

## CBSE 12 Economics (58/5/2) Question Paper with Solutions

Time Allowed :3 hours

Maximum Marks :100

Total questions :34

### General Instructions

**Read the following instructions very carefully and strictly follow them:**

(i) This question paper contains 34 questions. All questions are compulsory.

(ii) This question paper contains two sections :

**Section A : Macro Economics**

**Section B : Indian Economic Development**

(iii) This question paper contains 20 Multiple Choice type questions. Each question carries 1 mark.

(iv) This question paper contains 4 Short Answer Type-I questions. Each question carries 3 marks. Answer these questions in 60 to 80 words.

(v) This question paper contains 6 Short Answer Type-II questions. Each question carries 4 marks. Answer these questions in 80 to 100 words.

(vi) This question paper contains 4 Long Answer type questions. Each question carries 6 marks. Answer these questions in 100 to 150 words.

(vii) Attempt all parts of a question together.

(viii) 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.

(ix) 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.

**SECTION A**  
**(Macro Economics)**

**1. “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:** The function of money in this context is the Standard of deferred payments, as Mr. Sahotra is borrowing funds for a future purchase. Money is being used as a means to make payments over time rather than immediately, which is the essence of deferred payments.

**Conclusion:** In this case, money serves the function of deferred payments, allowing Mr. Sahotra to repay the loan over time for his house.

**Quick Tip**

The "Standard of deferred payments" function of money allows for transactions where payments are made at a future date, such as loans.

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**2. 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 total deposit created in the banking system is given by the formula:

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

Substituting the given values:

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

**Conclusion:** The total deposit created would be Rs.40,000 crore due to the 10 percent reserve ratio.

#### Quick Tip

The total deposits created in an economy are inversely proportional to the reserve ratio. A lower reserve ratio results in more money being created.

### 3. 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:** - Normal Resident:

A normal resident of India is defined as someone who resides in India for at least 182 days during the last financial year.

- Option (D): An Indian citizen working abroad for more than 1 year is not considered a normal resident of India, as they are considered a non-resident for tax and other economic purposes.

**Conclusion:** Option (D) is the correct answer as it represents someone working abroad for an extended period, thus not a "normal resident" of India.

#### Quick Tip

A normal resident is someone who stays in India for more than 182 days in a year. Those living abroad for over 1 year are considered non-residents.

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**4. 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 true: Ex-post savings and investments are equal because savings always equal investment in an economy when accounting for all income. The total savings will be used for investments.

- Statement 2 is true: Under the effective demand principle, the equilibrium output is determined when ex-ante Aggregate Demand (AD) equals actual output, i.e., the economy is at full employment.

**Conclusion:** Both statements are correct: Ex-post savings and investment are equal, and the equilibrium output is determined by ex-ante Aggregate Demand.

**Quick Tip**

In a balanced economy, savings and investments always match. The equilibrium output is determined when Aggregate Demand equals actual output.

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**5. 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 investment multiplier is calculated as  $\frac{1}{1-MPC}$ , where MPC is the marginal propensity to consume.

- If the entire income is consumed, the  $MPC = 1$ , leading to an infinite multiplier because  $\frac{1}{1-1} = \infty$ .
- Hence, the value of the investment multiplier in this case is infinity.

**Conclusion:** When all additional income is consumed, the investment multiplier becomes infinite because every increase in income leads to an equivalent increase in consumption, stimulating constant economic growth.

**Quick Tip**

If the entire income is consumed ( $MPC = 1$ ), the investment multiplier becomes infinite, indicating a fully stimulated economy.

**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 Average Propensity to Save (APS) is calculated as:

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

At Income = 100 crore, consumption is also 100 crore. Hence, savings will be zero:

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

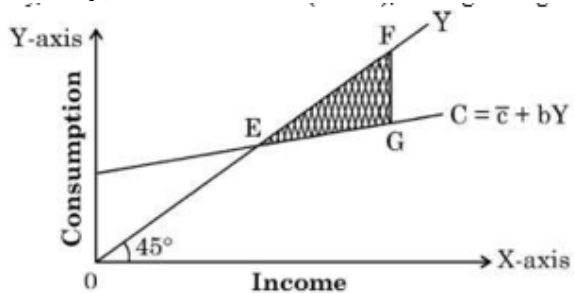
Thus, APS = 0 when income is 100 crore.

