

**CBSE Class 12 2025 Economics Question Paper (58/4/1) With Solutions**

<b>Time Allowed :3 Hours</b>	<b>Maximum Marks :80</b>	<b>Total questions :34</b>
------------------------------	--------------------------	----------------------------

## General Instructions

### General Instructions :

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

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

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

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

Statement 1: The government may reduce the repo rate, to control deflationary gap prevailing in the economy.

Statement 2: The government may reduce the deflationary gap, by selling off government securities (G-Sec) in the open market.

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:** (C) Both Statements 1 and 2 are true.

**Solution:** Statement 1 is true because reducing the repo rate helps in controlling the deflationary gap by encouraging borrowing and spending in the economy.

Statement 2 is also true because selling government securities in the open market is an open market operation that can help reduce the deflationary gap by reducing the money supply.

**Quick Tip**

To combat a deflationary gap, the central bank can lower the repo rate and perform open market operations such as selling government securities to control the money supply.

---

**2. To arrive at the value of Gross Value Added at Factor Cost ( $GVA_{FC}$ ), ..... must be ..... to/from Gross Value Added at Market Price ( $GVA_{MP}$ ).**

- (A) depreciation, added
- (B) depreciation, subtracted
- (C) Net Indirect Taxes, added
- (D) Net Indirect Taxes, subtracted

**Correct Answer:** (B) depreciation, subtracted

**Solution:** To arrive at the value of GVA at Factor Cost, depreciation must be subtracted from

GVA at Market Price ( $GVA_{MP}$ ). Depreciation represents the reduction in the value of capital over time, and this must be accounted for when calculating the GVA at Factor Cost.

#### Quick Tip

Remember, to move from Gross Value Added at Market Price to Factor Cost, you subtract depreciation and add net indirect taxes.

---

### 3. Read the following statements carefully :

Statement 1: Public goods are those goods for which the payments are made by all the entities in the country.

Statement 2: Private goods are those goods which are provided by the government of a country at subsidised rates.

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:** Statement 1 is true because public goods are non-rivalrous and non-excludable, meaning that they are provided for the benefit of the whole society, often funded by taxes. Statement 2 is false because private goods are typically provided by private entities, not the government, and they are sold at market prices. The government may subsidize certain goods but does not provide them at subsidized rates as a general rule for all private goods.

#### Quick Tip

Public goods are funded by taxes and benefit everyone in society, while private goods are usually sold by private entities to individuals.

---

### 4. Under the ..... Exchange Rate System, the Central Bank can control the foreign exchange rate in a range bound manner.

- (A) Fixed
- (B) Flexible
- (C) Managed floating
- (D) Gold standard

**Correct Answer:** (C) Managed floating

**Solution:** Under a managed floating exchange rate system, the central bank allows the exchange rate to fluctuate but intervenes in the market to prevent excessive volatility and ensure stability. This system is often used by countries with floating exchange rates but with some degree of government control.

#### Quick Tip

The managed floating exchange rate system gives flexibility in the currency market while allowing for central bank intervention to maintain stability.

---

**5. Read the following statements – Assertion (A) and Reason (R). Choose the correct alternative from the options given below:**

**Assertion (A):** Direct taxes are imposed on income/profits of individuals/companies.

**Reason (R):** The burden of payment of direct taxes cannot be shifted to any other entity.

- (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 true because direct taxes are taxes levied on individuals and companies based on their income and profits, such as income tax and corporate tax.

Reason (R) is also true because direct taxes, by nature, are paid directly by the entity on which they are imposed, and this burden cannot be shifted to others. For instance, an

individual cannot pass on the income tax liability to another person. Therefore, Reason (R) correctly explains Assertion (A).

#### Quick Tip

Remember, direct taxes like income tax or corporate tax are non-transferable. The taxpayer bears the full burden of such taxes.

---

**6. Under the Keynesian theory, 'Reference Line' is a straight line passing through the origin drawn at an angle of .....**

**(Choose the correct option to fill in the blank)**

- (A)  $25^\circ$
- (B)  $40^\circ$
- (C)  $45^\circ$
- (D)  $70^\circ$

**Correct Answer:** (C)  $45^\circ$

**Solution:** In Keynesian economics, the 'Reference Line' or the 45-degree line represents situations where aggregate expenditure is equal to aggregate output or income. This line is drawn at a  $45^\circ$  angle from the origin on the income-expenditure diagram, indicating points where planned spending equals actual output.

#### Quick Tip

In Keynesian theory, the  $45^\circ$  line is crucial for showing equilibrium where income equals expenditure.

---

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

**Statement 1:** Marginal Propensity to Consume (MPC) refers to the consumption per unit of income.

**Statement 2:** As the income increases, the proportionate increase in the level of consumption is always more than the increase in the level of income.

**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:** Statement 1 is true because Marginal Propensity to Consume (MPC) is defined as the additional consumption out of an additional unit of income.

Statement 2 is false because according to Keynesian consumption theory, as income rises, the proportionate increase in consumption is typically less than the increase in income, due to the tendency of individuals to save a part of their additional income.

