

**CBSE CLASS 12 2025 Economics SET 3 (58/2/3)**

**Question Paper with Solution**

<b>Time Allowed :3 hours</b>	<b>Maximum Marks :80</b>	<b>Total questions :34</b>
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## General Instructions

- (i) Please check that this question paper contains 23 printed pages.**
- (ii) Please check that this question paper contains 34 questions.**
- (iii) Q.P. Code given on the right hand side of the question paper should be written on the title page of the answer-book by the candidate.**
- (iv) Please write down the serial number of the question in the answer-book at the given place before attempting it.**
- (v) 15 minute time has been allotted to read this question paper. The question paper will be distributed at 10.15 a.m. From 10.15 a.m. to 10.30 a.m., the candidates will read the question paper only and will not write any answer on the answer- book during this period.**
- (vi) This question paper contains 34 questions. All questions are compulsory.**
- (vii) This question paper contains two sections: Section-A: Macro Economics  
Section B: Indian Economic Development**
- (viii) This Question paper contains 20 Multiple Choice type questions. Each question carries 1 mark.**
- (ix) This Question paper contains 4 Short Answer Type-I questions. Each question carries 3 marks. Answer these questions in 60 to 80 words.**
- (x) This Question paper contains 6 Short Answer Type-II questions. Each question carries 4 marks. Answer these questions in 80 to 100 words.**
- (xi) This Question paper contains 4 Long Answer Type Questions. Each question carries 6 marks. Answer these questions in 100 to 150 words.**
- (xii) Attempt all parts of a question together.**
- (xiii) 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.**
- (xiv) 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. Identify, which of the following is not to be considered while estimating Revenue Deficit of a country.** (Choose the correct option)

- (A) Wages and salaries paid by the government
- (B) Interest payments made by the Central Government
- (C) Direct Tax Collection
- (D) Expenditure incurred on construction of flyover

**Correct Answer:** (D) Expenditure incurred on construction of flyover

**Solution:** Revenue deficit is calculated as the difference between the government's revenue receipts and the total expenditure on revenue account. Expenditure on capital projects, such as flyovers, is not included in the revenue deficit calculation.

**Quick Tip**

Revenue deficit excludes capital expenditures, focusing only on the shortfall in revenue receipts.

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**2. Read the following statements: Assertion (A) and Reason (R). Choose one of the correct options given below:**

**Assertion (A):** In case of public goods, no one can be excluded from enjoying the benefits.

**Reason (R):** Public goods are non-rivalrous and non-excludable in nature.

- (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:** (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

**Solution:** Assertion (A) is correct because public goods are non-excludable, meaning no one can be excluded from enjoying their benefits. Reason (R) correctly explains Assertion (A), as public goods are both non-rivalrous (one person's use does not reduce availability for others) and non-excludable (no one can be excluded from use).

#### Quick Tip

Public goods are typically funded by the government, and their non-excludability and non-rivalrous nature make them available to all, regardless of contribution.

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**3. Value Addition = \_\_\_\_\_ Value of Intermediate Consumption.** (Choose the correct option(s) to complete the stated formula.)

- (A) Domestic sales
- (B) Sales – change in stock
- (C) Value of output
- (D) (Number of units produced) × (Price per unit)

**Correct Answer:** (C) (ii) and (iii)

**Solution:** The formula for value addition is given by the difference between the value of output and the intermediate consumption. The appropriate choices are the ones that relate to output and sales change, and exclude intermediate consumption.

#### Quick Tip

Value addition is essential for calculating the contribution of an economic activity to the GDP, and it must not include intermediate consumption.

**4. Suppose for an economy, autonomous consumption stands as 100 crore and total consumption is 130 crores. The value of induced consumption would be \_\_\_\_\_ crore.**

- (A) 30
- (B) 80
- (C) 100
- (D) 130

**Correct Answer:** (A) 30

**Solution:** Induced consumption is calculated as the difference between total consumption and autonomous consumption.

$$\text{Induced Consumption} = \text{Total Consumption} - \text{Autonomous Consumption}$$

$$\text{Induced Consumption} = 130 \text{ crores} - 100 \text{ crores} = 30 \text{ crores}$$

#### Quick Tip

Induced consumption refers to the consumption that changes with changes in income or output levels. It is calculated by subtracting autonomous consumption from total consumption.

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**5. In the Keynesian Economics, \_\_\_\_\_ starts from the origin and is always drawn at an angle of 45°. (Choose the correct option to fill up the blank)**

- (A) Consumption curve
- (B) Aggregate demand curve
- (C) Reference line
- (D) Investment curve

**Correct Answer:** (C) Reference line

**Solution:** In Keynesian economics, the 45° line (reference line) represents all points where aggregate output (income) equals total spending. It is used as a benchmark for determining equilibrium in the economy.

### Quick Tip

The 45° line is a key concept in Keynesian cross model and helps to determine equilibrium output.

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**6. The monetary policy is formulated by the \_\_\_\_\_ in the Indian economy.** (Choose the correct option to fill up the blank)

- (A) Central Government
- (B) State Governments
- (C) Reserve Bank of India
- (D) World Bank

**Correct Answer:** (C) Reserve Bank of India

**Solution:** The Reserve Bank of India (RBI) is responsible for formulating and regulating monetary policy in India, which includes controlling the money supply and setting interest rates.

### Quick Tip

The central bank of a country is typically responsible for monetary policy, while the government is responsible for fiscal policy.

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**7. To arrive at the value of equilibrium level of income, there must exist an equality between ex-ante and ex-ante.** (Choose the correct option to fill up the blank)

- (i) Aggregate Demand, Aggregate Supply
  - (ii) Aggregate Demand, Savings
  - (iii) Aggregate Demand, Investment
  - (iv) Savings, Investment
- (A) (i) and (ii)
  - (B) (ii) and (iii)

(C) (ii) and (iii) and (iv)

(D) (iii) and (iv)

**Correct Answer:** (C) (ii) and (iii) and (iv)

**Solution:** In the Keynesian cross model, equilibrium occurs when aggregate demand equals aggregate supply, which involves savings and investment levels matching aggregate demand.

