short of the actual output corresponding to the full employment level, it implies that the demand by all consumers and firms is less than the level of output produced at full employment. Consequently, this situation leads to an increase in the stock of unsold goods, resulting in an unintended accumulation of inventories.
Explanation:

1. **Excess Supply Situation:** At full employment, firms produce goods and services based on expected demand. However, if actual aggregate demand is lower than expected, it results in excess supply.
2. **Unintended Inventory Accumulation:** Since firms produce goods based on full employment output but actual demand is lower, unsold goods start accumulating in their inventories. This unintended stockpiling of goods signals that the economy is producing more than what is being purchased.
3. **Impact on Firms:** The accumulation of unsold inventories puts pressure on firms as they face declining revenues due to lower sales. To avoid further losses, firms may decide to cut back on production in future periods.
4. **Effect on Employment and Income:** When firms reduce production, they require fewer workers, leading to layoffs and a decrease in employment levels. As employment declines, household incomes also decrease, further reducing consumption and demand in the economy.
5. **Potential Economic Slowdown:** If this cycle continues, it can push the economy below its full employment level, leading to reduced output, lower growth, and economic contraction.

Quick Tip

When actual demand falls short of full employment output, firms experience unintended inventory accumulation, leading to reduced production, lower employment, and potential economic slowdown.

OR

13(b). Complete the following table. Construct the consumption function at 200 crore level of income.

Income (Y) (in crore)	Savings (S) (in crore)	Average Propensity to Consume (APC)	Marginal Propensity to Save (MPS)
0	-50	–	–
100	...	1	...
200	...	$\frac{3}{4}$	...
300	...	$\frac{2}{3}$	...

Solution:
Completed Table:

Income (Y) (in crore)	Savings (S) (in crore)	Average Propensity to Consume (APC)	Marginal Propensity to Save (MPS)
0	-50	–	–
100	0	1	0.5
200	50	$\frac{3}{4}$	0.5
300	100	$\frac{2}{3}$	0.5

Calculation of Savings:

- **Savings Formula:** $S = Y - C$ where C is Consumption.
- At $Y = 100$, since $APC = 1$, we get $C = Y \Rightarrow C = 100$, so $S = 100 - 100 = 0$.
- At $Y = 200$, given $APC = \frac{3}{4}$, we get $C = \frac{3}{4} \times 200 = 150$, so $S = 200 - 150 = 50$.
- At $Y = 300$, given $APC = \frac{2}{3}$, we get $C = \frac{2}{3} \times 300 = 200$, so $S = 300 - 200 = 100$.

Calculation of Marginal Propensity to Save (MPS):

- $MPS = \frac{\Delta S}{\Delta Y}$.
- Between $Y = 100$ and $Y = 200$, $\Delta S = 50 - 0 = 50$ and $\Delta Y = 200 - 100 = 100$, so $MPS = \frac{50}{100} = 0.5$.
- Similarly, between $Y = 200$ and $Y = 300$, $\Delta S = 100 - 50 = 50$ and $\Delta Y = 300 - 200 = 100$, so $MPS = \frac{50}{100} = 0.5$.

Consumption Function:

- The consumption function follows the form:

$$C = \bar{C} + bY$$

  where $\bar{C}$ is autonomous consumption and b is the Marginal Propensity to Consume (MPC).
- Given that $C = 100$ when $Y = 100$, and we know $MPC = 1 - MPS = 1 - 0.5 = 0.5$.
- Using the equation:

$$100 = \bar{C} + 0.5(100)$$

  Solving for $\bar{C}$:

$$\bar{C} = 100 - 50 = 50$$

- Thus, the consumption function is:

$$C = 50 + 0.5Y$$

> **Quick Tip**
>
> Use the formula $S = Y - C$ to find savings, $APC = \frac{C}{Y}$ to measure consumption relative to income, and $MPS = \frac{\Delta S}{\Delta Y}$ to determine the marginal saving rate.

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14. "An increase in the credit creation capacity of commercial banks has a direct impact on the money supply in an economy."
Discuss the given statement.
Solution:
Commercial banks perform the function of credit creation. The amount of credit creation depends upon the initial deposits and the reserve ratio maintained by banks. This process plays a crucial role in determining the money supply in an economy.
Mechanism of Credit Creation and Its Impact on Money Supply:

1. **Credit Creation by Banks:** Commercial banks accept deposits from individuals and businesses. A portion of these deposits is kept as reserves, while the remaining amount is given out as loans. The money lent by banks is again deposited in the banking system, creating multiple layers of deposits, thereby increasing the money supply.