**Conclusion:** The APS becomes zero at 100 crore income because savings equal zero when consumption is equal to income.

#### Quick Tip

When consumption equals income, APS becomes zero, indicating no savings.

7. 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 area (EFG) typically represents a situation where savings are zero or negative, and consumption is either greater than or less than income:

- II: Saving = Zero (0): At the equilibrium point where consumption equals income, savings are zero.

- III: Consumption < Income: When the shaded area shows consumption below income, it indicates that savings are positive (but might be in a negative savings area in other sections).

Therefore, the correct options are (B) II and III or (C) III and IV.

**Conclusion:** The shaded area indicates either zero savings or a situation where consumption is less than income, leading to a negative savings situation.

#### Quick Tip

Shaded areas in consumption-savings graphs typically represent points where savings are either zero or negative, indicating consumption patterns relative to income.

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### 8. 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 measured based on autonomous transactions, which are transactions conducted due to economic motives and not influenced by the country's monetary policies. Autonomous transactions include trade in goods and services, income payments, and capital movements.

**Conclusion:** The correct answer is (A), as BOP deficit is based on autonomous transactions.

#### Quick Tip

Autonomous transactions are driven by economic factors like trade and capital movements, unlike accommodating transactions influenced by monetary policy.

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**9. 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 (Foreign tourists visiting Taj Mahal) will bring foreign exchange into India as they spend money during their visit.

- Reason III (Donation of 500 million dollars from Microsoft) will also increase foreign exchange supply as it is an inflow of funds into the economy.

**Conclusion:** The correct answer is (C), as foreign tourists and donations will directly impact the supply of foreign exchange.

**Quick Tip**

Foreign inflows, such as tourist spending and donations, directly increase the supply of foreign exchange in the economy.

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**10. 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 calculated as Exports - Imports.

- Given that BOT = Rs.-200 crore and Imports = Rs.900 crore, we can use the formula:

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

Substituting the values:

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

Solving for Exports:

$$\text{Exports} = 700$$

**Conclusion:** The value of exports required to maintain a balance of trade deficit of Rs.200 crore is Rs.700 crore.

#### Quick Tip

The Balance of Trade deficit is calculated as exports minus imports. If imports exceed exports, the balance shows a deficit.

**11. (a) Calculate Net Value Added at Factor Cost (NVA<sub>fc</sub>) 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

**Correct Answer:**

Depreciation on fixed capital goods =  $\frac{15}{5} = 3$

**Net Value Added at Factor Cost (NVA<sub>fc</sub>):**

Depreciation on fixed capital goods =  $\frac{15}{5} = 3$

**Net Value Added at Factor Cost (NVA<sub>fc</sub>):**

$$NVA_{fc} = (ii) + (iii) + (iv) - (v) - \text{Depreciation} - (vi)$$

$$NV Af_c = 200 + (-10) + 10 - 120 - 3 - 20 = Rs.57 \text{ lakh}$$

### Quick Tip

Depreciation on fixed capital is subtracted from the total to calculate Net Value Added at Factor Cost.

### 11. (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	(-)20
(iii)	Gross National Product at Factor Cost (GNPfc)	1,300
(iv)	Consumption of Fixed Capital	100

#### Correct Answer:

$$\text{Net Indirect Taxes} = (i) + (iv) - (iii)$$

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

### Quick Tip

Net Indirect Taxes are calculated by subtracting Gross National Product at Factor Cost from the sum of Net National Product at Market Price and Consumption of Fixed Capital.

### 12. Define with suitable examples, autonomous transactions and accommodating transactions in the Balance of Payments of an economy.

#### Solution:

In the Balance of Payments (BoP) of an economy, transactions are categorized into two types: autonomous transactions and accommodating transactions.

#### 1. Autonomous Transactions:

- These are transactions that are undertaken for economic reasons such as profit maximization or trade promotion, independent of the BoP situation of a country.
- They are often called "above the line" transactions and are influenced by market forces.

### **Examples:**

- Exports and imports of goods and services.
- Foreign investments by multinational corporations (FDI).
- Remittances received from overseas workers.

### **2. Accommodating Transactions:**

- These transactions are undertaken to correct imbalances in the BoP, specifically to finance deficits or manage surpluses.
- They are often called "below the line" transactions and are driven by the BoP position rather than economic motives.

### **Examples:**

- Borrowing from the International Monetary Fund (IMF) to finance a BoP deficit.
- Use of foreign exchange reserves to stabilize the currency.
- Short-term government borrowings from foreign institutions.

