Sample Question Paper (Set-2)
Economics (030)
Class XII (2015-16)

Time : 3 Hours   Maximum Marks : 100

Instructions:

1. All questions in both sections are compulsory. However, there is internal choice in some questions.

2. Marks for questions are indicated against each question.

3. Question No.1-5 and 16-20 are very short answer questions carrying 1 mark each. They are required to be answered in one sentence.

4. Question No.6-8 and 21-23 are short answer questions carrying 3 marks each. Answers to them should not normally exceed 60 words each.

5. Question No.9-11 and 24-26 are also short answer questions carrying 4 marks each. Answers to them should not normally exceed 70 words each.

6. Question No.12-15 and 27-30 are long answer questions carrying 6 marks each. Answers to them should not normally exceed 100 words each

7. Answers should be brief and to the point and the above word limit be adhered to as far as possible.

Section A: Microeconomics

1. If it is given that the total variable cost for producing 15 units of output is ₹ 3000 and for 16 units is ₹3,500. Find the value of Marginal Cost.   (1)

2. Ceteris Paribus, if the government provides subsidies on electricity bills, what would be the likely change in the market demand of desert coolers?   (1)

3. Which of the can be referred to as 'point of satiety'?   (1)

   i) Marginal Utility is negative   iii)   Total Utility is rising

   ii) Marginal utility is zero   iv)   Total Utility is falling

4. Which of the following is an assumption of Production Possibility Frontier?   (1)

   i)   Resources are not fully employed.

   ii) Resources are not equally efficient for production of the two goods.

   iii) Resources are not efficiently employed.

   iv) Resources available are not fixed.

5. State any two central problems under 'problem of allocation of resources'.   (1)

6. 'Supply curve is the rising portion of marginal cost curve over and above the minimum of Average Variable cost curve'. Do you agree? Support your answer with valid reason.   (3)

7. Explain 'black marketing' as a direct consequence of price ceiling.   (3)

OR

Explain the concept of 'buffer stock' as a tool of price floor.

8. Explain any two sources of restricted entry under monopoly.   (3)

9. Comment upon the degree of elasticity of demand for Good X, in the following given situations, if the price of the commodity rises from ₹ 5 per unit to ₹ 7 per unit and the quantity demanded falls from 20 units to 16 units :
    i)   Using the total household expenditure method,
    ii)   Using proportionate method.   (4)

10. 'Higher indifference curve represents higher level of satisfaction to the consumer'. Explain the statement, also state the underlying assumption related to this property of indifference curve.   (4)

OR

A consumer consumes two goods X and Y. Explain what will happen if MUx/Px is greater than MUy/Py?

11. Define Marginal Opportunity Cost. Explain the concept with a hypothetical numerical example.   (4)

12. a) What is meant by price rigidity, under oligopoly.   (2)
    b) Elaborate the implication of the conditions of equilibrium of a firm.   (4)

13. a) Distinguish between stock and supply.
    b) Complete the following schedule: (2+4)

Units Produced	TPP (in₹)	APP (in₹)	MPP (in₹)
1	100		
2			140
3		140	
4	480		

14. Suppose the demand and supply curves of a Commodity-X is given by the following two equations simultaneously:

$$Qd = 200 - p \qquad\qquad Qs = 50 + 2p$$

   i) Find the equilibrium price and equilibrium quantity.

   ii) Suppose that the price of a factor of production producing the commodity has changed, resulting in the new supply curve given by the equation

$$Qs' = 80 + 2p$$

   Analyse the new equilibrium price and new equilibrium quantity as against the original equilibrium price and equilibrium quantity. (3+3)

15. Show diagrammatically the conditions for consumer's equilibrium, in Hicksian analysis of demand. (6)

Section B: Macroeconomics

16. If an economy is to control recession like most of the Euro-Zone nations, which of the following can be appropriate: (1)

   i) Reducing Repo Rate   iii) Both (i) and (ii)

   ii) Reducing CRR   iv) None of (i) and (ii)

17. Which of the following agency is responsible for issuing ₹ 1 currency note in India? (1)

   i) Reserve Bank of India.   iii) Ministry of finance

   ii) Ministry of Commerce   iv) Niti Aayog

18. Flow of Goods & services and factors of production across different sectors in a barter economy is known as: (1)

   i) Circular flow   iii) Monetary Flow

   ii) Real flow   iv) Capital Flow

19. The government budget of a hypothetical economy presents the following information, which of the following value represents Budgetary Deficit. (all fig. in ₹ crores) (1)

   A. Revenue Expenditure   =   25,000
   B. Capital Receipts   =   30,000
   C. Capital Expenditure   =   35,000
   D. Revenue Receipts   =   20,000
   E. Interest Payments   =   10,000
   F. Borrowings   =   20,000

   i) ₹ 12,000   iii) ₹ 20,000

   ii) ₹ 10,000   iv) None of the above.