2. **Role of the Reserve Ratio:** The credit creation capacity of commercial banks depends on the reserve ratio (Cash Reserve Ratio - CRR and Statutory Liquidity Ratio - SLR) set by the Central Bank. A decrease in these ratios increases the lending capacity of banks, leading to higher credit creation and a greater money supply.

3. **Money Multiplier Effect:** When banks lend money, the same money re-enters the banking system as deposits, enabling further lending. This continuous cycle leads to the **money multiplier effect**, where the total money supply becomes a multiple of the initial deposit.

4. **Impact on Money Supply and Economic Growth:** With an increase in the amount of credit creation, the money circulating in the economy rises multiple times. This increased money supply boosts economic activities, leading to higher consumption, investment, and economic growth.

> **Quick Tip**
>
> Credit creation by commercial banks plays a vital role in increasing the money supply. A lower reserve ratio enables higher lending, leading to a multiplied expansion of money in the economy.

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15. For a hypothetical economy, assume the government increased an infrastructural investment by 30,000 crore. 80% of additional income is consumed in the economy. Estimate the increase in income and the corresponding increase in consumption expenditure in the economy.

Solution:

Given:

- Increase in Investment $(\Delta I) =$ 30,000 crore
- Marginal Propensity to Consume (MPC) = 80% = 0.8

Step 1: Calculate the Multiplier (K)

The multiplier is given by the formula:

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

Substituting the values:

$$K = \frac{1}{1 - 0.8} = \frac{1}{0.2} = 5$$

Step 2: Calculate the Increase in Income (ΔY)

The increase in income is given by:

$$\Delta Y = K \times \Delta I$$

Substituting the values:

$$\Delta Y = 5 \times 30,000$$
$$= 1,50,000 \text{ crore}$$

Step 3: Calculate the Increase in Consumption Expenditure (ΔC)

The increase in consumption expenditure is calculated as:

$$MPC = \frac{\Delta C}{\Delta Y}$$

Rearranging:

$$\Delta C = MPC \times \Delta Y$$

Substituting the values:

$$\Delta C = 0.8 \times 1,50,000$$
$$= 1,20,000 \text{ crore}$$

Final Answer:

- **Increase in Income $(\Delta Y) =$ 1,50,000 crore**
- **Increase in Consumption Expenditure $(\Delta C) =$ 1,20,000 crore**

> Quick Tip
>
> The income multiplier effect amplifies an initial investment in the economy. The total income change is determined using $\Delta Y = K \times \Delta I$, and consumption change is calculated as $\Delta C = MPC \times \Delta Y$.

16(a)(i). Distinguish between direct tax and indirect tax with the help of suitable examples.

Solution:

Direct Tax	Indirect Tax
Imposed directly on the income or wealth of individuals and entities.	Imposed on goods and services; paid indirectly by consumers.
Example: Income Tax, Corporate Tax.	Example: GST, Excise Duty.
Collected directly by the government from taxpayers.	Collected by intermediaries (like sellers) and paid to the government.

Quick Tip

Direct taxes are income-based, while indirect taxes are consumption-based. Examples: Income Tax (direct) and GST (indirect).

16(a)(ii). Explain the 'reallocation of resources' objective of Government Budget.

Solution:

Reallocation of Resources: The government, through its budgetary policies, tries to reallocate resources to ensure the fulfillment of various socio-economic objectives.

The government may influence the allocation of resources through:

- **Taxation Policy:** Heavy taxes may be imposed on harmful products to discourage their production, while subsidies may be provided for the production of socially useful products to encourage their growth.
- **Direct Government Intervention:** The government may directly undertake the production of certain goods and services in areas where the private sector may not be willing to participate in production activities.

Quick Tip

Reallocation of resources through government budgeting ensures balanced economic development by using taxation, subsidies, and direct public sector involvement in key areas.

OR

16(b)(i). Suppose the following data is presented for an imaginary economy:

S.No.	Items	Amount (in Crore)
(i)	Tax Receipts	1,200
(ii)	Revenue Expenditure	3,700
(iii)	Non-Tax Receipts	2,000
(iv)	Recovery of Loans	145
(v)	Capital Expenditure	500
(vi)	Disinvestment	120
(vii)	Interest Payments	1,070

Calculate Revenue Deficit and Fiscal Deficit.