**Conclusion:** While autonomous transactions represent the normal economic dealings of a country, accommodating transactions act as corrective measures to maintain equilibrium in the BoP.

#### **Quick Tip**

Autonomous transactions are market-driven, while accommodating transactions are policy-driven to balance BoP disequilibrium.

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**13. (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:**

- When inflation rises, the government may reduce public expenditure to control inflationary pressures in the economy.
- Government spending, particularly on public services and welfare programs, contributes to higher aggregate demand (AD).
- By reducing expenditure, the government can lower AD, which in turn reduces pressure on prices, thereby curbing inflation.
- This step is especially important when inflation is demand-driven, i.e., when too much money is chasing too few goods.
- A reduction in public expenditure can also lead to lower consumption and investment, slowing down the economy, and stabilizing price levels.

**Conclusion:** Reducing public expenditure is a contractionary fiscal policy aimed at reducing demand-pull inflation, by decreasing overall demand in the economy.

**Quick Tip**

When facing inflation, contractionary fiscal policies like reducing public expenditure can help control demand-pull inflation.

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**13. (ii) Define Effective Demand Principle.****Solution:**

The Effective Demand Principle states that the total level of employment in an economy is determined by the level of aggregate demand (AD) for goods and services.

- If the aggregate demand is insufficient to purchase all the goods produced in the economy, there will be unemployment.
- The principle suggests that employment will adjust to the level where aggregate demand is sufficient to purchase all output.
- In simple terms, the level of demand in an economy dictates the quantity of goods and services produced, which in turn determines the amount of labor employed.

**Conclusion:** The Effective Demand Principle highlights the relationship between the total demand for goods and services and the level of employment in an economy.

### Quick Tip

The level of aggregate demand is crucial in determining employment in an economy. Low demand leads to unemployment.

**OR**

**13. (b) (i) State the meaning of 'unintended accumulation of inventories'.**

**Solution:**

Unintended accumulation of inventories refers to the situation where the actual sales of goods fall short of the expected sales. As a result, businesses end up holding unsold goods or stocks.

- This typically occurs when aggregate demand is lower than expected, leading to excess production and accumulation of unsold goods.
- It is a sign that the economy is experiencing weak demand, and businesses may respond by reducing production or laying off workers.

**Conclusion:** Unintended accumulation of inventories is an indicator of underperformance in the economy, signaling that demand is insufficient to absorb the supply of goods.

### Quick Tip

Unintended accumulation of inventories indicates weak demand in the economy, leading to excess supply and underutilization of resources.

**13. (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) exceeds aggregate supply (AS), the following impacts can occur:

1. Increased output and income:
  - Firms will try to meet the excess demand by increasing production, which will lead to

higher output and income levels.

- The increase in income leads to higher consumption, further boosting demand, creating a cycle of growth.

2. Higher employment:

- Increased production requires more labor, which will lead to higher employment levels. -

As firms expand output to meet demand, they will need to hire additional workers.

3. Price inflation:

- As AD exceeds AS, firms may raise prices due to higher demand. This can lead to inflationary pressures in the economy.

4. Potential overuse of resources:

- If AD continues to outstrip AS for a prolonged period, the economy may face resource shortages, leading to inefficiencies and higher costs in the long run.

**Conclusion:** When AD exceeds AS, the economy initially experiences higher output, income, and employment, but sustained imbalances may lead to inflationary pressures.

#### Quick Tip

When aggregate demand exceeds aggregate supply, the immediate effects are higher output and employment, but inflationary pressures may follow.

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**14. 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 Save (MPS) = 0.2
- Autonomous Consumption (C) = 100 crore

**Solution:**

- In equilibrium, National Income (Y) is equal to the total expenditure, which includes consumption and investment. Hence,

$$Y = C + I$$

- Consumption (C) can be expressed as:

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

where  $C_0$  is autonomous consumption.

$$C = 100 + 0.2 \times 10,000 = 100 + 8,000 = 8,100 \text{ crore}$$

- Now, substitute into the equilibrium equation:

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

Solving for investment:

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

**Conclusion:** The investment expenditure in the economy is Rs. 1,900 crore.

#### Quick Tip

In an economy at equilibrium, Investment (I) can be calculated by subtracting Consumption (C) from National Income (Y).