#### Quick Tip

Remember: As income rises, people tend to save more, so the increase in consumption is proportionally less than the increase in income.

---

**8. The main objective of measuring the primary deficit is to highlight present .....**

**(Choose the correct option to fill in the blank)**

- (A) fiscal imbalances
- (B) fiscal balances
- (C) recovery of loans
- (D) cash grant-in-aid

**Correct Answer:** (A) fiscal imbalances

**Solution:** The primary deficit is calculated by subtracting interest payments from the fiscal deficit. It essentially indicates the extent of borrowing required to meet expenses other than interest payments. It highlights the present fiscal imbalances in the government's finances, excluding the burden of past debt obligations.

#### Quick Tip

Primary deficit = Fiscal deficit – Interest payments. It signals the government's present fiscal health without considering past debt.

---

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

**Statement 1: Import of heavy machinery from Japan is a source of demand for foreign exchange.**

**Statement 2: Financial aid by International Bank for Reconstruction and Development (IBRD) for landslide in Wayanad (Kerala) is a source of supply of foreign exchange.**

**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:** (C) Both Statements 1 and 2 are true.

**Solution:** Statement 1 is true because importing heavy machinery from Japan results in foreign exchange outflow, creating a demand for foreign currency.

Statement 2 is true because financial aid from IBRD to Kerala is considered a capital inflow, contributing to the supply of foreign exchange.

**Quick Tip**

Remember, imports create demand for foreign exchange, while foreign aid and exports increase the supply of foreign exchange.

---

**10. In a two-sector economy, the Aggregate Demand can be determined by adding ..... and .....**

- (A) consumption, investments
- (B) investments, savings
- (C) consumption, savings
- (D) savings, exports

**Correct Answer:** (A) consumption, investments

**Solution:** In a two-sector economy (consisting of households and firms), Aggregate Demand (AD) is the total demand for goods and services. It is determined by adding consumption

expenditure (C) and investment expenditure (I). Thus, the correct relationship is:

$$AD = C + I$$

Therefore, the correct option is (A).

#### Quick Tip

In a two-sector economy, remember that Aggregate Demand consists of consumption and investment expenditures.

---

### 11. (a) Explain any two precautions pertaining to the Value Added Method of Estimation of National Income in a country.

**Solution:** The Value Added Method of National Income estimation involves calculating the value added at each stage of production. However, there are certain precautions to be kept in mind while using this method:

1. **Double Counting:** Care should be taken to avoid double counting. This occurs when the value of intermediate goods is included in the value of final goods. Only the value added at each stage of production should be counted, not the value of intermediate goods used in the production process.
2. **Exclusion of Non-Market Transactions:** Non-market transactions, such as household work or services provided without monetary exchange, should not be included in the calculation of national income. Only market transactions involving the exchange of goods and services should be considered.

These precautions are necessary to ensure that the calculation of national income is accurate and reflects the actual productive activity in the economy.

#### Quick Tip

Be cautious of double counting and ensure that only market transactions are included in the estimation of national income.

---

**OR**

**(b) On the basis of the following hypothetical data:**

Year	Nominal GDP	Nominal GDP (adjusted to base year prices)
2020 – 21	3,000	5,000
2022 – 23	4,000	6,000

**Calculate the percentage change in Real Gross Domestic Product (GDP) in the year 2022 – 23 using 2020 – 21 as the base year.**

**Solution:** The formula for calculating the percentage change in Real GDP is:

$$\text{Percentage Change in Real GDP} = \frac{\text{Real GDP in 2022-23} - \text{Real GDP in 2020-21}}{\text{Real GDP in 2020-21}} \times 100$$

From the data, we have:

$$\text{Real GDP in 2022-23} = 6,000 \quad \text{and} \quad \text{Real GDP in 2020-21} = 5,000$$

Substituting these values into the formula:

$$\text{Percentage Change in Real GDP} = \frac{6,000 - 5,000}{5,000} \times 100 = \frac{1,000}{5,000} \times 100 = 20\%$$

Therefore, the percentage change in Real GDP in the year 2022 – 23 is **20%**.

#### Quick Tip

To calculate the percentage change in Real GDP, always use the Real GDP values adjusted to the base year prices.

**12. "Taxation is an effective tool to reduce the inequalities of income." Justify the given statement with valid reasons.**

**Solution:** Taxation can reduce income inequalities in several ways:

1. **Progressive Taxation:** Progressive tax systems ensure that higher-income individuals or entities pay a higher percentage of their income in taxes compared to lower-income individuals. This reduces income disparities by redistributing wealth.
2. **Government Spending on Social Welfare:** Taxes collected by the government are often used to fund social welfare programs like healthcare, education, and unemployment benefits, which primarily benefit the lower-income groups, further narrowing the income gap.
3. **Subsidies and Transfers:** The government can use tax revenues to provide subsidies and direct transfers to economically disadvantaged groups, helping them achieve a better standard of living.

In conclusion, taxation, when properly structured, is a powerful tool to reduce income inequalities by redistributing wealth and providing social safety nets.