Solution:

(a) **Revenue Deficit:**

$$\text{Revenue Deficit} = \text{Revenue Expenditure} - \text{Revenue Receipts}$$

$$\text{Revenue Receipts} = \text{Tax Receipts} + \text{Non-Tax Receipts} = 1,200 + 2,000 = 3,200$$

$$\text{Revenue Deficit} = 3,700 - 3,200 = 500\,\text{crore}.$$

(b) **Fiscal Deficit:**

$$\text{Fiscal Deficit} = \text{Total Expenditure} - \text{Total Receipts (excluding borrowings)}$$

Total Expenditure = Revenue Expenditure + Capital Expenditure = $3,700 + 500 = 4,200$ Total Receipts (excluding borrowings) = Revenue Receipts + Recovery of Loans + Disinvestment = $3,200 + 145 + 120 = 3,465$

$$\text{Fiscal Deficit} = 4,200 - 3,465 = 735\,\text{crore}.$$

Quick Tip

Revenue Deficit is the shortfall of revenue receipts compared to revenue expenditure, while Fiscal Deficit includes both revenue and capital shortfalls.

16(b)(ii). Differentiate between public provision and public production.

Solution:

Public Provision	**Public Production**
It refers to the supply of goods and services by the government, funded through taxes or other sources.	It refers to the production of goods and services by government-owned entities.
Example: Free education in government schools.	Example: Production of electricity by state-owned companies.
May involve private sector participation for delivery.	Entirely managed and controlled by the public sector.

Quick Tip

Public provision focuses on supplying services funded by the government, while public production involves government-owned entities producing goods.

17. Read the following text carefully:

Decisions taken by factors of production in the production process often may affect the stakeholders indirectly. Such impacts at times are huge but are not accounted for, while estimating national income. Economists call them as externalities and they can be positive or negative.

In this regard, many economists suggest carbon pricing as an important tool to ensure ecological balance.

Carbon pricing tries to control greenhouse gas emissions by either placing a fee on emitting or offering subsidies on lesser emission. Through instruments like carbon tax, green cess, eco tax, etc. economists suggest moving towards greener technology eliminating such negative externalities.

On the basis of the given text and common understanding, answer the following questions:

(i) Define externalities.

Solution:

(a) Externalities refer to the unintended side effects of economic activities on third parties that are not directly involved in the production or consumption of goods or services.

(b) These can be either:

- **Positive Externalities:** Benefits to third parties (e.g., planting trees improving air quality).
- **Negative Externalities:** Costs to third parties (e.g., pollution affecting nearby residents).

> Quick Tip
>
> Externalities are the unintended effects of economic activities on third parties. Positive externalities create benefits, while negative externalities impose costs, influencing government policies like taxes and subsidies.

(ii) Differentiate between positive and negative externalities.

Solution:

Positive Externalities	Negative Externalities
Positive externalities occur when an economic activity provides benefits to third parties who are not directly involved in the transaction.	Negative externalities occur when an economic activity imposes costs on third parties who are not directly involved in the transaction.
They lead to an under-consumption or under-production of beneficial goods and services since private individuals or firms do not capture all the benefits.	They lead to over-consumption or over-production of harmful goods and services since private individuals or firms do not bear the full cost.
The government may encourage positive externalities through subsidies, tax benefits, and public investment in sectors such as education and healthcare.	The government may control negative externalities through regulations, pollution taxes, and penalties on harmful activities.
Examples: Free vaccination programs reduce disease transmission, public parks provide environmental benefits, and education improves workforce skills benefiting society.	Examples: Air pollution from industries affects public health, traffic congestion increases travel time for everyone, and deforestation leads to climate change.
They contribute to overall economic and social well-being by improving quality of life and increasing productivity.	They harm social welfare by reducing the quality of life and increasing costs for society in the form of healthcare expenses, environmental degradation, and economic inefficiencies.

Quick Tip

Positive externalities create benefits for society, encouraging government support, while negative externalities impose costs, requiring regulations and control measures.

(iii) Elaborate how and why carbon pricing should be promoted.

Solution:

(a) Carbon pricing encourages a reduction in greenhouse gas emissions by:
- Charging polluters through carbon taxes or green cess.
- Offering subsidies for adopting cleaner technologies.

(b) It promotes the use of greener technology and discourages environmentally damaging practices.

(c) Addressing negative externalities helps achieve ecological balance and sustainable development.

Quick Tip

Carbon pricing helps reduce greenhouse gas emissions by making polluters pay, encouraging cleaner technologies, and fostering sustainable economic growth.

SECTION B

Indian Economic Development

18. China was able to control its rapid population growth rate owing to ______. (Choose the correct alternative to fill in the blank):

(A) Economic reforms

(B) One-Child Policy

(C) Great Proletarian Cultural Revolution

(D) Special Economic Zones

Correct Answer: (B) One-Child Policy

Solution:

(a) The One-Child Policy was introduced in China in 1979 to address its rapid population growth.