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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) Distinguish between Revenue Receipts and Capital Receipts of the government, with suitable example.**

**Solution: Solution:**

Revenue Receipts and Capital Receipts are two important components of the government's financial statements, and they differ in terms of their sources and usage:

- **Revenue Receipts:** These are receipts that do not result in a liability for the government and are not used to create any asset. They represent the government's income from regular operations.
  - Example: Tax revenue, non-tax revenue, and grants received from foreign governments.
- **Capital Receipts:** These receipts result in a liability for the government or lead to the creation of an asset. They represent funds raised for long-term purposes or for repayment of debts.
  - Example: Borrowings, loans raised from domestic or foreign sources, and the sale of assets like government securities or public sector units.

**Conclusion:** Revenue Receipts are primarily related to the government's day-to-day

functioning, whereas Capital Receipts are related to financial operations like borrowing or asset sales.

#### Quick Tip

Revenue Receipts contribute to the current budget, whereas Capital Receipts contribute to the government's long-term funding needs.

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**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

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 Micro, Small and Medium Enterprises (MSMEs)."**

**Identify and explain the objective of government budget, highlighted in the above text.**

**Solution:**

- The objective of the government budget highlighted here is to promote the growth and development of MSMEs in India. The ZED scheme aims at improving the quality of products made by MSMEs by encouraging zero defect production (defect-free products) and zero effect on the environment (sustainable production).

- The government offers up to 80 percent subsidy to help MSMEs upgrade their processes, adopt new technologies, and improve the quality of their products. This helps increase the competitiveness of Indian MSMEs in both domestic and international markets.

- Likely Consequences:

- Improved Quality:

MSMEs will improve product quality, reducing defects and enhancing customer satisfaction.

- Sustainability:

Zero effect production practices will make industries more environmentally sustainable, aligning with global environmental standards.

- Boost to Employment:

Supporting MSMEs will create more job opportunities in small industries, contributing to higher employment levels.

**Conclusion:** The ZED scheme aims to improve product quality, environmental sustainability, and create a more competitive MSME sector, which will ultimately contribute to economic growth and job creation.

### Quick Tip

The ZED scheme promotes quality improvement and sustainability in MSMEs, benefiting both the environment and the economy.

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#### **16. (b) (ii) Distinguish between Tax Revenue and Non-tax Revenue, with suitable examples.**

**Solution:** Revenue generated by the government from various tax sources is referred to as tax revenue. Tax revenue can be received in the form of direct and indirect taxes.

- **Direct Tax:** A direct tax is levied directly on individuals or organizations and is paid directly to the government. Examples include:

- **Income Tax:** Levied on the income earned by individuals or organizations.

- **Corporate Tax:** Paid by corporations on their profits.

- **Indirect Tax:** An indirect tax is levied on goods and services and is collected by an intermediary (e.g., a retailer) from the consumer. Examples include:

- **Goods and Services Tax (GST):** Levied on the sale of goods and services.

- **Excise Duty:** Paid on the manufacture of goods.

Whereas; Revenue generated by the government from sources other than taxes is referred to as Non-Tax Revenue. For example, interest receipts on account of loans by the Central Government.

**Conclusion:** Direct taxes are based on the taxpayer's income or profits, while indirect taxes are levied on consumption and are passed on to consumers.

### Quick Tip

Direct taxes are paid by individuals or corporations based on income or profit, while indirect taxes are levied on goods and services.

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#### **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 sale of Electric Vehicles (EVs) contributes to an increase in consumption expenditure, which is a component of GDP. With the surge in EV sales, the output in the automobile sector will rise, contributing positively to the Gross Domestic Product (GDP). Additionally, related industries, such as battery manufacturing, charging infrastructure, and renewable energy, will experience growth, further increasing the value of GDP.

**- Impact on Welfare:**

The transition to Electric Vehicles is expected to improve environmental quality, as EVs produce less pollution compared to traditional vehicles. This contributes to higher social welfare by reducing air pollution, improving health outcomes, and promoting cleaner air. Furthermore, this shift may lead to reduced dependency on fossil fuels, improving energy security and reducing the impact of global oil price fluctuations on the economy.

**- Job Creation:** The increasing demand for EVs may create jobs in manufacturing, charging infrastructure, and research and development.

**- Improved Health Outcomes:** Reduced emissions may lead to fewer respiratory diseases, contributing to better public health.

**Conclusion:** The growth in EV sales will positively affect GDP by increasing consumption and production, while enhancing welfare through environmental benefits and potential job creation.