#### Quick Tip

A progressive tax system and government redistribution policies play a key role in reducing income inequality.

---

### **13. (a) Elaborate any two components of the Capital Account under the Balance of Payments Account.**

**Solution:** The Capital Account of the Balance of Payments (BoP) records the flow of capital in and out of the country. It mainly includes the following components:

1. **Foreign Direct Investment (FDI):** Foreign Direct Investment refers to investments made by foreign entities in a country's businesses or assets, usually by acquiring a substantial shareholding. It is considered a long-term investment and is one of the primary sources of capital inflows. FDI plays a vital role in the economic development of a country by bringing in not only capital but also technology, management expertise, and employment opportunities.
2. **External Borrowings:** External borrowings refer to loans or credit taken by the government or private sector from foreign sources. These can include loans from international organizations, foreign governments, or private lenders. External borrowings are a means for countries to finance their development projects and bridge the gap between domestic savings and investment needs. However, they need to be managed prudently to avoid excessive debt burdens.

These components of the Capital Account help a country manage its international financial obligations and contribute to the overall balance of payments.

#### Quick Tip

FDI and external borrowings are crucial components of the Capital Account, as they represent long-term capital inflows that contribute to the country's development.

**OR**

**(b) Distinguish between Autonomous transactions and Accommodating transactions.**

**Solution:** Autonomous transactions and accommodating transactions are two types of transactions that take place in the Balance of Payments. Here's the distinction between them:

1. **Autonomous Transactions:** Autonomous transactions are those international transactions that are undertaken for business or investment purposes, independent of the balance of payments. These transactions are generally carried out without considering the need to balance the overall BoP. Examples include exports and imports of goods and services, foreign investments, and foreign loans. Autonomous transactions are typically long-term and driven by market forces. They do not arise due to any balancing requirement of the BoP.
2. **Accommodating Transactions:** Accommodating transactions, on the other hand, are those that occur as a result of the need to balance the overall Balance of Payments. These transactions are usually in the form of changes in the reserve account, like changes in foreign exchange reserves or borrowing from international institutions to cover any deficits. When a country has a deficit in its current account, it can borrow or use foreign exchange reserves to accommodate the imbalance. Accommodating transactions are short-term and are used to correct BoP imbalances.

In summary, autonomous transactions are driven by economic activity, while accommodating transactions are adjustments made to balance the BoP.

#### Quick Tip

Autonomous transactions reflect normal economic activity, whereas accommodating transactions are corrective measures taken to balance the country's overall balance of payments.

---

**14. Assuming for a hypothetical economy:**

- (i) Autonomous Consumption Expenditure ( $\bar{C}$ ) = ₹250 crore
- (ii) Marginal Propensity to Save (MPS) = 0.2
- (iii) Autonomous Investments ( $I_0$ ) = ₹200 crore

**Estimate the Break-even level of Income and Equilibrium level of Income, on the basis of information given above.**

**Solution:**

**1. Break-even Level of Income:**

At the break-even point, Income (Y) = Consumption (C)

Given: Autonomous Consumption Expenditure ( $\bar{C}$ ) = ₹250 crore

At break-even point, no savings means:

$$Y = C = \bar{C}$$

$$\text{Break-even Level of Income} = |250 \text{ crore}$$

**2. Equilibrium Level of Income:**

We know that:

$$\text{Equilibrium Income (Y)} = \frac{\bar{C} + I_0}{MPS}$$

Substituting the given values:

$$Y = \frac{250 + 200}{0.2}$$

$$Y = \frac{450}{0.2}$$

$$Y = 2250 \text{ crore}$$

**Therefore, the Equilibrium Level of Income is ₹2250 crore.**

**Quick Tip**

At break-even, income equals autonomous consumption, and equilibrium income can be found using the formula:

$$Y = \frac{\bar{C} + I_0}{MPS}$$

Always remember to convert MPS correctly and add up autonomous values before dividing.

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

According to a report issued by a research organisation, there is a sharp decline in the overall demand in the economy, particularly in the private consumption segment. This dip in the

macroeconomic variables highlights the urgent need for strategic actions to stimulate economic activities.

**On the basis of the given text and common understanding, explain the measure which the government may take to solve the indicated problem.**

**Solution:** The sharp decline in overall demand, particularly in the private consumption segment, signals a slowdown in economic activity. In such a situation, the government can implement the following measures to stimulate demand and revitalize the economy:

1. **Increase in Government Spending (Fiscal Stimulus):** The government can increase its spending on infrastructure, public services, and welfare programs to directly stimulate demand in the economy. This will increase the income of individuals and businesses, which will then lead to an increase in consumption and investment.
2. **Tax Reductions (Fiscal Policy):** Reducing taxes, especially income taxes and indirect taxes, can increase the disposable income of individuals and firms. This will encourage increased consumption and investment. Lower taxes lead to more money in the hands of consumers, which can boost demand in the economy.
3. **Monetary Policy (Lower Interest Rates):** The central bank can reduce interest rates to make borrowing cheaper for businesses and consumers. This would stimulate investments by firms and increase consumption by individuals, helping boost demand. A reduction in interest rates also reduces the cost of capital for businesses, making it easier for them to invest in growth.
4. **Subsidies for Key Sectors:** Targeted subsidies in sectors that are highly sensitive to demand fluctuations (such as housing, automobiles, and consumer goods) can encourage consumption in those sectors.