(b) It restricted most families to having only one child, significantly reducing the population growth rate over time.

(c) However, it also led to challenges such as an aging population and gender imbalance.

> Quick Tip
>
> China's One-Child Policy effectively reduced population growth but caused long-term demographic challenges like aging and gender imbalance.

19. During the British rule, India's foreign trade had various features except ______.
(Choose the correct alternative to fill in the blank):

(A) Restrictive policies of commodity production, trade and tariff

(B) British monopoly over India's exports and imports

(C) Free trade from India to the rest of the world

(D) Large export surplus

Correct Answer: (C) Free trade from India to the rest of the world

Solution:

(a) During British rule, India's foreign trade was controlled by restrictive policies aimed at serving British economic interests.

(b) There was no free trade from India to the rest of the world as trade policies were designed to maintain the British monopoly over exports and imports.

(c) India experienced a large export surplus, but the proceeds were primarily used to meet the administrative and military expenses of the British.

Quick Tip

Under British rule, India's trade policies favored British industries, limiting India's trade freedom and economic growth.

_20. Modernization is an important economic planning objective that focuses on ______.
(Choose the correct alternative to fill in the blank):

(i) Adoption of innovative technology
(ii) Equal distribution of income and wealth
(iii) Bringing positive changes in the social outlook

Alternatives:

(A) Only (i)
(B) (i) and (ii)
(C) (i) and (iii)
(D) (i), (ii), and (iii)

Correct Answer: (C) (i) and (iii)

Solution:

(a) **Modernization in economic planning focuses on:**
- **Adoption of innovative technology:** Modernization emphasizes the use of advanced technology in production processes, industries, and services to improve efficiency, productivity, and competitiveness.
- **Bringing positive changes in the social outlook:** Economic modernization encourages progressive attitudes, enhances education, promotes gender equality, and fosters an open-minded society that adapts to changing global trends.

(b) **Why Equal Distribution of Income is Not a Core Aspect of Modernization:**
- While equitable income distribution is a goal of economic planning, it falls under the objective of **economic equity** rather than modernization.
- Modernization primarily deals with **technological advancement and social progress**, rather than direct wealth redistribution.

(c) Thus, the correct answer is **(C) (i) and (iii)** as modernization is directly associated with **technological advancements and social transformation.**

Quick Tip

Modernization in economic planning focuses on adopting advanced technology and fostering positive social changes, rather than directly addressing income distribution.

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21. ______ farming is a system that is helpful in restoring, maintaining and enhancing the ecological balance.
(Choose the correct alternative to fill in the blank):

(A) Conventional

(B) Organic

(C) Chemical

(D) Multi-layered

Correct Answer: (B) Organic

Solution:

(a) Organic farming promotes ecological balance by:
- Avoiding synthetic fertilizers and pesticides.
- Using natural methods such as crop rotation, composting, and biological pest control.

(b) This method reduces pollution and conserves soil fertility, supporting sustainable agriculture.

> Quick Tip
>
> Organic farming sustains soil fertility, reduces pollution, and enhances biodiversity, making it environmentally friendly.

22. The present day rapid industrial growth in China can be traced back to the economic reforms introduced in 1978, where ______.
(Choose the correct alternative to fill in the blank):

(i) Initially reforms were initiated in agriculture, foreign trade and investment sectors

(ii) The policy of dual pricing was adopted

(iii) The Government revoked the policy of Special Economic Zones

(A) Only (i)

(B) Only (ii)

(C) (i) and (ii)

(D) (i), (ii) and (iii)

Correct Answer: (C) (i) and (ii)

Solution:

(a) In 1978, China introduced significant economic reforms:
- Reforms began in agriculture, foreign trade, and investment, setting the stage for rapid industrial growth.
- The policy of dual pricing allowed state-set prices to coexist with market-driven prices, encouraging private sector growth.

(b) The government introduced Special Economic Zones (SEZs) rather than revoking them, to attract foreign investment and boost exports.

💡 Quick Tip

China's 1978 reforms focused on agriculture, foreign trade, and dual pricing, laying the foundation for industrial growth.

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23. Read the following statements: Assertion (A) and Reason (R). Choose the correct alternative from those given below:

Assertion (A): In the recent past, Indian economy has been facing the problem of jobless growth.

Reason (R): Jobless growth refers to a situation where an economy is able to produce more goods and services without generating additional employment.

Alternatives:

(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: (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

Solution:

(a) **Assertion (A) is True:** In recent years, India has experienced economic growth without a proportional rise in employment opportunities. This phenomenon is known as jobless growth, where GDP increases but employment does not expand at the same rate.