**Quick Tip**

The rise in Electric Vehicle sales boosts GDP through increased consumption, while also improving public health and environmental welfare.

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**17. (b) Discuss briefly, the circular flow of income in a two sector economy model.****Solution:**

In a two-sector economy model, the economy is simplified to two main sectors: households and firms.

**1. Households:**

Households own the factors of production, such as land, labor, capital, and entrepreneurship. They provide these factors to firms in exchange for income, which includes wages, rents, interests, and profits.

## 2. Firms:

Firms are the producers of goods and services. They use the factors of production from households to produce goods and services, which are sold to households. In return, firms pay income to households for their factors of production.

- Flow of Income and Expenditure:

- Households spend their income on the goods and services produced by firms (Consumption Expenditure).

- Firms, in turn, provide goods and services to households in exchange for payment, which is their revenue.

- Circular Flow:

- The flow of goods and services from firms to households and the flow of income from households to firms forms a continuous cycle, known as the circular flow of income.

- Equilibrium in the Circular Flow:

The economy reaches equilibrium when total income generated in the economy (from the sale of goods and services) is equal to the total expenditure (households' consumption expenditure).

**Conclusion:** In a two-sector model, the economy functions as a closed loop where households provide factors of production to firms, and firms return income to households in exchange for goods and services.

### Quick Tip

The circular flow of income shows how money circulates between households and firms in an economy, balancing production and consumption.

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## SECTION B

## (Indian Economic Development)

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

- I. To bring positive changes in the social outlook
- II. Equitable distribution of income
- III. Technological Upgradation
- IV. Increase in Economic Divide

**Alternatives:**

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

**Correct Answer:** (C) I and III

**Solution:**

- I: To bring positive changes in the social outlook, India wanted to modernize agriculture, industry, and services to improve quality of life for its citizens.
- III: Technological upgradation was crucial for India's industrialization and modernization to ensure long-term growth.
- II: While equitable distribution of income is important, it was not the primary rationale behind choosing modernization as the main goal in India's early planning stages.
- IV: Increasing the economic divide was not a goal of modernization but rather reducing it.

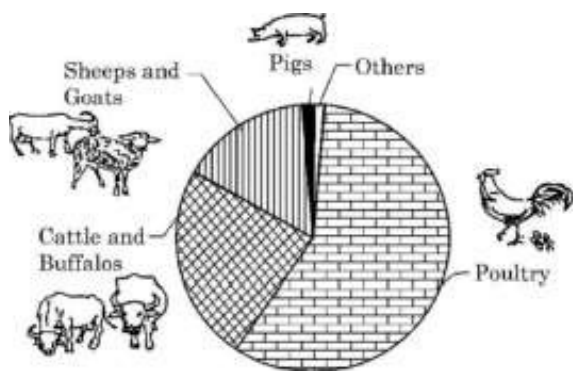
**Conclusion:** Option (C) is the correct answer because both improving social outlook and technological upgradation were the key goals.

### Quick Tip

Modernization in India focused on both improving social outcomes and upgrading technology to boost industrial and agricultural output.

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**19. 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 is an agricultural activity related to the breeding and raising of livestock. This is often considered a diversification activity in farming because it supplements income from crop production and helps in managing resources more effectively.

- The other alternatives (B) Fisheries, (C) Horticulture, and (D) Organic farming may also be forms of diversification, but Animal Husbandry is the most fitting answer given the context of the question.

**Conclusion:** Option (A) is correct as it directly relates to diversification in agriculture.

#### Quick Tip

Diversification in agriculture helps farmers mitigate risks by engaging in multiple types of farming activities.

**20. 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 true: During the British rule, India could not develop a strong industrial base. The British focused on extracting resources from India and promoting industries that benefited Britain rather than India.

- Reason (R) is false: The British followed restrictive policies that actually undermined India's handicraft industries rather than strengthening them. Policies such as heavy tariffs on Indian goods and the promotion of British manufactured goods led to the decline of India's traditional industries.

**Conclusion:** Since Assertion (A) is correct but Reason (R) is false, option (C) is the correct answer.

#### Quick Tip

The British colonial policies hindered India's industrial development, rather than fostering it.

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**21. 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 refers to the shift from agriculture to industry and services in China, which did not result in limited urbanization, making option (A) incorrect.
- (b) The Great Leap Forward campaign aimed at massive industrialization but failed to meet expectations due to reduced global demand, which makes (B) incorrect.
- (c) The less stress on natural resources in China correlates with the low density of population, making (C) correct.
- (d) The slowdown in GDP from 2014 was due to the massive industrialization drive under the Great Leap Forward, not directly to the cause of slowdown in GDP itself, making (D) incorrect.