#### Quick Tip

Equilibrium in Keynesian economics is achieved when planned spending equals total output, i.e., when aggregate demand equals aggregate supply.

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**8. The budget under, which the government may spend an amount equal to the revenue it collects is referred as \_\_\_\_\_ Budget.** (Choose the correct option to fill up the blank)

(A) Surplus

(B) Deficit

(C) Balanced

(D) Deflationary

**Correct Answer:** (C) Balanced

**Solution:** A balanced budget occurs when the government's expenditure is equal to its revenue. This means there is no deficit or surplus in the budget.

#### Quick Tip

In a balanced budget, government spending equals its revenue, and there is no borrowing required.

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**9. Read the following statements: Assertion (A) and Reason (R). Choose one of the correct options given below: Assertion (A): If the value of Marginal Propensity to Save**

is 0.5, Assertion (A): If the value of Marginal Propensity to Consume will be equal to Marginal Propensity to Save.

Reason (R): Sum of Marginal Propensity to Consume and Marginal Propensity to Save always equals to unity.

(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:** (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

**Solution:** Assertion (A) is correct because if Marginal Propensity to Save (MPS) is 0.5, then Marginal Propensity to Consume (MPC) will be 0.5 as well. This aligns with Reason (R), which states that  $MPC + MPS = 1$ .

#### Quick Tip

The sum of MPC and MPS is always equal to 1 in Keynesian economics.

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**10. As the Banker to the Bank, Reserve Bank of India performs all functions except**

\_\_\_\_\_.

(A) Purchase and sale of securities on behalf of general public

(B) Maintaining current account for Commercial Banks

(C) Clearing and settlement of Interbank transactions

(D) Facilitating governmental transactions

**Correct Answer:** (A) Purchase and sale of securities on behalf of general public

**Solution:** The Reserve Bank of India does not directly engage in the purchase and sale of securities on behalf of the general public. This function is typically carried out by

commercial entities or the government. The RBI does, however, facilitate the sale and purchase of government securities to regulate money supply.

#### Quick Tip

The RBI acts as the central bank in India, overseeing monetary policy and other financial regulations, but it does not deal with securities for the general public.

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**11. (a) "The government generally levies higher Goods and Services Tax (GST) on socially undesirable products like cigarettes, tobacco, liquor etc." Identify and explain the indicated government budget objective in the above statement.**

**Solution:** The government is using the tax system to achieve the objective of "*Correcting market failures*" or "*Reducing harmful consumption.*" By imposing higher Goods and Services Tax (GST) on socially undesirable products like cigarettes, tobacco, and liquor, the government aims to discourage their consumption due to their negative impact on public health. This is a form of "*sin tax*" which is also intended to generate revenue that can be used for welfare and public health purposes. It reflects a budgetary strategy to promote social welfare and regulate behavior.

#### Quick Tip

Higher taxes on harmful goods are not just revenue-generating but also serve as a policy tool to reduce consumption of socially harmful products.

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**OR**

**(b) Two friends Ramesh (a software engineer) and Pihu (a bakery owner) are discussing their contribution to the nation's economy through tax payments. Ramesh earns 8,00,000 per year, which makes him liable to pay income tax. Pihu pays Goods and Service Tax (GST) on the sale of cakes and pastries. On the basis of the given text,**

**identify whether Ramesh is paying a direct tax or an indirect tax. Explain valid differences between the two types of taxes.**

**Solution:** Ramesh is paying a *direct tax*, specifically income tax. Direct taxes are levied directly on individuals or organizations and are based on their income, wealth, or property. Since Ramesh's income is taxed directly, it qualifies as a direct tax.

Pihu, on the other hand, is paying an *indirect tax*, specifically Goods and Service Tax (GST). Indirect taxes are levied on goods and services and are paid by consumers as part of the price of goods or services. The tax is collected by businesses like Pihu's bakery, which then remits it to the government.

#### Quick Tip

A key difference between direct and indirect taxes is that direct taxes are based on the income or property of the taxpayer, while indirect taxes are imposed on goods and services and are ultimately paid by the consumer.

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**12. Define Nominal Gross Domestic Product. How is it different from Real Gross Domestic Product?**

**Solution:**

Nominal Gross Domestic Product (Nominal GDP) refers to the total value of all goods and services produced within a country's borders in a given time period, calculated using current prices. It does not adjust for inflation or deflation and represents the market value at the time of production.

Real Gross Domestic Product (Real GDP), on the other hand, is Nominal GDP adjusted for inflation or deflation. It reflects the true value of goods and services produced by removing the effects of price changes, thus enabling better comparisons of economic performance over time.

The key difference is that Nominal GDP uses current prices without adjusting for inflation, while Real GDP adjusts for inflation to reflect the true value of goods and services.

### Quick Tip

To distinguish between Nominal GDP and Real GDP, remember that Real GDP is adjusted for inflation, while Nominal GDP is not. Real GDP provides a more accurate picture of an economy's performance over time.

**13. Suppose for an economy, the government proposes a project for the construction of expressways with an incremental investment of 1,200 crore. Assuming 80% of the increase in income is spent on consumption. Estimate the following on the basis of the above information:**

1. Change in income ( $\Delta Y$ )
2. Change in consumption ( $\Delta C$ )

### **Solution:**

Given: - Incremental Investment = 1,200 crore - 80% of the increase in income is spent on consumption

We can use the concept of the Marginal Propensity to Consume (MPC), which is given as 0.8 (or 80%).