(b) **Reason (R) is True:** Jobless growth refers to an economic situation where production and output increase due to improvements in technology, automation, and productivity, without requiring additional labor.

(c) **Why Reason (R) Does Not Explain Assertion (A) Completely:**

- While jobless growth indeed refers to increasing production without employment growth, the Indian case is influenced by multiple structural and policy factors beyond mere productivity improvements.
- Factors such as a shift towards capital-intensive industries, lack of skill development, and automation contribute significantly to India's jobless growth, making the reason a **partial explanation** rather than a direct cause.

💡 Quick Tip

Jobless growth occurs when an economy expands without a proportional rise in employment. While technological advancements contribute, structural and policy factors also play a role.

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24. Read the following statements carefully:

Statement 1: India, Pakistan and China have similar physical endowments, but totally different political systems.
Statement 2: Both India and Pakistan laid great emphasis on creating a large private sector.

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

Solution:

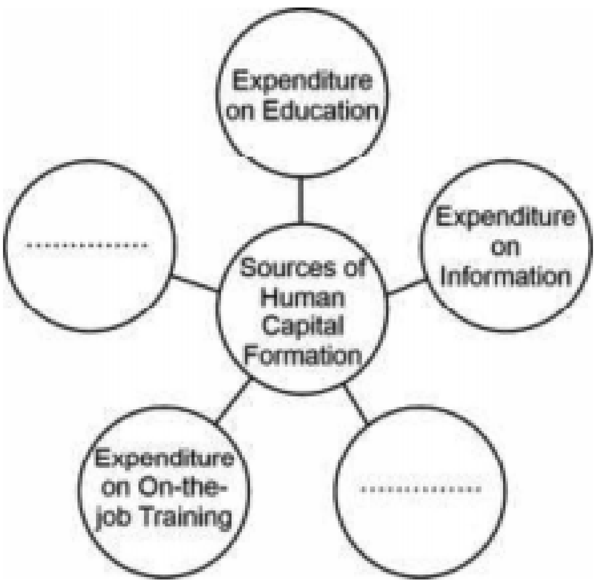
(a) **Statement 1:** This is true as India, Pakistan, and China share similar geographical features, such as fertile plains and river systems, but their political systems differ significantly.

(b) **Statement 2:** This is false because:
- India initially emphasized a mixed economy with a significant public sector.
- Pakistan also prioritized state-led initiatives, rather than focusing on creating a large private sector.

Quick Tip

India and Pakistan initially focused on state-led economic strategies, while China's political system supported centralized reforms.

25. Identify the sources of Human Capital Formation and choose the correct alternative to fill in the blanks.



(A) Expenditure on Health and Expenditure on Schools

(B) Expenditure on Technology and Expenditure on Knowledge

(C) Expenditure on Migration and Expenditure on Knowledge

(D) Expenditure on Health and Expenditure on Migration

Correct Answer: (D) Expenditure on Health and Expenditure on Migration

Solution:

(a) Human Capital Formation refers to the development of skills, knowledge, and health to increase productivity.

(b) Key sources include:

- **Expenditure on Health:** Ensures a healthy workforce capable of higher productivity.
- **Expenditure on Migration:** Allows skilled labor to move to regions with better opportunities, enhancing productivity.

Quick Tip

Investments in health, education, and migration play a vital role in developing human capital and boosting economic growth.

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26. From the type of workers given in Column I, identify the correct nature of work in Column II:

Column I	Column II
1. Cement shop owner	(iii) Self-employed
2. Construction worker	(ii) Casual wage worker
3. Civil engineer	(i) Regular salaried

Alternatives:

(A) 1-(i); 2-(ii); 3-(iii)

(B) 1-(ii); 2-(i); 3-(iii)

(C) 1-(iii); 2-(ii); 3-(i)

(D) 1-(iii); 2-(i); 3-(ii)

Correct Answer: (C) 1-(iii); 2-(ii); 3-(i)

Solution:

(a) **Cement shop owner:** Classified as self-employed because they manage and operate their own business.

(b) **Construction worker:** Categorized as a casual wage worker due to temporary and project-based work.

(c) **Civil engineer:** Falls under regular salaried, as they are typically employed by organizations on a long-term basis.

Quick Tip

Employment types include self-employed (own business), casual wage workers (temporary jobs), and regular salaried (long-term employment).