20. Which of the following statement is true? (1)
    i) Loans from IMF is a Revenue Receipt.
    ii) Higher revenue deficit necessarily leads to higher fiscal deficit.
    iii) Borrowing by a government represents a situation of fiscal deficit.
    iv) Revenue deficit is the excess of capital receipts over the revenue receipts.

21. 'Devaluation and Depreciation of currency are one and the same thing'. Do you agree? How do they affect the exports of a country? (3)

22. If in an economy Saving function is given by S = (-) 50 + 0.2 Y and Y = ₹ 2000 crores; consumption expenditure for the economy would be ₹ 1,650 crores and the autonomous investment is ₹50 crores and the marginal propensity to consume is 0.8. True or False? Justify your answer with proper calculations.

Or

"Economists are generally concerned about the rising Marginal Propensity to Save (MPS) in an economy". Explain why? (3)

23. Explain how the economy achieves equilibrium level of income using Savings-Investment (S-I) approach. (3)

24. Suppose in an imaginary economy GDP at Market Price in a particular fiscal year was ₹ 4,000 crores, National Income was ₹2,500 crores, Net Factor Income paid by the economy to Rest of the World was ₹ 400 crores and the value of Net Indirect Taxes is ₹ 450 Crores. Estimate the value of consumption of fixed capital for the economy from the given data. (4)

25. What is meant by 'official reserve transactions'? Discuss their importance in Balance of Payments. (4)

26. State the various components of the Expenditure Method that are used to calculate national income. (4)

OR

Discuss any two differences between GDP at constant prices and GDP at current Prices.

27. "Governments across nations are too much worried about the term fiscal deficit". Do you think that fiscal deficit is necessarily inflationary in nature? Support your answer with valid reasons. (6)

28. Derive a straight line saving curve using the following consumption function: (6)
    C = 20 + 0.6Y.

Presuming the income levels to be ₹ 100, ₹ 200 and ₹ 300 crores. Also calculate that level of income where consumption is equal to income.

Calculate savings from the following saving function: (6)

C = 20 + 0.6Y.

Presuming the income levels to be ₹ 100, ₹ 200 and ₹ 300 crores. Also calculate that level of income where consumption is equal to income.

29. a)   What is meant by Repo Rate? How does the Central Bank use this measure to control inflationary conditions in an economy?

    b)   What is meant by Margin Requirement? How does the Central Bank use this measure to control deflationary conditions in an economy? (3+3)

30. Compute (a) Domestic Income and (b) Net National Disposable Income. (6)

S.No.	Items	Amount (in ₹ Crores)
i)	Net Exports	155
ii)	Government final consumption expenditure	2500
iii)	Subsidies	120
iv)	Gross domestic fixed capital formation	1190
v)	Net factor income to abroad	125
vi)	Net decrease in inventories	100
vii)	Net Exports	(-) 420
viii)	Net Indirect Taxes	470
ix)	Net Current transfers from abroad	350
x)	Current replacement cost	145
xi)	Private final consumption expenditure	2200

OR

Explain any four limitations of using GDP as a measure/index of welfare of a country.

Economics Set II (2015-16)

Answer Key

SECTION-A

Q.No.	Value points to answers	Marks Allocation
1.	$MC_n = TVC_n - TVC_{n-1}$ $MC_{16} = TVC_{16} - TVC_{15}$ $\qquad = 3,500 - 3,000$ $\qquad = ₹500$	(1/2) (1/2)
2.	Demand for desert coolers will increase	(1)
3.	ii) Marginal Utility is zero	(1)
4.	ii) Resources are not equally efficient for the production of the two goods.	(1)
5.	a) What to produce and in what quantity? b) How to produce? c) For Whom to produce? (Any Two)	 (1/2) + (1/2)
6.	Yes, we do agree with the given statement that the supply curve is the rising portion of marginal cost curve over and above the minimum of Average Variable cost curve, since no rational producer/seller would like to supply his output to the market if he is unable to recover his per unit variable cost as it would lead to losses between the range of minimum of marginal cost and minimum of average variable cost.	(3)
7.	Black marketing may be termed as a direct consequence of price-ceiling, as it implies a situation whereby the commodity under the government's control policy is illegally sold at a higher price than the one fixed by the government, it may primarily arise due to the presence of consumers who may be willing to pay higher price for the commodity than to go without it. **OR** Buffer stock is an important tool in the hands of government to ensure price floor/minimum support price. If in case the market price is lower than what the government feels should be given to the farmers/producers it would purchase the commodity at higher price from the farmers/producers so as to maintain stock of the commodity with itself to be released in case of shortage of the commodity in future.	(3) (3)
8.	Sources of restricted entry under monopoly, may be: i) Government License. ii) Patents, Trademarks & copyrights. iii) Ownership of scarce resource. (Any Two)	(1 ½ each)
9.	i) P x Q = TE 5 x 20 = 100 7 x 16 = 112 Since the price & total expenditure carry positive relation Ed<1, relatively	 (2)

	inelastic demand.
	ii) Ed = <u>Change in Quantity Demanded</u> x <u>Original Price</u>
	        Change in Price Original Quantity
	          (Absolute values taken)
	          = (4/2) x (5/20)
	          = 0.5 (Ed<1, relatively inelastic demand.)
		(2)