To estimate the change in income and consumption, we can follow these steps:

$$\text{Multiplier} = \frac{1}{1 - \text{MPC}} = \frac{1}{1 - 0.8} = 5$$

(a) Change in Income ( $\Delta Y$ ):

The change in income is the total increase in income due to the investment. Since the multiplier is 5, the total change in income is:

$$\Delta Y = \text{Multiplier} \times \text{Incremental Investment} = 5 \times 1200 = 6,000 \text{ crore}$$

(b) Change in Consumption ( $\Delta C$ ):

The change in consumption is the part of the increase in income that is spent. Since 80% of the increase in income is spent on consumption, we calculate:

$$\Delta C = MPC \times \Delta Y = 0.8 \times 6,000 = 4,800 \text{ crore}$$

So, - The change in income ( $\Delta Y$ ) is 6,000 crore. - The change in consumption ( $\Delta C$ ) is 4,800 crore.

#### Quick Tip

The multiplier effect amplifies the impact of government investment on the economy, with a higher MPC leading to a greater change in consumption.

14. (A) "On the basis of the given image, explain the steps which may be taken by the Government of India to control the indicated macroeconomic issue."



**Solution:** The image highlights inflation as the key macroeconomic issue. To control inflation, the Government of India may take the following steps:

1. Monetary Policy Tightening: The Reserve Bank of India (RBI) can increase interest rates to reduce the money supply in the economy. This discourages borrowing and reduces spending, thus curbing inflation.
2. Fiscal Policy Measures: The government may reduce its spending on non-essential goods and services, which helps in reducing the overall demand in the economy. Additionally,

increasing taxes on certain goods can further reduce inflationary pressures.

3. Supply-Side Interventions: The government can also improve the supply of essential goods by reducing bottlenecks in production and distribution, which can help lower costs and alleviate inflationary pressures.

4. Price Controls: In extreme cases, the government may impose price controls on essential goods to limit excessive price rises, although this can have long-term adverse effects on supply.

These steps reflect the government's strategy to control inflation and stabilize the economy.

#### Quick Tip

Inflation control requires a balanced approach using both monetary and fiscal measures to reduce demand and ensure the stability of prices.

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#### 14. (B) "Define 'Open Market Operations'."

**Solution:** Open Market Operations (OMO) refer to the buying and selling of government securities in the open market by a country's central bank, such as the Reserve Bank of India (RBI), to regulate the money supply and control interest rates in the economy.

When the central bank buys government securities, it injects liquidity into the banking system, thus increasing the money supply. Conversely, when the central bank sells government securities, it absorbs liquidity from the banking system, reducing the money supply. OMOs are an important tool of monetary policy used to achieve objectives such as controlling inflation, stabilizing the currency, and maintaining overall economic stability.

#### Quick Tip

OMO is a key tool for central banks to manage the money supply and influence short-term interest rates, which in turn affect economic activity.

**Note: The following questions are for the Visually Impaired Candidates only in lieu of Q. No. 14.**

**(A) Explain any one fiscal policy measure that can be taken up by the Government to control the situation of inflation prevailing in an economy.**

**(B) Define 'Open Market Operations'.**

**15. (a) Justify the following statements with valid arguments:**

**(i) Money supply in an economy is an example of a stock variable.**

**(ii) The Central Bank provides several Banking services to the government.**

**Solution:**

- 1. Money supply in an economy is an example of a stock variable:** Money supply is considered a stock variable because it refers to the total amount of money available in the economy at a particular point in time. Unlike flow variables, which measure economic activity over a period of time (like income or expenditure), stock variables are measured at a specific moment and do not change with time unless there is an external influence, such as changes in the central bank's policy.
- 2. The Central Bank provides several Banking services to the government:** The Central Bank acts as the banker to the government and provides essential banking services such as managing government accounts, issuing and managing government securities, handling public debt, and facilitating government payments and receipts. These services ensure the smooth functioning of government financial operations.

#### Quick Tip

Stock variables are measured at a point in time, while flow variables are measured over a period. Understanding the difference helps in analyzing economic data effectively.

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**OR**

**15. (b) Assuming for a hypothetical economy, the Central Bank increases the Reserve Ratio from 20% to 25% and the total primary deposits stand at 1,000. Explain the effect of rise in Reserve Ratio on credit creation by commercial banks.**

**Solution:**

The Reserve Ratio, also known as the Cash Reserve Ratio (CRR), is the fraction of the total deposits that commercial banks are required to keep as reserves with the central bank.

When the central bank increases the Reserve Ratio from 20% to 25%, it reduces the amount of money available for banks to lend out. This limits the credit creation capacity of commercial banks. To explain this effect, let's calculate the credit multiplier and the potential credit creation:

1. Initial Reserve Ratio (20%):

- Reserve Ratio = 20%
- Total Primary Deposits = 1,000
- Required Reserve = 20% of 1,000 = 200
- The rest, 800, is available for lending.

Using the credit multiplier formula:

$$\text{Credit Multiplier} = \frac{1}{\text{Reserve Ratio}} = \frac{1}{0.20} = 5$$

So, the total credit creation potential = 800 \* 5 = 4,000.

2. New Reserve Ratio (25%):

- Reserve Ratio = 25%
- Total Primary Deposits = 1,000
- Required Reserve = 25% of 1,000 = 250
- The rest, 750, is available for lending.

New Credit Multiplier =  $\frac{1}{0.25} = 4$  So, the total credit creation potential = 750 \* 4 = 3,000.

By increasing the Reserve Ratio, the central bank reduces the amount of money available for lending, thus decreasing the total credit creation in the economy. The total credit creation potential drops from 4,000 to 3,000.

### Quick Tip

An increase in the Reserve Ratio decreases the credit multiplier and limits the capacity of commercial banks to create credit.

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#### 16. Read the following text carefully:

**Balance of Payments (BoP) systematically summarises the economic transactions of an economy with the rest of the world, over a given period of time.**

The BoP can be broadly divided into two accounts namely:

- Current account
- Capital account

The current account measures the transfer of goods, services, income and transfers between an economy and the rest of the world. The current account may be sub-divided into merchandise account and invisible account. Merchandise account consists of transactions related to export and import of goods.