27. After the implementation of economic reforms, Pakistan experienced slowdown of growth due to various reasons including ______.
(Choose the correct alternative to fill in the blank):

(i) Volatile performance of the agriculture sector
(ii) Over-dependence on remittances from abroad
(iii) Political instability

Alternatives:

(A) (i) and (ii)
(B) (ii) and (iii)
(C) (i), (ii) and (iii)
(D) (i) and (iii)

Correct Answer: (C) (i), (ii) and (iii)

Solution:

(a) Pakistan faced several challenges post-reforms:
- **Volatile agriculture sector:** Inconsistent performance led to economic instability.
- **Over-dependence on remittances:** A lack of diversification in revenue sources made the economy vulnerable.
- **Political instability:** Created uncertainty, deterring foreign investment and slowing economic growth.

Quick Tip

Economic growth depends on stable agriculture, diversified income sources, and political stability to attract investments.

28(a). "Micro-credit programmes have helped to fill in the gaps in the formal credit system."
Justify the given statement.

Solution:

Micro-credit programmes play a crucial role in bridging the gap between the formal credit system and underserved populations by providing small, collateral-free loans to individuals who lack access to traditional banking services.

How Micro-Credit Programmes Fill Gaps in the Formal Credit System:

(a) **Access to Credit for the Underserved:**

- Traditional banking institutions often exclude low-income groups, rural populations, and small entrepreneurs due to lack of collateral and credit history.
- Micro-credit programmes, operated through Self-Help Groups (SHGs) and Microfinance Institutions (MFIs), provide financial assistance to these segments, enabling them to start or expand their businesses.

(b) **Financial Inclusion and Women Empowerment:**

- Many micro-credit programmes focus on lending to women, fostering financial independence and improving household welfare.
- Women-led SHGs help in promoting entrepreneurship, enhancing social status, and contributing to household income.

(c) **No Collateral Requirement and Flexible Lending:**

- Unlike traditional banks, micro-credit institutions do not require collateral, making credit more accessible to the poor.
- Loan repayment structures are designed to be more flexible, reducing financial burden on borrowers.

(d) **Promoting Self-Employment and Entrepreneurship:**

- Micro-credit enables small-scale business ventures in agriculture, handicrafts, and retail sectors, reducing dependence on informal moneylenders.
- Encourages rural entrepreneurship, fostering local economic development.

(e) **Poverty Alleviation and Economic Growth:**

- By supporting income-generating activities, micro-credit helps in reducing poverty and improving living standards.
- Greater financial stability in rural areas leads to increased consumption and overall economic growth.

> Quick Tip
>
> Micro-credit enhances financial inclusion by offering small, collateral-free loans to the underserved, fostering self-employment, women empowerment, and poverty alleviation.

OR

28(b). "Information Technology can play a crucial role in rural development." Discuss briefly the given statement.

Solution:

(a) **Access to Information:** IT bridges the gap between rural and urban areas by providing access to market prices, weather forecasts, and farming techniques.

(b) **E-Governance:** Enables transparency and efficiency in the delivery of government services in rural areas.

(c) **Educational Resources:** IT facilitates online learning and skill development for rural youth, enhancing employability.

(d) **Health Services:** Telemedicine services improve healthcare access in remote villages.

Quick Tip

IT fosters rural development by enhancing access to education, healthcare, governance, and market resources, reducing disparities.

---

29. Interpret the given picture and explain any one strategy to control it from becoming an ecological disaster.

Figure 1: Industrial Pollution and Ecological Disaster

Solution:

(a) The picture depicts industrial pollution causing environmental degradation, with emissions from factories contributing to air and water pollution.

(b) **Strategy:**

- **Adopting Cleaner Technology:** Industries should implement eco-friendly technologies and renewable energy sources to minimize pollution.
- **Strict Regulations:** Governments must enforce stricter pollution control laws and incentivize compliance.
- **Public Awareness:** Raising awareness about environmental conservation can encourage industries and individuals to adopt sustainable practices.

Quick Tip

Controlling industrial pollution requires cleaner technologies, stricter regulations, and public awareness to preserve ecological balance.

Note: The following question is for the *Visually Impaired Candidates* only, in lieu of Q. No. 29.

State any two strategies to achieve the objective of sustainable development.

Solution:

(a) **Promote Renewable Energy:** Shifting to solar, wind, and other renewable sources reduces dependency on fossil fuels and minimizes pollution.

(b) **Conservation Practices:** Soil and water conservation techniques ensure sustainable use of natural resources for future generations.

Quick Tip

Sustainable development involves adopting renewable energy and conservation practices to ensure environmental preservation and economic growth.

30. Discuss any two benefits accruing from human capital formation.

Solution:

(a) **Enhanced Productivity:** Human capital formation through education, training, and health improves the efficiency and productivity of workers, contributing to economic growth.