10.	Higher indifference curve represents higher level of satisfaction, in other words any combination that lie on a higher indifference curve i.e. away from origin represents higher level of satisfaction.
	Good Y
	
	          Combination B>A
	          $(OX_2,OY_1 > OX_1,OY_1)$
	
	    o
	          Good X
	The underlying assumption here is the assumption of monotonic preference which represents that a consumer will prefer a combination which contains more of at least one and no less of the other.
	                          Or
	If MUx/Px>MUy/Py, then it means that satisfaction of the consumer derives from spending a rupee on Good X greater than the satisfaction derived from spending a rupee on Good Y.
	The consumer will reallocate his income by substituting Good X for Good Y. As the consumption of Good X increases the marginal utility derived from it goes on diminishing and reverse proposition occurs for Good Y, this process will continue till MUx/Px becomes equal to MUy/Py.
		(2+1+1)
		
		(4)

11.	Marginal Opportunity Cost (MOC) of a given commodity along a PPC is defined as the amount of sacrifice of a commodity so as to gain one additional unit of the other commodity. MOC can also be termed as Marginal Rate of Transformation i.e. the ratio of number of units of a Good sacrificed to produce an additional unit of the other Good. Schedule	(2) (2)
12(a).	Price rigidity is the price of the product fixed after deliberations and negotiations by the oligopolistic firms, to which they generally stick with a view to avoid any sort of price war.	(2)

12(b).	Firm's equilibrium is that level of output where its profits are maximized
	Conditions of Firm's Equilibrium:
	    i) Marginal Revenue must be equal to Marginal Cost.
	    ii) Marginal Cost must be rising.
	
	    The conditions implies that the slope of rising Marginal Cost Curve is
	    equal to the slope of Marginal Revenue curve.
		(2)

	MR▲ MC 0 Quantity (in units) Implication of the conditions lies in the fact that beyond the equilibrium point MC would become greater than MR, i.e. for each additional unit sold beyond output OQ the cost of producing that unit will be more than the revenue generated by the unit.	(2)
13(a).	Stock refers to the total quantity of a commodity available with the seller at any given time. **Whereas,** Supply refers to that quantity of a commodity which a seller is willing to sell at different prices during a given period of time.	
13(b).	<table><tr><td>Units Produced</td><td>TPP (in₹)</td><td>APP (in₹)</td><td>MPP (in₹)</td></tr><tr><td>0</td><td>0</td><td>-</td><td>-</td></tr><tr><td>1</td><td>100</td><td>100</td><td>100</td></tr><tr><td>2</td><td>240</td><td>120</td><td>140</td></tr><tr><td>3</td><td>420</td><td>140</td><td>180</td></tr><tr><td>4</td><td>480</td><td>120</td><td>60</td></tr></table>	(8 x ½ = 4)
14.	i) We know that the equilibrium price and quantity are achieved at; $$Q_d = Q_s$$ 200- p =50 + 2p (-) 3p = (-) 150 Therefore, Equilibrium Price p = 50 And, Equilibrium Quantity q = 200 – 50 = 150 units ii) If the price of factor of production has changed, then under the new conditions; $$Q_d = Q_s$$ 200- p = 80 + 2p (-) 3p = (-) 120 Therefore, Equilibrium Price p = 40 And, Equilibrium Quantity q = 200 – 40 = 160 units Thus as the equilibrium price is decreasing the equilibrium quantity is increased.	(3) (3)
15.	In the Hicksian/ Indifference Curve analysis, a consumer attains equilibrium when	3