In summary, the government can use a combination of fiscal and monetary policies to stimulate economic demand and address the decline in consumption.

#### Quick Tip

Government spending, tax cuts, and lower interest rates are effective tools for stimulating demand during a slowdown.

**16. (a) (i) Suppose there are only three firms in an imaginary economy, viz. X, Y and Z. During a year, the following transactions took place in the economy:**

**(I) Firm X sold goods worth ₹20,000 to Firm Y and ₹12,000 to Firm Z.**

**(II) Firm Y sold goods worth ₹11,000 to Firm X and ₹35,000 to Firm Z.**

**(III) Firm Z sold goods worth ₹57,000 to households for final consumption.**

**On the basis of the given transactions, calculate the value of Gross Domestic Product at Market Price ( $GDP_{MP}$ ) in the economy.**

**Solution:**

To calculate the value of Gross Domestic Product at Market Price ( $GDP_{MP}$ ), we consider the value of final goods and services produced within the domestic territory during a year. Only the final sale to households is counted, while intermediate transactions between firms are excluded to avoid double counting.

- Value of goods sold by Firm Z to households = ₹57,000

Therefore,

$$GDP_{MP} = ₹57,000$$

**Final Answer: ₹57,000**

#### Quick Tip

While calculating GDP, include only the final consumption expenditure to avoid double counting intermediate goods.

---

**16. (a) (ii) Elaborate the likely impact of construction of two new Express Highways on the Gross Domestic Product (GDP) and Welfare in an economy.**

**Solution:**

The construction of two new Express Highways will have the following likely impacts:

- **Impact on Gross Domestic Product (GDP):** The construction activity will contribute directly to the GDP by increasing Gross Capital Formation. It will generate employment opportunities and increase the income of workers, suppliers, and contractors. This will enhance overall production and demand in the economy, thereby boosting the GDP.

- **Impact on Welfare:** Improved road infrastructure will reduce travel time and transportation costs, improving connectivity and accessibility. It will facilitate faster movement of goods and people, enhance trade, and contribute to better health, education, and employment opportunities in the connected areas, thereby improving the overall welfare and standard of living of the people.

#### Quick Tip

Infrastructure projects like highways boost both GDP through investment and employment, and welfare through improved connectivity and services.

OR

**16. (b) (i) On the basis of the following data, estimate the value of National Income (NNP<sub>FC</sub>):**

S.No.	Items	Amount (in ₹crore)
(i)	Household Consumption Expenditure	800
(ii)	Gross Business Fixed Capital Formation	150
(iii)	Gross Residential Construction Investment	120
(iv)	Government Final Consumption Expenditure	270
(v)	Excess of Imports over Exports	20
(vi)	Inventory Investments	50
(vii)	Gross Public Investments	130
(viii)	Net Indirect Taxes	20
(ix)	Net Factor Income from Abroad	(-) 25
(x)	Consumption of Fixed Capital	40

**Solution:**

First, we calculate Gross Domestic Product at Market Price (GDP<sub>MP</sub>) using the expenditure method:

$$GDP_{MP} = C + I + G + (X - M)$$

Where,  $C = 800$  (Household Consumption Expenditure)  $I = 150 + 120 + 50 + 130 = 450$

(Gross Investment)  $G = 270$  (Government Final Consumption Expenditure)  $(X - M) = -20$   
(Excess of Imports over Exports)

Now,

$$GDP_{MP} = 800 + 450 + 270 + (-20) = 1500 \text{ crore}$$

Now, calculate Net Domestic Product at Market Price ( $NDP_{MP}$ ):

$$\begin{aligned} NDP_{MP} &= GDP_{MP} - \text{Consumption of Fixed Capital} \\ &= 1500 - 40 = 1460 \text{ crore} \end{aligned}$$

Next, calculate Net Domestic Product at Factor Cost ( $NDP_{FC}$ ):

$$\begin{aligned} NDP_{FC} &= NDP_{MP} - \text{Net Indirect Taxes} \\ &= 1460 - 20 = 1440 \text{ crore} \end{aligned}$$

Finally, calculate National Income ( $NNP_{FC}$ ):

$$\begin{aligned} NNP_{FC} &= NDP_{FC} + \text{Net Factor Income from Abroad} \\ &= 1440 + (-25) = 1415 \text{ crore} \end{aligned}$$

**Final Answer:** ₹1415 crore

#### Quick Tip

Always follow the sequence:  $GDP_{MP} \rightarrow NDP_{MP} \rightarrow NDP_{FC} \rightarrow NNP_{FC}$ , adjusting for depreciation, indirect taxes, and net factor income from abroad.

---

#### 16. (b) (ii) “All producer goods are essentially capital goods.”

Defend or refute the given statement, with the help of a suitable example.