In the invisible account, there are three broad categories:

- Non-factor services such as travel, transportation, insurance etc.
- Transfer which do not involve any value in exchange.
- Income which includes compensation of employees and investment income.

The capital account reflects the net changes in financial claims on rest of the world. The capital account can be broadly broken up into two categories:

- Non-debt flows such as direct and portfolio investments.
- Debt flows such as external assistance, commercial borrowings, non-resident deposits etc.

The sum of the two accounts indicates the overall balance, which could be either in surplus or deficit. The movement in overall balance is reflected in changes in international reserves of the country.

Source: <https://mopsi.gov.in/109-balance-payments> (adopted and modified)

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

- 1. (a) Define Balance of Payments.**
- 2. (b) Differentiate between the two accounts of Balance of Payments.**
- 3. (c) Give the meaning of Balance of Payments deficit with formula.**

**Solution:**

- 1. (a) Balance of Payments:** Balance of Payments (BoP) is a systematic record of all economic transactions between the residents of a country and the rest of the world over a given period of time. It includes the exchange of goods, services, income, and transfers. It is divided into two main accounts: the current account and the capital account.
- 2. (b) Difference between the two accounts of Balance of Payments:**
  - **Current Account:** This account records the import and export of goods and services, income from investments, and unilateral transfers (e.g., remittances). It consists of merchandise trade, services, income, and transfers.
  - **Capital Account:** This account records the transactions involving financial assets between the country and the rest of the world, including investments and borrowing. It includes non-debt flows such as direct investments and debt flows like loans.
- 3. (c) Balance of Payments Deficit:** A Balance of Payments deficit occurs when the total outflows of money (such as imports, external debt repayments, etc.) exceed the total inflows (such as exports, investments, etc.) within a given period.

$$\text{BOP Deficit} = \text{Total Outflows} - \text{Total Inflows}$$

When the sum of the current and capital accounts is negative, it reflects a deficit in the Balance of Payments.

### Quick Tip

Balance of Payments records all economic transactions between a country and the world, helping to assess the country's financial stability and external economic relations.

**17. (a) (i) On the basis of the data given below, estimate the value of National Income ( $NNP_{FC}$ )**

S. No.	Items	Amount ( in crore)
1	Private final consumption expenditure	2,000
2	Government final consumption expenditure	1,500
3	Gross domestic fixed capital formation	1,000
4	Addition to stock	400
5	Consumption of fixed capital	50
6	Net factor income from abroad	100
7	Net indirect Taxes	200
8	Net Exports	700

### Solution:

To estimate National Income ( $NNP_{FC}$ ), we can use the following formula:

$$\begin{aligned} NNP_{FC} = & \text{Private Final Consumption Expenditure} + \text{Government Final Consumption Expenditure} \\ & + \text{Gross Domestic Fixed Capital Formation} + \text{Net Exports} \\ & + \text{Net Factor Income from Abroad} - \text{Consumption of Fixed Capital} \\ & - \text{Net Indirect Taxes} \end{aligned}$$

Substituting the given values:

$$NNP_{FC} = 2000 + 1500 + 1000 + 700 + 100 - 50 - 200 = 4,500 \text{ crore}$$

Thus, the value of National Income ( $NNP_{FC}$ ) is 4,500 crore.

### Quick Tip

National Income is calculated by adding the various economic components, accounting for depreciation (consumption of fixed capital) and taxes, and adjusting for net income from abroad.

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**(ii) Differentiate between positive externalities and negative externalities.**

**Solution:**

**Positive Externalities:** Positive externalities refer to the beneficial effects of an economic activity that affect third parties who are not directly involved in the activity. These benefits are unintended and can lead to social improvements. For example, the planting of trees may improve air quality for everyone in the area.

**Negative Externalities:** Negative externalities are the harmful effects of an economic activity that affect third parties who are not involved in the activity. These costs are unintended and can result in environmental degradation or health risks. For example, pollution from factories may negatively affect the health of nearby residents.

### Quick Tip

Positive externalities lead to social benefits, while negative externalities result in social costs.

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**OR**

**(b) (i) Gauhar has recently completed her fashion designing studies and started a boutique. To produce dresses for sale, she purchased various materials, including a sewing machine, fabric, buttons, and thread. These items are essential for producing the dresses. Classify the material purchased by Gauhar as Final or Intermediate goods, giving valid reasons in support of the classifications.**

**Solution:**

The classification of goods as Final or Intermediate goods depends on whether the goods are used for further production or are ready for final consumption.

1. Sewing Machine: - Classification: Final Good - Reason: The sewing machine is a durable capital good used by Gauhar to produce dresses. It is not used for resale or further processing. Hence, it is classified as a final good.

2. Fabric: - Classification: Intermediate Good - Reason: Fabric is used as an input in the production of dresses, which is the final product. It is a part of the production process and will be transformed into finished dresses. Thus, fabric is an intermediate good.

3. Buttons: - Classification: Intermediate Good - Reason: Buttons are used as a component to make the finished dress. They are essential in the production process and are not intended for final consumption in their current form. Therefore, buttons are classified as intermediate goods.

4. Thread: - Classification: Intermediate Good - Reason: Like fabric and buttons, thread is used in the production process to make the final product, the dresses. Thus, thread is an intermediate good.

#### Quick Tip

Final goods are those that are ready for consumption or investment, while intermediate goods are used in the production process to create final goods.

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**(b) (ii) "In a two-sector economy, National Income is always equal to Domestic income" Defend or refute the given statement with valid reasons.**

#### **Solution:**

The given statement is **false**. National Income is not always equal to Domestic Income in a two-sector economy.

In a two-sector economy, there are only two sectors: households and firms. The main distinction between National Income and Domestic Income lies in the concept of Net Factor Income from Abroad (NFIA).