(b) **Technological Advancement:** A skilled and educated workforce fosters innovation and adoption of advanced technologies, leading to improved industrial and economic performance.

Quick Tip

Investing in human capital enhances productivity and drives technological progress, boosting long-term economic development.

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31. On the basis of the data given below, discuss the shift in output and employment sector-wise, in India and China:

Sector	**Contribution to GVA (%)**			**Distribution of Workforce (%)**		
	India	**China**	**Pakistan**	**India**	**China**	**Pakistan**
Agriculture	16	7	24	43	26	41
Industry	30	41	19	25	28	24
Services	54	52	57	32	46	35

Solution: The table presents the sectoral contribution to Gross Value Added (GVA) and workforce distribution in India, China, and Pakistan. The data highlights how structural transformation in these economies has influenced employment patterns and economic growth.

Sector-Wise Analysis:

(a) **Agriculture:**

- India's agriculture sector contributes **16% to GVA** but employs **43% of the workforce**, indicating the presence of **disguised unemployment** and low productivity.
- In contrast, China's agriculture sector contributes only **7% to GVA**, employing **26% of the workforce**, showcasing a **more efficient agricultural sector**.
- Pakistan, like India, has a high share of the workforce engaged in agriculture (**41

(b) **Industry:**

- China has undergone rapid industrialization, with the **industrial sector contributing 41% to GVA**, while employing **28% of its workforce**.
- In India, the industrial sector's **GVA contribution is lower at 30
- Pakistan's industrial sector is even smaller, contributing **19

(c) **Services:**

- India's **service sector dominates**, contributing **54
- China's service sector contributes **52
- Pakistan also has a strong **57

Quick Tip

China's economic transformation is driven by industrial growth, while India and Pakistan still have a high workforce dependency on agriculture despite lower productivity.

32(a). Discuss any two factors that lead to stagnating Indian agriculture sector during British rule.

Solution:

(a) **Exploitative Land Revenue Systems:** Systems like Zamindari imposed heavy taxes on farmers, leaving them with minimal resources for reinvestment.

(b) **Commercialization of Agriculture:** Focus on cash crops for British industries reduced food grain production, leading to frequent famines and stagnant agricultural growth.

Quick Tip

British policies prioritized cash crops over food grains and exploited farmers through excessive taxation, causing stagnation in agriculture.

OR

32(b). Discuss any two liberalization measures pertaining to the tax reforms, introduced by the government, during the economic reform process of 1991.

Solution:

Two liberalization measures pertaining to tax reforms introduced by the government during the economic reform process of 1991 were:

- **There has been a reduction in taxes as high tax rates were an important reason for tax evasion.**
- **To encourage better compliance on the part of taxpayers, many tax-paying procedures have been simplified.**

The reduction in tax rates aimed at reducing the burden on individuals and corporations, thereby encouraging voluntary tax compliance. Simplification of tax procedures made it easier for taxpayers to understand and adhere to regulations, reducing loopholes and administrative hassles.

💡 Quick Tip

The 1991 economic reforms focused on reducing tax rates and simplifying tax procedures to improve compliance, reduce evasion, and boost investment.

33(a)(i). "Amita is a regular worker in a private firm that employs twelve hired workers."
Is she working in the formal/informal sector? Give valid reasons in support of your answer.

Solution:

(a) Amita works in the **formal sector** because:
- The firm employs more than 10 workers, qualifying as a formal establishment under labor laws.
- Formal sector workers are entitled to social security benefits and work under regulated conditions.

💡 Quick Tip

Firms with more than 10 employees are classified as formal sector establishments, providing regulated benefits to workers.

33(a)(ii). State any two sources of data on unemployment in India.

Solution:

(a) **Periodic Labour Force Survey (PLFS):** Provides comprehensive data on employment and unemployment trends.

(b) **Census of India:** Offers detailed demographic and economic data, including unemployment statistics.

💡 Quick Tip

The PLFS and Census of India are key sources for analyzing employment and unemployment trends in the country.

33(a)(iii). Elaborate the need to promote women's education in India.

Solution:

(a) **Economic Growth:** Educating women enhances their workforce participation and productivity, driving economic growth.

(b) **Social Development:** Women's education improves healthcare, child welfare, and community progress, fostering overall development.

💡 Quick Tip

Promoting women's education boosts economic growth, social equity, and community development, leading to holistic progress.

33(b)(i). "The participation rate of people in economic activities in rural areas is more than that in urban areas." Justify the given statement.