#### Solution:

The given statement is **refuted**.

Not all producer goods are capital goods. While both are used in the production of other goods and services, their classification depends on their nature and purpose.

- **Capital Goods:** These are durable goods used repeatedly in the production process for several years. Example: machinery, tools, and equipment.
- **Producer Goods:** These include both capital goods and single-use producer goods like raw materials and intermediate goods that are used up in the process of production. Example: raw cotton used by a textile mill, which is completely consumed in production.

**Example:** A machine used in a factory for production is a **capital good**. However, the fuel used to run the machine is a **producer good** but not a capital good since it is consumed in one production cycle.

Hence, the statement is incorrect as all producer goods are not capital goods.

#### Quick Tip

Remember — capital goods are durable and repeatedly used, while producer goods also include single-use inputs like raw materials.

---

### 17. (a) Elaborate the process of Credit Creation using a suitable numerical example.

#### Solution:

Credit creation refers to the process by which commercial banks are able to expand the money supply in an economy on the basis of primary deposits. It is possible due to the fractional reserve system, where banks keep a part of deposits as reserves and lend out the remaining.

#### Numerical Example:

Assume the initial deposit in a bank is ₹1,000 and the Legal Reserve Ratio (LRR) is 20%.

- Bank keeps ₹200 (20% of ₹1,000) as cash reserve.
- Lends ₹800 to borrowers.
- This ₹800 is spent and comes back to the banking system as a deposit.
- Now, 20% of ₹800 i.e., ₹160 is kept as reserve and ₹640 is lent out.
- This process continues.

### Total Credit Creation:

Using the formula:

$$\begin{aligned}\text{Total Deposits Created} &= \frac{\text{Initial Deposit}}{\text{Cash Reserve Ratio (CRR)}} \\ &= \frac{1000}{0.20} = ₹5,000\end{aligned}$$

So, a primary deposit of ₹1,000 leads to total deposits of ₹5,000 in the banking system.

#### Quick Tip

Remember — banks create credit by lending out deposits while keeping a fraction as reserves, multiplying money supply in the economy.

---

### 17. (b) Read the following text carefully:

*“This function of money provides different items to be evaluated against a common standard. It allows comparison of prices and keeping financial records.”*

**(i) On the basis of the given text, identify the indicated function of money.**

**(ii) List any other two functions of money.**

**Solution:**

**(i) Indicated Function: Unit of Account (or Measure of Value)** — This function of money allows various goods and services to be measured and compared against a common standard, facilitating financial record-keeping.

**(ii) Any other two functions of money:**

- **Medium of Exchange:** Money facilitates buying and selling of goods and services.
- **Store of Value:** Money acts as a medium to store wealth and purchasing power for future use.

#### Quick Tip

Unit of account helps compare values, while medium of exchange and store of value ease transactions and saving.

**SECTION B**  
**Indian Economic Development**

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

*Statement 1:* The British policies were accountable for commercialisation of Indian agriculture.

*Statement 2:* In the larger interest of Indians, the British rulers focused on the infrastructural growth of India.

**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:**

Statement 1 is true as the British policies promoted the commercialisation of Indian agriculture to benefit British industries. Statement 2 is false because the infrastructural development under British rule primarily served their colonial interests rather than the welfare of Indians.

**Quick Tip**

Colonial infrastructure projects in India largely supported British trade, not Indian public welfare.

---

**19. Read the following statements – Assertion (A) and Reason (R). Choose the correct alternative from the options given below:**

**Assertion (A):** Information plays a crucial role in judicious decision-making about investing in human capital.

**Reason (R):** Individuals invest to acquire information about the labour market and other areas such as education and healthcare.

- (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:**

Both the assertion and the reason are correct. Moreover, Reason (R) correctly explains Assertion (A) as the availability of relevant information enables individuals to make informed decisions about investing in human capital.

**Quick Tip**

Information about labour markets and sectors helps people make wiser education and skill investment decisions.

---

**20. Identify, which of the following does *not* indicate the similarities in the policies of India and Pakistan in the post 1947 period. Choose the correct option.**

- (A) Dual pricing policy
- (B) Green revolution
- (C) Import substitution
- (D) Mixed economic system

**Correct Answer:** (A) Dual pricing policy

**Solution:**

India and Pakistan both adopted policies like Green Revolution, Import Substitution, and a Mixed Economic System after 1947. However, Dual Pricing Policy was not a common strategy between the two nations, making it the correct answer.

### Quick Tip

Green Revolution, Mixed Economy, and Import Substitution were shared strategies between India and Pakistan after independence.

**21. Identify, which of the following statements is *incorrect* about the Rural Banking system in India. (Choose the correct option)**

- (A) In the post-independence period, a well-structured Rural Banking system was formulated in India.
- (B) Rural Banking system in India consists of a set of multi-agency institutions.
- (C) Regional Rural Banks, Cooperative and Land Development Banks are few important components of Rural Banking system in India.
- (D) Rural Banking system in India works under the guidance, instruction and supervision of the State Bank of India.

**Correct Answer:** (D) Rural Banking system in India works under the guidance, instruction and supervision of the State Bank of India.