1. Domestic Income (DI): - Domestic Income refers to the total income earned within the

geographical boundaries of a country. It includes income generated by all the factors of production located within the country, whether owned by residents or foreigners. - Formula:

$$\text{Domestic Income} = \text{National Income} - \text{Net Factor Income from Abroad}$$

2. National Income (NI): - National Income refers to the total income earned by the residents of a country, regardless of whether the income is earned inside or outside the country. It includes the income from abroad, i.e., Net Factor Income from Abroad. - Formula:

$$\text{National Income} = \text{Domestic Income} + \text{Net Factor Income from Abroad}$$

In a two-sector economy, there is typically no distinction between National Income and Domestic Income if we assume that there is no foreign income or payments (i.e., Net Factor Income from Abroad is zero). However, if the economy involves cross-border transactions, such as income from abroad, then the two incomes would differ.

Hence, National Income is only equal to Domestic Income in a two-sector economy if there is no foreign income involved. In the general case where there is foreign income, National Income will exceed Domestic Income.

#### Quick Tip

National Income includes net income from abroad, whereas Domestic Income considers only the income generated within the country's borders.

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## SECTION - B

### (Indian Economic Development)

**18. In recent years, all the adults are encouraged to open bank accounts as part of a scheme known as \_\_\_\_\_. (Choose the correct option to fill up the blank)**

- (A) Jan-Dhan Yojana
- (B) Jan-Aushadhi Yojana
- (C) Jan-Soochna Yojana
- (D) Jan-Arogya Yojana

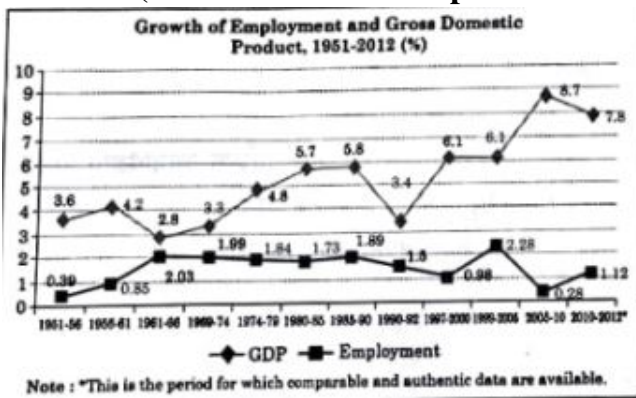
**Correct Answer:** (A) Jan-Dhan Yojana

**Solution:** The Jan-Dhan Yojana is a financial inclusion initiative by the Government of India, which encourages all adults to open a bank account. The scheme is designed to provide access to financial services such as banking, credit, insurance, and pension to the underbanked population.

### Quick Tip

The Jan-Dhan Yojana aims to ensure that every household has access to basic banking services, thus promoting financial inclusion.

19. The given chart indicates the problem of \_\_\_\_\_ in the Indian Economy, post 1990-92. (Choose the correct option to fill up the blank)



- (A) Informalisation of Workforce
- (B) Casualisation of Workforce
- (C) Jobless Growth
- (D) Formalisation of Workforce

**Correct Answer:** (C) Jobless Growth

**Solution:** The chart indicates a significant increase in GDP growth over time, but employment growth has not kept pace with it, especially post 1990-92. This situation is known as "Jobless Growth," where the economy is growing, but the growth in employment is very low or stagnant. This reflects a mismatch between economic growth and job creation.

### Quick Tip

Jobless growth occurs when economic growth does not translate into equivalent job creation, often due to technological advancements or shifts in the structure of the economy.

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**Note: The following question is for the Visually Impaired Candidates only in lieu of Q. No. 19.**

**The situation under which an economy attains economic growth without corresponding rise in employment is known as \_\_\_\_\_. (Fill up the blank with correct option)**

- (A) Informalisation of Workforce
- (B) Casualisation of Workforce
- (C) Jobless Growth
- (D) Formalisation of Workforce

**Correct Answer:** (C) Jobless Growth

**Solution:** The situation described is referred to as "Jobless Growth." This occurs when the economy experiences growth in terms of GDP, but the increase in employment does not correspond to the economic expansion. Technological advancements, automation, or shifts in the labor market structure can lead to this phenomenon.

### Quick Tip

Jobless growth is a concern because it indicates that economic development is not creating sufficient employment opportunities for the population.

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**20. Read the following statements carefully:**

**Statement 1: Environmental concerns of waste generation and pollution have become critical, due to reversal of demand and supply relationship.**

**Statement 2: Environmental crisis happens when the rate of resource extraction is less than that of regeneration of resources.**

**In the light of the given statements, choose the correct option 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 incorrect because environmental concerns related to waste generation and pollution are not primarily caused by the reversal of the demand-supply relationship. These concerns arise due to the excessive consumption of natural resources and unsustainable waste management practices. Statement 2 is correct as it correctly explains that an environmental crisis occurs when the rate of resource extraction exceeds the rate of regeneration of resources, leading to depletion of resources and environmental degradation.

#### Quick Tip

An environmental crisis often occurs when the consumption of natural resources exceeds their capacity to regenerate, causing irreversible damage to ecosystems and resources.

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**21. \_\_\_\_\_ are the people who operate their own farms / enterprises. (Choose the correct option to fill up the blank)**

- (A) Hired Workers
- (B) Casual Wage Workers
- (C) Regular Salaried Employees
- (D) Self-Employed

**Correct Answer:** (D) Self-Employed

**Solution:** Self-employed individuals are those who operate their own farms or enterprises. They do not work for others but instead manage and run their own businesses or agricultural

operations. Hired workers, casual wage workers, and regular salaried employees work for others and are not responsible for operating their own enterprises.

#### Quick Tip

Self-employed individuals have greater control over their work and are directly responsible for their business success.

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**22. Agricultural marketing is a process that involves the \_\_\_\_\_ of agricultural commodities. (Choose the correct option to fill up the blank)**

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

**Correct Answer:** (D) (ii), (iii) and (iv)

**Solution:** Agricultural marketing involves processes like assembling, processing, and grading of agricultural commodities. These processes help in making the products ready for the market. Privatisation is not a part of agricultural marketing in this context, so option (D) is the correct choice.