	i) Budget line is tangential to the Indifference curve at a unique combination of two goods. i.e, Slope of Indifference Curve = Slope of Budget line or $MRS_{xy} = (-) P_x / P_y$ ii) Indifference Curve is strictly convex to origin at the point of tangency i.e., MRS_{xy} must be diminishing.	
	Good Y ↑ O ————————→ Good X	1
	Explanation to the diagram	2
	SECTION-B	1
16.	(iii) Both (i)and (ii)	1
17.	(iii)Ministry of finance	1
18.	(ii) Real flow	1
19.	(iv) None of the above. Budgetary Deficit = Revenue expenditure+Capital Expenditure-(Revenue receipts+ Capital receipts) = 25000+ 35000-(20000+3000) =₹ 50,000 crores	1
20.	(iii) Borrowing by a government represents a situation of fiscal deficit.	1
21.	*Devaluation is the fall in the value of domestic currency in relation to foreign currency as planned by the government in a situation when exchange rate is not determined by the forces of demand & supply but is fixed by the government of different countries **whereas** Depreciation is the fall in the value of domestic currency in relation to foreign currency in a situation when exchange rate is determined by the forces of demand & supply in the international money market. As a general phenomena, any depreciation/devaluation of currency may result into increase in exports of the goods and services from the country since it would increase the global competiveness of the goods.	1 1 1
22.	Yes all the given values are correct S= -50+0.2Y S= -50+.02(2000) =-50 +400	1
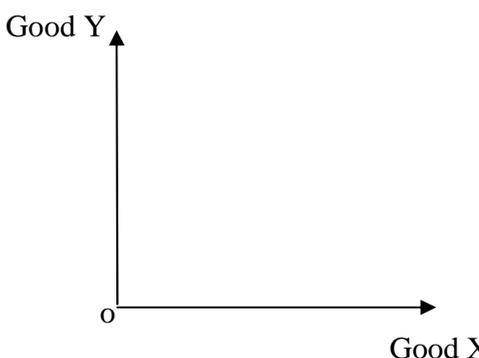
	= ₹350 crores At equilibrium level of income: Y = C + S 2,000 = C + 350 C = 2000 – 350 = 1,650(in ₹ crores) MPC + MPS = 1 MPC + 0.2 = 1 MPC = 1-0.2 = 0.8 OR Since the sum of MPC and MPS is unity any increase in Marginal Propensity to Save (MPS) would directly lead to decrease in Marginal Propensity to Consume (MPC). This means that may lead to lesser proportion of the additional income going to consumption which is a vital factor of Aggregate Demand/Expenditure. This may further lead to fall in equilibrium level of income in the economy.	1 1 3
23.	As per the S-I approach equilibrium if achieved where ex-ante Savings are equal to ex-ante investments. Savings and investments indicate leakages and injections respectively, thus at equilibrium the leakages and injections are equal to each other.	3
24.	NNP$_{fc}$ = GDP$_{mp}$ – Consumption of fixed capital – Net factor income to abroad – Net indirect taxes 2500 = 4000-CFC -450 -400 2500 = 3150 – CFC CFC = 650 (in ₹ crores)	1 1 1 1
25.	Transactions by a central bank that cause changes in its official reserves. These are usually purchases or sales of its own currency in the exchange market in exchange for foreign currencies or other foreign-currency-denominated assets. They may be Autonomous Receipts and Autonomous Payments, disequilibrium between which may occur as deficit/surplus in balance of payment.	

26.	Components of Expenditure method:-
	    (a) Private Final Consumption Expenditure
	    (b) Government Final Consumption Expenditure
	    (c) Investment Expenditure
	    (d) Net Exports
	 Or Two main difference between GDP at current prices and at constant price are:
	    1. GDP at current prices are measured at Current Year's Prices whereas GDP at constant prices are measured at base year's prices.
	    2. GDP at current prices may increase even if there is no flow of goods and services whereas GDP at constant prices will only increase when there is an increase in the flow of goods and services.
		(1x4)
		
		2
		
		2

27.	The term fiscal deficit is the difference between the government's total	

	expenditure and its total receipts (excluding borrowing). Such borrowings are generally financed by issuing new currency which may lead to inflation, however, if the borrowings are for the infrastructural developmental purposes this may lead to capacity building and may not be inflationary.	4
28.	$C = 20 + 0.6Y.$ | Y	C	S
100	80	20
200	140	70
300	200	100 | Properly Labeled Diagram	3 3
29.	Repo rate is the rate of interest at central bank lends money to commercial banks for a short term. The central bank fixes the Repo Rate and it plays the role of an indicator of lending rate and deposit rate fixation by the banks. Under inflationary conditions central bank increases the Repo Rate. Marginal requirement refers to the difference between market value of the security offered for loans and the amount of loans offered by the commercial banks. The central bank fixes the margin requirements and under deflationary conditions central bank reduces the margin requirements.	3 3

30.	Domestic Income = xi + ii + iv – vi + vii – x – viii
	             = 2200 + 2500 + 1190 – 100 – 420 – 145 – 470
	             = 4755 (in ₹ crores)
	
	Net National Disposable Income = National Income + Net Indirect Taxes + Net Current Transfers from ROW
	             =Domestic Income - v + viii+ ix
	             = 4755 -125+470+350
	             = 5450 (in ₹ crores)
	
	OR
	Four limitations of using GDP as a measure/index of welfare of a Country are:
	  I. Distribution of GDP
	  II. Composition of GDP
	  III. Non-Monetary Exchanges
	  IV. Externalities.
		1
		1
		1
		
		1
		1
		1
		
		(1 ½ x 4)