**Conclusion:** Option (C) is correct as the low population density is associated with less stress on natural resources.

**Quick Tip**

China's structural transformation led to low population density regions facing less pressure on natural resources.

**22. 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 true: China has adopted a market-oriented approach since its economic reforms, while still maintaining strict political control. This approach has created additional social and economic opportunities for its citizens.

- Statement 2 is true: While India, Pakistan, and China have similar geographical endowments, their political systems differ significantly. India is a democracy, Pakistan has had military interventions, and China is a one-party communist state.

**Conclusion:** Both statements are true, reflecting the economic and political differences between these countries.

**Quick Tip**

China's economic success stems from market reforms, but it has maintained a firm political structure.

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**23. 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 false:

Casual workers are typically employed on a temporary basis without the guarantee of social security benefits.

- Statement 2 is false:

The workforce comprises only employed individuals; unemployed persons are considered part of the labor force but are not part of the employed workforce.

**Conclusion:** Both statements are false, so the correct answer is option (D).

**Quick Tip**

Casual workers do not typically receive permanent employment benefits, and the workforce refers to employed persons, not the entire labor force.

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**24. — 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 measure the degree of freedom and participation in a society, particularly in social and political decision-making processes.

- Economic, health, and demographic indicators are important for measuring the quality of life, but liberty indicators focus specifically on the rights and freedoms of individuals within society.

**Conclusion:** Option (D) is correct as liberty indicators measure democratic participation.

### Quick Tip

Liberty indicators measure the extent of political freedom and social participation in decision-making.

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**25. Introduction of Economic Reforms in Pakistan took place in the year —.**

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

**Correct Answer:** (C) 1988

**Solution:**

- Pakistan introduced significant economic reforms in 1988 under the leadership of Prime Minister Benazir Bhutto, aiming to liberalize the economy, reduce the role of state-owned enterprises, and promote private sector growth.

- The other dates do not correspond to the major economic reforms in Pakistan.

**Conclusion:** Option (C) is correct as the economic reforms began in Pakistan in 1988.

### Quick Tip

Economic reforms in Pakistan in 1988 marked a shift toward a more market-oriented economy.

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**26. 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.

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**27. 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 true: Outsourcing, a key feature of globalization, involves contracting out services or jobs to other countries. This is a common practice in industries such as IT, customer service, and manufacturing.
- Statement 2 is true: Globalization has allowed Indian companies, particularly in the IT and service sectors, to expand their operations abroad, taking advantage of lower production costs and accessing new markets.

**Conclusion:** Both statements are true, as outsourcing and international expansion of Indian companies are direct results of globalization.

#### Quick Tip

Globalization fosters outsourcing and opens up new opportunities for businesses to expand internationally.

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**28. Discuss the need for ‘On-the-job training’ for an employee.**

**Solution:**

In the rapidly evolving competitive environment, on-the-job training becomes a vital requirement for an employee.

**Need for On-the-Job Training:**

- **Adaptation to New Technologies:** On-the-job training helps employees keep pace with technological advancements, improving their ability to work efficiently.
- **Enhanced Productivity:** Training directly impacts the productive capacity of employees by improving their skills and expertise.
- **Cost-Effective:** The benefits from such training often outweigh the associated costs, making it an economically viable investment for organizations.

**Conclusion:** On-the-job training is essential for continuous skill development, keeping employees competent in a dynamic business environment.

**Quick Tip**

On-the-job training fosters practical skill development while keeping costs minimal.

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**29. (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.

**29. (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.

**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:** The given data depicts that China's population growth rate is relatively low at 0.46 percent, indicating a slower rate of population after the adoption of One Child norm; whereas

Pakistan's population growth rate is significantly higher at 2.05 percent, which is more than 4 times to the annual growth of China's population.