### **Solution:**

Statement (D) is incorrect because the Rural Banking system in India is supervised by the Reserve Bank of India (RBI) and NABARD, not by the State Bank of India (SBI). The other statements are factually correct.

### Quick Tip

RBI and NABARD regulate and supervise rural banks — not SBI.

**22. In the post-independence era, the policy makers of India pushed for ‘self-reliance’ for the first ..... Five Year Plans. (Choose the correct option to fill in the blank)**

- (A) 8
- (B) 7
- (C) 6

(D) 5

**Correct Answer:** (D) 5

**Solution:**

'Self-reliance' was one of the key objectives of India's economic policy during the first five Five Year Plans after independence, aiming to reduce dependency on foreign aid and promote indigenous development.

**Quick Tip**

The first five Five Year Plans prioritised self-reliance to strengthen India's economic independence.

---

**23. Production of diverse varieties of crops rather than one specialized crop is known as diversification of ----- . (Choose the correct option to fill in the blank)**

- (A) crops
- (B) agricultural production
- (C) sectoral composition
- (D) employment

**Correct Answer:** (B) agricultural production

**Solution:**

When farmers produce different varieties of crops instead of focusing on a single crop, it is termed as diversification of agricultural production.

**Quick Tip**

Diversification of agriculture improves income security and reduces risk from market and climate fluctuations.

---

**24. Identify, which of the following statements is *incorrect* about the functions of environment. (Choose the correct option)**

- (A) Provides resources

- (B) Absorbs wastage
- (C) Sustains life
- (D) Deteriorates quality of life

**Correct Answer:** (D) Deteriorates quality of life

**Solution:**

Option (D) is incorrect because environment inherently provides resources, sustains life, and absorbs waste. It is human misuse of environmental resources that deteriorates the quality of life, not the environment's functions themselves.

**Quick Tip**

Environment provides essential life-supporting functions; pollution and exploitation degrade quality of life.

---

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

*Statement 1:* The Food Corporation of India maintains buffer stocks of wheat and rice as a measure to improve market mechanism.

*Statement 2:* Minimum Support Price (MSP) is imposed by the government to safeguard the interest of farmers.

**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:** (C) Both Statements 1 and 2 are true.

**Solution:**

Both statements are correct. The Food Corporation of India maintains buffer stocks of essential grains to stabilize prices and ensure food security. MSP is a price set by the government to protect farmers against any sharp fall in market prices.

### Quick Tip

Buffer stocks and MSP both aim to protect farmers' interests and stabilize food grain markets.

---

**26. Suppose an economy is experiencing a situation of rise in Real Gross Domestic Product (GDP), without any corresponding rise in employment opportunities. In economic parlance, such a situation is termed as \_\_\_\_\_ growth. (Choose the correct option to fill in the blank)**

- (A) casual
- (B) informal
- (C) formal
- (D) jobless

**Correct Answer:** (D) jobless

**Solution:**

A situation where GDP grows but employment opportunities do not rise proportionally is called jobless growth. It indicates economic growth without the benefit of creating new jobs for the population.

### Quick Tip

Jobless growth means rising output without adequate employment generation.

---

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

**Assertion (A):** Excessive regulation of permit license raj prevented certain private firms from becoming more efficient.

**Reason (R):** Private sector wasted a significant time in obtaining licenses rather than enhancing product quality and international competitiveness.

(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:**

Both the assertion and the reason are correct. Excessive regulations under the permit-license raj constrained private sector growth, and time-consuming licensing procedures affected efficiency and international competitiveness.

**Quick Tip**

Permit-license raj hindered private sector efficiency by imposing excessive regulatory barriers.

---

**28. Elaborate the economic reforms in agriculture sector undertaken by China.**

**Solution:**

China introduced several agricultural reforms to modernise and improve productivity in its rural sector:

- **Household Responsibility System:** Land was distributed among individual households while ownership remained with the government. Households were responsible for production and marketing of their output.
- **Price Reforms:** The government increased procurement prices for agricultural produce to encourage higher production.
- **Diversification:** Farmers were encouraged to diversify into other allied activities like fisheries, poultry, and horticulture to increase income.
- **Investment in Rural Infrastructure:** Focus was given on improving irrigation, transportation, storage, and marketing facilities in rural areas.

### Quick Tip

China's agricultural reforms focused on incentives, pricing, diversification and infrastructure to boost rural income and food production.

---

**29. (a) “Under the British rule, India underwent systematic economic exploitation with its resources and wealth being diverted to Britain.” Justify the given statement with valid explanation.**

**Solution:**

Under British colonial rule, India experienced economic exploitation in the following ways:

- **Drain of Wealth:** A significant portion of India's revenue and resources was transferred to Britain as salaries, pensions, and profits.
- **Destruction of Indigenous Industries:** British policies favoured imports from Britain, leading to the collapse of local handicrafts and industries.
- **Commercialisation of Agriculture:** Agriculture was forced to produce cash crops for British industries, rather than food crops for Indians.
- **Neglect of Infrastructure for Indian Welfare:** Infrastructure was developed mainly to serve British economic and administrative interests.