Solution:

The participation rate in economic activities refers to the proportion of the working-age population engaged in income-generating employment. Rural areas tend to have a higher participation rate compared to urban areas due to the following reasons:

(a) **Dependence on Agriculture and Allied Activities:**

- In rural areas, a large proportion of the population is engaged in **agriculture, forestry, fishing, and other primary sector activities**, which are labor-intensive.
- These activities require more manual labor compared to urban industries, leading to higher workforce participation.

(b) **Informal Employment and Family-Based Work:**

- Rural households often engage in **self-employment and informal sector jobs**, such as farming, livestock rearing, and small-scale enterprises.
- Women and elderly individuals also contribute to economic activities through **unpaid family labor**, further increasing participation rates.

(c) **Limited Availability of Alternative Employment:**

- In rural regions, fewer opportunities exist in organized and formal employment sectors.
- Due to a lack of industries and service-sector jobs, most individuals engage in whatever work is available, including **daily wage labor, construction, and seasonal agricultural work**.

Quick Tip

Rural workforce participation is higher due to labor-intensive agriculture and informal employment, while urban areas rely on mechanized industries with fewer workforce needs.

33(b)(ii). Define disguised unemployment. State its implications on output and employment in a country.

Solution:

(a) **Definition:** Disguised unemployment refers to a situation where more people are employed than required, resulting in zero or negligible marginal productivity.

(b) **Implications:**

- **Inefficient Labor Use:** Resources are underutilized, leading to lower productivity.
- **Stagnant Economic Growth:** Excess labor in low-productive sectors like agriculture fails to contribute effectively to GDP.

Quick Tip

Disguised unemployment reflects inefficient labor utilization, limiting productivity and economic growth.

34. Read the following text carefully:

India's industrial policy since independence has been shaped broadly in terms of the Industrial Policy Resolution of 1948. It emphasized on the sole responsibility of the government in the matter of promoting, assisting and regulating the development of industries in the national interest. It envisaged an active and dominant role of public sector.

The next Industrial Policy Resolution was placed before the Parliament by the Prime Minister on 30th April, 1956. It suggested that, "There is a need for adoption of the socialist pattern of economy as the national objective, along with the need for planned and rapid development. It required that all industries of basic and strategic importance, or in public utility services, should be in the public sector."

Other industries which are essential and require investment on a massive scale (which only the State could provide) have also to be in the public sector. Thus, the State has to assume direct responsibility for the future development of industries."

This Resolution classifies industries into three categories:

- The first category given in Schedule A, consists of industries the future development of which will be the exclusive responsibility of the State.
- In the second category given in Schedule B, are industries which will be progressively State-owned. However, in them, private enterprise will also be expected to participate.
- The third category comprises all the remaining industries, the further development of which will be left to the initiative and enterprise of the private sector.

On the basis of the given text and common understanding, answer the following questions:

(i) The Government of India, in the initial years of economic development, emphasized on a greater role of the public sector in the industrial development. Justify the statement, giving reasons in support of your answer.

Solution:

(a) In the early years after independence, India adopted a **socialist pattern of economy** to address socio-economic inequalities and promote rapid industrialization.

(b) The Industrial Policy Resolutions of 1948 and 1956 emphasized the dominant role of the public sector to:

- **Ensure equitable resource distribution:** Public sector investment ensured equitable growth across sectors and regions.
- **Build basic and strategic industries:** Industries such as defense, atomic energy, and heavy machinery required large-scale investments, which the private sector could not provide.
- **Regulate private monopolies:** A dominant public sector minimized the risk of exploitative practices by private enterprises.

- **Self-reliance:** Public sector development helped reduce dependence on foreign imports, laying the foundation for economic self-sufficiency.

Quick Tip

India's early industrial policies focused on public sector dominance to address inequalities, develop strategic industries, and achieve self-reliance.

(ii) Outline and discuss the classification of industries into various categories as per Industrial Policy Resolution, 1956.

Solution:

(a) **Schedule A:**
- Includes industries of national and strategic importance, such as defense, atomic energy, and railways.
- The future development of these industries was to be the exclusive responsibility of the State.

(b) **Schedule B:**
- Includes industries that were to be progressively state-owned, with private sector participation under government regulation.
- Examples include chemical industries, fertilizers, and machine tools.

(c) **Schedule C:**
- Includes all remaining industries not covered under Schedules A and B.
- The development of these industries was left to private enterprise, although the State could guide and support them.

Quick Tip

The Industrial Policy Resolution, 1956, classified industries into three categories based on state control: exclusive (Schedule A), progressive (Schedule B), and private (Schedule C).