#### Quick Tip

Agricultural marketing plays a vital role in enhancing the efficiency and profitability of the agricultural sector.

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**23. \_\_\_\_\_ is based on the idea that education and health are integral to human well-being. (Choose the correct option to fill up the blank)**

- (A) Human Resource
- (B) Human Development
- (C) Human Capital

(D) Economic Development

**Correct Answer:** (B) Human Development

**Solution:** Human Development focuses on improving the quality of life for individuals, particularly in terms of education, health, and overall well-being. This approach views education and health as essential components for human progress and growth.

**Quick Tip**

Human development emphasizes enhancing people's capabilities and improving their quality of life beyond just economic measures.

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**24. \_\_\_\_\_ of agriculture refers to production of crops for sale in the open market rather than for self consumption purpose.**

- (1) Commercialisation
- (2) Diversification
- (3) Digitisation
- (4) Modernisation

**Correct Answer:** (1) Commercialisation

**Solution:** Commercialisation of agriculture refers to the process where agricultural production is primarily aimed at producing crops for sale in the market rather than for self-consumption. This shift is typically driven by market forces and is a key feature of modern agricultural practices.

**Quick Tip**

Commercialisation of agriculture helps improve productivity but may also lead to market dependency for farmers.

**25. Read the following statements carefully:**

**Statement 1: In 1978, commune lands were divided into small plots to the individual households for cultivation.**

**Statement 2: Under commune system, professionals were sent to work and learn from the countryside.**

**In the light of the given statements, choose the correct option 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:** In 1978, China introduced reforms which involved dividing commune lands into smaller individual plots to increase agricultural productivity. However, the statement about professionals being sent to work and learn from the countryside under the commune system is incorrect. The commune system mainly aimed at collectivising agricultural production and not at sending professionals to learn from the countryside.

#### Quick Tip

The shift from commune farming to individual household farming marked a significant agricultural reform in China during the late 20th century.

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**26. Identify, the options that emphasize the role of information and technology.**

- (i) Achieving sustainable development**
  - (ii) Attainment of food security**
  - (iii) Disseminates information regarding emerging technologies.**
- (A) Only (i)
  - (B) Only (ii)
  - (C) (i) and (ii)
  - (D) (i), (ii) and (iii)

**Correct Answer:** (D) (i), (ii) and (iii)

**Solution:** Information and technology play a crucial role in achieving sustainable development, attaining food security, and disseminating knowledge about emerging technologies. All three aspects are intertwined as technology enables more efficient farming practices, better resource management, and faster communication of technological advancements.

#### Quick Tip

Information and technology drive innovation and efficiency in sectors like agriculture, education, and healthcare, making them central to achieving global development goals.

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**27. Read the following statements: Assertion (A) and Reason (R). Choose one of the correct options given below:**

**Assertion (A):** Under the land reforms, Indian government fixed the minimum land size which could be owned by an individual.

**Reason (R):** The purpose of land ceiling was to avoid the concentration of land ownership in a few hands.

- (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:** (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

**Solution:** The Indian government introduced land reforms, including the concept of land ceilings, which set a maximum amount of land that an individual could own. The purpose of these reforms was indeed to avoid the concentration of land ownership in the hands of a few,

making the statement (R) the correct explanation for the assertion (A). Hence, both Assertion (A) and Reason (R) are true, and Reason (R) correctly explains Assertion (A).

#### Quick Tip

Land ceiling reforms were essential to ensure a more equitable distribution of land and reduce income inequality in rural areas.

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**28. (a) Medhya and Danish both had their own farms. Medhya invested in a few agricultural courses, learnt modern farming techniques, and trained her labourers on best practices related to soil fertility, crop management, pest control, etc. Whereas, Danish invested heavily in purchasing advanced farming machinery, irrigation systems, and high-quality seeds. Do you agree that Danish had made investment in human capital? Give valid reason in support of your answer.**

**Solution:** No, Danish's investments do not constitute investment in human capital. While Medhya's investment in agricultural courses and training her labourers focuses on enhancing their skills and knowledge, which directly contributes to human capital development, Danish's investment in machinery, irrigation systems, and seeds pertains to physical capital rather than human capital. Human capital refers to the investment in people's skills, education, and training.

#### Quick Tip

Human capital investments focus on improving the skills and capabilities of individuals, while physical capital investments involve tools, equipment, and infrastructure.

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**OR**

**28. (b) "Expenditure on preventive medicine, curative medicine and social medicine helps in building human capital and economic development." Do you agree with the given statement? Give valid arguments in support of your answer.**

**Solution:** Yes, I agree with the statement. Investment in preventive medicine, curative medicine, and social medicine plays a significant role in building human capital and promoting economic development.

1. **Preventive Medicine:** By focusing on the prevention of diseases, it reduces the long-term healthcare costs, increases the life expectancy, and improves the overall productivity of the workforce. A healthy population contributes positively to economic development.
2. **Curative Medicine:** Ensuring access to curative services enables workers to recover from illness quickly, leading to fewer days lost to illness and a more productive workforce.
3. **Social Medicine:** Social medicine addresses public health issues such as sanitation, nutrition, and mental health. Improvements in these areas lead to better overall health, which enhances human capital and fosters economic growth.

#### Quick Tip

Investing in healthcare, both in terms of prevention and treatment, contributes to the development of human capital by improving health and increasing workforce productivity.

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### 29. Briefly explain the dual pricing policy adopted by China.

**Solution:** The dual pricing policy adopted by China refers to the system where the government sets two different prices for the same goods or services: one price for the domestic market and another price for the international market. This system was used mainly for agricultural products and key industrial goods.

Under this policy, the government would often set a lower price for goods consumed within China, aiming to maintain affordability for the population, and a higher price for exports, to earn more revenue from international trade. The dual pricing system played a role in China's economic reform and development, helping to balance domestic needs with global market demands.