### Quick Tip

Colonial policies systematically drained India's wealth and weakened its indigenous economy to benefit Britain.

---

**OR**

**29. (b) Appraise the Navratna policy adopted by the Government of India in the reforms of 1991.**

**Solution:**

The Navratna policy was introduced to empower select public sector enterprises (PSEs) with greater autonomy to compete in the global market. Key highlights:

- Certain high-performing PSEs were awarded ‘Navratna’ status.
- These enterprises gained operational and financial autonomy in areas like investment decisions, joint ventures, and human resource management.
- Aimed at increasing efficiency, competitiveness, and profitability of public enterprises.

**Quick Tip**

The Navratna policy made key PSEs financially autonomous to compete effectively in a liberalised economy.

**30. (a)(i) Distinguish between human capital and physical capital.**

**Solution:**

<b>Human Capital</b>	<b>Physical Capital</b>
It refers to the stock of skills, knowledge, and abilities possessed by individuals.	It refers to man-made goods used for further production like machinery, tools, and buildings.
Increases productivity by improving human efficiency.	Increases productivity by providing means of production.
Intangible in nature.	Tangible in nature.

**Quick Tip**

Human capital is the skill-set in people, while physical capital is the tool-set used in production.

**30. (a)(ii) Describe ‘LPG’ and ‘Gobar Gas’ as strategies used to achieve sustainable development in rural areas.**

**Solution:**

- **LPG (Liquefied Petroleum Gas):** Encouraging the use of LPG in rural areas

reduces dependence on firewood, preserving forests and improving rural health by reducing indoor pollution.

- **Gobar Gas (Biogas):** Use of biogas plants using animal and organic waste provides a clean, renewable source of energy for cooking and lighting in villages. It also produces organic manure, supporting sustainable agriculture.

#### Quick Tip

Cleaner fuels like LPG and biogas reduce deforestation and pollution, promoting sustainability in villages.

---

**OR**

### **30. (b)(i) Critically appraise the micro-credit programmes in rural India.**

#### **Solution:**

Micro-credit programmes in rural India have played an important role in providing small loans to rural households, especially women and self-help groups, without collateral. Key points:

- **Positive Impact:** They promote financial inclusion, empower women, support small businesses, and help reduce poverty.
- **Limitations:** The loan amounts are often too small to support substantial business ventures. Interest rates can also be high in some cases, limiting their benefits.
- **Conclusion:** While micro-credit programmes have empowered many rural poor and fostered entrepreneurship, their scale, coverage, and credit terms need improvement to make a significant long-term impact.

#### Quick Tip

Micro-credit helps rural poor access small loans, but needs better coverage and terms for large-scale impact.

---

### **30. (b)(ii) State the meaning of sustainable development.**

**Solution:**

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 involves using natural resources judiciously, ensuring environmental protection, and promoting social equity and economic growth simultaneously.

**Quick Tip**

Sustainable development balances present needs with future resource protection.

**31. Read the given text carefully and answer the following questions:**

In response to the problem of rapidly rising population, China introduced the 'One Child Policy'. The policy restricted couples to having only one child. This policy helped China to limit the population growth.

This policy led to significant consequences, such as an increase in the ageing population, gender imbalances due to male child preference and social challenges for single children, etc.

This policy was relaxed in 2015, allowing couples to have two children and further relaxed to three children in 2021.

Overall, while the One Child Policy achieved its primary goal of controlling population growth, it also created a complex set of demographic and social challenges that China continues to address today.

**(a) Explain the consequences of the implementation of the One Child Policy in China.**

**Solution:** The One Child Policy, introduced by China to control its rapidly growing population, led to several consequences:

**1. Ageing Population:**

One of the major consequences was the rapid ageing of the population. With fewer children being born, the proportion of elderly people in the population increased, leading to a higher dependency ratio and a strain on social services, particularly in healthcare and pension systems.

## 2. Gender Imbalance:

Due to a strong cultural preference for male children, the One Child Policy exacerbated gender imbalances. Many families opted for sex-selective abortions or abandoned female children, leading to a significant shortage of women in the population, which in turn caused social issues like a higher number of unmarried men.

## 3. Social Challenges for Single Children:

The policy also created a generation of "only children", who faced increased pressure from their parents and society to succeed. These children were often expected to care for their ageing parents, as there were no siblings to share the responsibility. This led to mental health and emotional challenges for many individuals.

## 4. Economic Impact:

The reduction in the workforce due to fewer births led to labour shortages in various sectors, affecting China's economic growth. As the working-age population shrank, the country had to rely more on automation and migrant workers to fill the gap.

## 5. Unbalanced Population Growth:

The policy also resulted in an uneven population distribution, with urban areas seeing more growth compared to rural areas, contributing to regional imbalances and further straining the economy.

In summary, while the One Child Policy helped curb China's population growth, it created long-term social, demographic, and economic challenges that the country continues to address.

### Quick Tip

The One Child Policy in China achieved its goal of controlling population growth, but it also led to social, economic, and demographic challenges, such as ageing, gender imbalance, and workforce shortages.