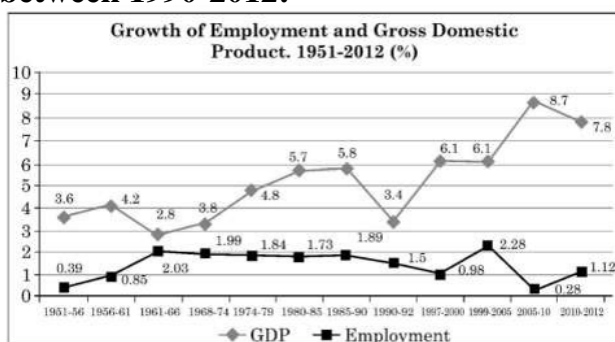
However, the sex ratio was lopsided in both China and Pakistan. The number of females per 1000 males in China is approximately 949 and in Pakistan is 943. Son preference is the prime reason behind the skewed sex ratio.

**Conclusion:** China has a lower population density and fertility rate compared to Pakistan, owing to its larger landmass, policy interventions like the one-child policy, and different socio-economic conditions.

### Quick Tip

Countries with larger land areas often exhibit lower population densities, while higher fertility rates can indicate less access to family planning or different social norms.

**31. (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 chart shows the growth rates of Employment and GDP over the period 1951-2012. Focusing on the period between 1990-2012:

- **GDP Growth:** The GDP growth rate shows a fluctuating pattern. It started low in the early 1990s, but from 1995 to 2005, there was a rapid increase, peaking at over 8 percent. This period represents strong economic growth. However, after 2005, the GDP growth rate started to moderate.
- **Employment Growth:** Employment growth has been consistently lower than GDP growth. In the early 1990s, employment growth was quite low, and although it improved

over time, the increase was modest compared to the rapid GDP growth.

- **Jobless Growth:** Between 2000 and 2012, the GDP growth rate surpassed the employment growth rate significantly, indicating a "jobless growth" situation where economic output increased, but the creation of jobs did not keep pace.

**Conclusion:** Between 1990-2012, the trend highlights a period of high economic growth, especially in the 2000s, but employment did not grow at a similar pace. This suggests that while the economy grew, it was not accompanied by a proportional increase in jobs, a situation that is often referred to as jobless growth.

**31. (a) (ii) Define Worker-Population Ratio.**

**Solution:** - Worker-Population Ratio:

The worker-population ratio is the proportion of the working-age population that is actively engaged in work or seeking employment. It is calculated as the number of workers divided by the total working-age population.

**Quick Tip**

Jobless growth occurs when the economy grows but employment does not increase at a similar rate. In-service teacher training enhances the teaching-learning process, and the worker-population ratio helps gauge labor force participation.

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**32. (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:**

Infrastructural development plays a vital role in unlocking the full potential of rural sectors in India. Some key arguments include:

- **Improved Connectivity:**

Infrastructure such as roads, bridges, and communication networks connects rural areas to urban markets, allowing farmers and entrepreneurs to access wider markets and increasing productivity.

- **Access to Basic Services:**

Development in areas like electricity, water supply, healthcare, and education enhances the

quality of life and economic participation for rural populations.

- Rural Industrialization:

Infrastructure development supports small industries and cottage industries, which can thrive in rural settings, creating employment and reducing migration to urban areas.

- Agricultural Productivity:

Investment in irrigation, storage, and transportation infrastructure significantly boosts agricultural output, making rural economies more productive and resilient to external shocks.

In conclusion, infrastructure is crucial in ensuring that the rural sector in India reaches its potential in terms of economic development, employment generation, and poverty alleviation.

**32. (a) (ii) State the meaning of 'Human Development'.**

**Solution:** Human development refers to the process of enlarging people's freedoms and opportunities, improving their well-being, and ensuring they have access to the resources necessary to lead a fulfilling life. It includes:

- Improvement in Health: Access to healthcare services that enhance life expectancy and reduce mortality rates.

- Educational Advancement: Ensuring access to quality education that empowers individuals with knowledge and skills to improve their livelihoods.

- Economic Security: Creating economic opportunities through employment, social security, and income equality.

Thus, human development is a holistic concept that aims to improve the overall quality of life by expanding the choices available to people.

#### Quick Tip

Infrastructure is crucial in ensuring that the rural sector in India reaches its potential in terms of economic development. Human development deals with improvement in health, education, and economic security.

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**OR**

**32. (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 is a key avenue for employment generation in India, and here’s why:

- High Employment Potential:

India, with its large rural population and limited job opportunities in the formal sector, has seen self-employment emerge as a crucial way for individuals to earn their livelihoods.

Agriculture, handicrafts, and small businesses are common forms of self-employment.

- Entrepreneurship and Innovation:

Self-employment fosters entrepreneurship and innovation, as individuals take the initiative to create businesses and services that cater to local and regional needs.