### Quick Tip

The dual pricing policy was particularly significant during China's transition to a more market-oriented economy, facilitating both domestic stability and global trade growth.

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**30. (a) "In the recent times through various schemes and policies, the Government of India has taken vital initiatives to generate employment directly/indirectly." Justify the statement giving valid arguments.**

**Solution:** Yes, the Government of India has indeed taken various measures through policies and schemes to generate employment both directly and indirectly. Some key examples are:

1. Direct Employment Initiatives: - Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA): This scheme provides wage employment to rural households by offering at least 100 days of employment per year. This directly contributes to employment generation. - Skill Development Initiatives: Schemes like the Pradhan Mantri Kaushal Vikas Yojana (PMKVY) aim to skill the youth, making them employable in various sectors and thus directly impacting employment.
2. Indirect Employment Initiatives: - Make in India: This initiative aims to boost manufacturing in India, which has indirectly created millions of jobs in industries such as automobile, electronics, and textiles. - Startup India: By promoting entrepreneurship and providing support for startups, this initiative indirectly helps in generating employment as new businesses are created, leading to job opportunities.

### Quick Tip

Employment generation through government schemes plays a crucial role in reducing poverty and inequality while boosting overall economic growth.

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**OR**

**30. (b) "Micro credit programmes have been very helpful in supporting rural**

**development and improving livelihoods in India.” Do you agree with the given statement? Give valid reasons in support of your answer.**

**Solution:** Yes, I agree with the statement. Microcredit programs have played a crucial role in supporting rural development and improving livelihoods in India. These programs, which offer small loans to individuals without access to traditional banking services, have several benefits:

1. **Empowerment of Rural Populations:** Microcredit helps rural individuals, especially women, to start or expand small businesses, leading to financial independence and empowerment. Many women have been able to support their families through microcredit, improving their social status.
2. **Improvement of Livelihoods:** By providing financial support, these programs enable individuals to invest in income-generating activities such as farming, small businesses, or handicrafts. This has led to an increase in income levels and overall quality of life for many rural families.
3. **Financial Inclusion:** Microcredit programs foster financial inclusion by making banking services accessible to the unbanked population, ensuring that more people can contribute to and benefit from the economic system.

#### Quick Tip

Microcredit programs not only provide financial resources but also promote self-reliance and social development in rural areas, making them a key tool for poverty alleviation.

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**31. On the basis of the given data, compare and analyse the distribution of workforce and its contribution to Gross Value added in India and China.**

### Sectoral Share of Employment and GVA (%) in 2018-2019

Sector	Contribution to GVA			Distribution of Workforce		
	India	China	Pakistan	India	China	Pakistan
<b>Agriculture</b>	16	7	24	43	26	41
<b>Industry</b>	30	41	19	25	28	24
<b>Services</b>	54	52	57	32	46	35
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source : Human Development Report 2019 : Key Indicators of Asia and Pacific 2019.

**Solution:** The following table provides the sectoral share of employment and GVA in India, China, and Pakistan for 2018-2019.

**Analysis:** From the table, we can observe that:

1. Agriculture contributes the highest share to the workforce in India (43%), but its contribution to GVA is relatively low (16%). In contrast, China has a smaller portion of the workforce in agriculture (26%) and a much lower GVA contribution (7%). This suggests that India's agriculture is more labor-intensive with lower productivity.
2. Industry has a significantly higher share in China's economy (41%) as compared to India (30%), which is reflected in the higher GVA contribution from China (41%) compared to India (30%). This indicates that China's industrial sector is more productive.
3. Services is the dominant sector in India and China, contributing 54% and 52% to GVA respectively. However, India has a much smaller share of the workforce in services (32%) compared to China (46%). This suggests that China's service sector is more labor-intensive than India's.

### Quick Tip

A higher share of workforce in agriculture with low GVA indicates lower productivity in that sector, while a higher share in services with higher GVA shows a shift towards more productive sectors.

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### 32. Explain the volume and direction of foreign trade during the British rule.

**Solution:** During the British rule, India's foreign trade underwent significant changes. The British colonial policies transformed India into a supplier of raw materials and a market for British manufactured goods.

**Volume of Trade:** The volume of foreign trade during British rule expanded considerably, but it was largely dictated by British interests. India's exports consisted mainly of raw materials, such as cotton, indigo, and opium, while imports primarily included manufactured goods, including textiles, machinery, and other finished products from Britain.

**Direction of Trade:** The direction of foreign trade was heavily skewed towards Britain. Most of India's trade was with Britain and its colonies, with a very small portion directed towards other parts of the world. This trade pattern was a result of British economic policies that aimed to extract resources from India and limit competition for British manufacturers. India's trade was not focused on developing independent economic relationships with other countries, but rather on reinforcing Britain's economic dominance.

### Quick Tip

The British colonial policies limited India's manufacturing sector and reduced its ability to engage in autonomous foreign trade, making it heavily dependent on Britain.

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### 33.(a) (i) "To promote the green revolution, the Indian government provided fertilizer subsidies to the farmers." Briefly explain any two arguments in favour of such subsidies.

**Solution:** The fertilizer subsidies provided by the Indian government were instrumental in promoting the green revolution and boosting agricultural productivity. Two arguments in favor of such subsidies are:

1. **Increased Agricultural Productivity:** Fertilizer subsidies enabled farmers to afford high-quality fertilizers, which led to an increase in the usage of chemical inputs. This helped boost crop yields and contributed to greater food production, especially during the Green Revolution.
2. **Encouragement of Modern Agricultural Practices:** Subsidies made it financially feasible for farmers to adopt modern farming techniques, such as the use of high-yielding varieties (HYVs) of seeds, chemical fertilizers, and pesticides. This helped India transition from traditional farming to more productive and modern agricultural practices.

#### Quick Tip

Fertilizer subsidies play a crucial role in making modern agricultural inputs more accessible, which can lead to improved food security and economic growth in rural areas.

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**(ii) As per a news report dated 8th Oct. 2021, the Government of India sold its entire 100% stake in Air India. Tata Sons, the original founder of Air India, won the bid and purchased the airline for 18,000 crore.**

**(1) Identify the step taken by the Government of India.**

**(2) State any two ways in which the identified step can be executed by the government.**

#### **Solution:**

(1) Step taken by the Government of India:

The government took the step of privatizing Air India by selling its entire 100% stake to the Tata Group. This is part of the broader disinvestment policy aimed at reducing the public sector's involvement in non-strategic sectors.

(2) Ways in which this step can be executed:

1. **Auction or Bidding Process:** The government can execute the privatization by conducting an auction or bidding process where interested private entities place bids for the ownership of the public sector enterprise. In this case, Tata Sons participated in the bidding process and won the bid for Air India.

2. **Sale of Shares to Private Investors:** The government can also execute privatization by

selling shares of a public sector company to private investors through the stock market. This method allows for a gradual transfer of ownership while raising capital for the government.

#### Quick Tip

Privatization can help improve the efficiency of state-owned enterprises by bringing in private sector expertise and reducing the financial burden on the government.

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**OR**

**33. (b)(i) "After 1991, reforms in the external sector led to an increase in foreign exchange inflows". Justify the given statement with a valid argument.**

**Solution:** The economic reforms initiated in 1991, particularly in the external sector, were aimed at liberalizing trade, increasing foreign investments, and stabilizing the Indian economy. Some key reforms that contributed to the increase in foreign exchange inflows include:

1. Devaluation of the Rupee: This made Indian exports cheaper and more competitive in international markets, leading to an increase in export revenues and foreign exchange inflows.
2. Relaxation of Foreign Direct Investment (FDI) Norms: By allowing more foreign investment, India attracted significant FDI, boosting foreign exchange reserves.
3. Trade Liberalization: The reduction of tariffs and import restrictions encouraged foreign businesses to invest in India, leading to a higher inflow of foreign currency.

#### Quick Tip

Economic liberalization, particularly in the external sector, helps increase foreign exchange reserves, strengthens the currency, and boosts international trade.

**33. b(ii) "During the planning period, the public sector was given a dominant role in the Indian Economy." Justify the rationale behind this step taken by the Government of India.**

**Solution:** The Indian government gave a dominant role to the public sector during the planning period for several key reasons:

1. **Promoting Industrialization:** The public sector was seen as the primary vehicle for industrial growth, especially in heavy industries like steel, power, and transport, which were vital for economic development.
2. **Reducing Private Monopoly:** By promoting public sector enterprises, the government aimed to reduce the dominance of private monopolies and promote equitable distribution of resources.
3. **Fulfilling Social Objectives:** The public sector was expected to contribute to the welfare of the people by providing essential services like education, healthcare, and infrastructure, which the private sector was not willing to supply on a large scale.
4. **Self-Reliance and Independence:** The government wanted to reduce dependency on foreign countries by fostering domestic production of goods, particularly in sectors like defense, energy, and manufacturing.

#### Quick Tip

The public sector was seen as a tool for achieving economic independence, industrialization, and equitable growth during the early years of India's development.

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**34. Read the following text carefully:**

**Climate change and sustainability of environment are two pressing issues that have captured global attention. In recent years, the world has witnessed a surge in extreme weather events including severe droughts, cloud bursts, floods, land slides, receding coastlines and the alarming melting of arctic ice and Himalayan Glaciers. Wildfires have become more frequent and intense. In this context, sustainable agriculture emerges as a crucial solution. This refers to those farming practices that meet today's**

requirements while preserving resources for the future generation. This means adopting methods that protect the environment, reduce dependence on chemical inputs, efficiently using water and land and ensuring socio-economic equity for farmers. On one hand sustainable agricultural practices are necessary, on the other, they are often more expensive to implement compared to conventional methods. Sustainable practices like organic farming, climate-smart technologies, modern irrigation systems may seem costly upfront, but they offer long-term benefits by improving productivity, and environmental stewardship. Without accessible and affordable financing options, the much needed shift to sustainable farming practices will remain a distant dream for many. Therefore, sustainable finance should not only promote eco-friendly practices but also ensure that financial resources are available to the farmers who need it.

Source: [https://website.vbi.org.in/web/rbi/-/speeches-](https://website.vbi.org.in/web/rbi/-/speeches-interview/financing-for-sustainable-agriculture)

[interview/financing-for-sustainable-agriculture](https://website.vbi.org.in/web/rbi/-/speeches-interview/financing-for-sustainable-agriculture) (adopted and modified)

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

- 1. (a) Define: Sustainable Development.**
- 2. (b) "Sustainable Agriculture emerges as a crucial solution to the environmental concerns." Do you agree with the given statement? Give valid reasons in support of your answer.**
- 3. (c) List any two sustainable practices that can be adopted to safeguard environment.**

**Solution:**

(a) Sustainable Development: Sustainable development refers to development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs. It focuses on economic growth, social inclusion, and environmental protection, aiming for a balance between economic development and the preservation of natural resources.

(b) Sustainable Agriculture as a Solution to Environmental Concerns: Yes, sustainable

agriculture is crucial in addressing environmental concerns. This is because sustainable agricultural practices minimize the use of harmful chemical inputs, reduce soil degradation, and promote efficient use of natural resources like water and land. By adopting organic farming, climate-smart technologies, and conservation practices, sustainable agriculture helps mitigate the impact of climate change and ensures long-term agricultural productivity.

(c) Two Sustainable Practices to Safeguard the Environment:

1. Organic Farming: It reduces dependency on chemical fertilizers and pesticides, promoting soil health and biodiversity.
2. Efficient Water Use: Implementing water-efficient irrigation systems like drip irrigation helps conserve water resources while maintaining agricultural productivity.

#### Quick Tip

Sustainable agriculture not only helps protect the environment but also ensures that future generations can continue to meet their needs through responsible resource management.