- Lower Barriers to Entry:

Unlike formal employment that requires certain qualifications or skills, self-employment offers flexibility and lower barriers to entry, allowing many individuals, particularly in rural areas, to enter the workforce.

- Government Initiatives:

Various government schemes like PMEGP (Prime Minister’s Employment Generation Programme) and MUDRA Yojana support the self-employment sector by providing loans, training, and other resources.

Therefore, self-employment is crucial in India’s economic context, providing a valuable route to employment for a large section of the population.

**Quick Tip**

Infrastructure development in rural areas can drastically improve productivity and create sustainable livelihoods by connecting rural populations to broader economic opportunities.

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**33. 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:**

**(a) Define sustainable development.**

**Solution:** Sustainable development is a development process that meets the needs of the present without compromising the ability of future generations to meet their own needs. It focuses on balancing economic growth, social inclusion, and environmental protection.

### **Quick Tip**

Sustainable development = Balance between *Economic, Social, and Environmental* dimensions.

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

**Solution:**

Sovereign Green Bonds finance projects with positive environmental impacts. Key areas of focus include:

- Renewable energy (solar, wind, and hydroelectric projects)
- Energy-efficient infrastructure (green buildings)
- Public transport systems to reduce carbon emissions
- Sustainable agriculture and land management

- Climate adaptation and mitigation measures
- Biodiversity and ecosystem conservation

#### Quick Tip

Remember "Renewables, Efficiency, Conservation, and Climate Action" for Sovereign Green Bond projects.

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### (c) How can businesses benefit from green finance?

#### Solution:

Businesses can benefit from green finance in the following ways:

- **Access to Capital:** Funds for environmentally sustainable projects
- **Lower Financing Costs:** Reduced interest rates on green bonds
- **Enhanced Brand Image:** Improved reputation as a socially responsible entity
- **Regulatory Compliance:** Better alignment with environmental regulations
- **Long-term Resilience:** Improved ability to manage environmental risks

#### Quick Tip

Green finance helps businesses save costs, improve brand image, and stay ahead of regulations.

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### 34. (a) Defend or refute the following statements with valid arguments:

(i) "The policy of protectionism encouraged the growth of domestic industries, but at the same time proved to be an impediment."

#### Solution:

**Defend:** The policy of protectionism safeguarded domestic industries by imposing tariffs and restricting imports, thereby promoting industrial growth in India. However, this policy had certain drawbacks:

- **Inefficiency in Industries:** Due to limited competition, many domestic industries became inefficient and uncompetitive in the global market.
- **Consumer Disadvantages:** Consumers had limited access to high-quality and diverse goods at competitive prices.

**(a) (ii) "New Economic Policy 1991 altered the role of Reserve Bank of India (RBI) in the economy."**

**Defend:** The New Economic Policy (1991) brought significant liberalization reforms that impacted the role of the RBI:

- **Deregulation of Financial Sector:** RBI shifted from controlling credit to regulating it, emphasizing monetary policy formulation over direct intervention in lending activities.
- **Banking Sector Reforms:** RBI played a key role in introducing prudential norms and supervising financial institutions to enhance efficiency and transparency.

#### Quick Tip

The LPG (1991) brought major liberalization reforms that impacted the role of the RBI.

**(b) (i) Explain the changes that were observed in India's occupational structure during the British rule.**

**Solution:**

During the British rule, India's occupational structure saw significant changes:

- **Decline in Handicrafts and Artisanship:** Traditional industries, particularly handloom and handicrafts, suffered due to competition from machine-made British goods.
- **Agrarian Economy:** A large section of the workforce became dependent on agriculture as industrial activities remained underdeveloped.
- **Limited Industrial Employment:** Employment in industries was restricted to a few sectors, like jute and tea plantations.

**(ii) "Navratna Policy of the government has helped in improving the performance of Public Sector Undertakings in India."**

**Agree:** The Navratna Policy empowered selected PSUs by providing operational and financial autonomy, resulting in the following benefits:

- **Enhanced Efficiency:** PSUs like NTPC and BHEL significantly improved their performance and profitability.
- **Increased Competitiveness:** The autonomy allowed these PSUs to compete with private players and even expand internationally.

**Conclusion:** The policy played a critical role in making PSUs more competitive and financially self-sufficient.

#### Quick Tip

The Navratna status allowed PSUs to grow without excessive government intervention.

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