---

### **(b) State any one reason for the implementation of the One Child Policy in China.**

**Solution:** One primary reason for the implementation of the One Child Policy in China was to control the rapidly increasing population. In the 1970s, China's population was

growing at an unsustainable rate, which put immense pressure on the country's resources, such as food, water, and energy. The government introduced this policy to alleviate the strain on resources, ensure economic stability, and improve living standards for its citizens.

#### Quick Tip

The One Child Policy was primarily implemented to manage China's rapid population growth and reduce the strain on resources and infrastructure.

---

**32. State and elaborate whether the following statements are true/false, with valid arguments :**

**(a) In the Indian rural landscape, agricultural diversification has emerged as a solution for a lot of farmers' problems. State and elaborate whether the statement is true/false with valid arguments.**

**Solution:**

The statement is **True**. In the Indian rural economy, agricultural diversification refers to the shift from traditional subsistence farming to more commercial, market-oriented farming that includes horticulture, floriculture, animal husbandry, fisheries, and other allied activities.

**Arguments in support:**

- **Reduction in Risk:** By diversifying crops and activities, farmers can reduce their dependence on a single crop and protect themselves against crop failure and price fluctuations.
- **Employment Generation:** Diversification provides multiple employment opportunities in allied sectors such as dairy, poultry, fisheries, and horticulture.
- **Improved Income Levels:** Farmers can increase their income by cultivating high-value crops like fruits, vegetables, and medicinal plants.
- **Efficient Resource Use:** Diversification promotes judicious use of land and water resources by encouraging crop rotation and mixed farming.

- **Promotes Sustainable Agriculture:** It helps maintain soil fertility, reduces pressure on groundwater and avoids mono-culture practices.

#### Quick Tip

Agricultural diversification reduces income risk, generates rural employment, and ensures sustainable farming practices.

---

**32. (b) Informalisation of workforce in India has increased various concerns on the front of employment generation among the youth of the country. State and elaborate whether the statement is true/false with valid arguments.**

**Solution:**

The statement is **True**. Informalisation refers to the increase in employment in the informal sector, where workers lack job security, social benefits, and legal protection. In India, the informal sector continues to dominate the employment landscape, especially in rural areas.

**Arguments in support:**

- **Lack of Social Security:** Informal jobs do not offer benefits like provident fund, health insurance, or job security.
- **Underemployment and Low Wages:** Informal sector jobs often involve lower wages and disguised unemployment.
- **Exploitation of Workers:** Informal workers are vulnerable to exploitation due to lack of legal protection.
- **Limited Skill Development:** Most informal jobs are low-skilled, reducing opportunities for career advancement.
- **Employment Generation Concern:** Rising informalisation means a lack of quality employment opportunities for the youth, adversely affecting economic growth and social stability.

### Quick Tip

Increasing informal employment highlights the need for creating secure, formal job opportunities in the economy.

### 33. (a)(i) Discuss briefly, causes and consequences of tax reforms taken by the Indian Government during economic reforms.

#### Solution:

During the 1991 economic reforms, tax reforms were introduced to rationalize the tax structure and improve government revenue collection.

#### Causes for Tax Reforms:

- **High Fiscal Deficit:** India faced a severe fiscal crisis in 1991 due to a high budget deficit and low foreign exchange reserves.
- **Complicated Tax Structure:** The existing tax system was complex, with multiple rates and exemptions that discouraged compliance.
- **Low Tax Revenue:** The tax-to-GDP ratio was inadequate to meet developmental and administrative needs.
- **Encouraging Private Investment:** Tax incentives and rationalisation were needed to attract domestic and foreign private investment.

#### Consequences of Tax Reforms:

- Simplification of tax structure and introduction of moderate tax rates.
- Reduction in import and excise duties.
- Broadening of the tax base by reducing exemptions.
- Improvement in tax compliance and revenue collection.
- Creation of a more investment-friendly economic environment.

### Quick Tip

1991 tax reforms simplified tax rates, broadened the tax base and promoted investment-led growth.

---

**33. (a)(ii) Distinguish between Multilateral Trade and Bilateral Trade.**

**Solution:**

<b>Multilateral Trade</b>	<b>Bilateral Trade</b>
Trade between more than two countries, usually under international agreements like WTO.	Trade between two countries on mutually agreed terms.
Aims at creating a free and fair trading environment globally.	Focuses on strengthening economic ties between two specific nations.
Examples: WTO trade agreements, Regional blocs like ASEAN.	Examples: India and Sri Lanka Free Trade Agreement (ISLFTA).

**Quick Tip**

Bilateral trade involves two nations; multilateral trade involves multiple countries under agreed rules.

---

**OR**

**33. (b)(i) “Import substitution policy, if not applied carefully, can prove to be a double-edged sword for any economy.” Do you agree with the given statement? Justify your answer with valid arguments.**

**Solution:**

Yes, I agree with the statement. The import substitution policy focuses on reducing dependency on imported goods by promoting the domestic production of industrial and consumer goods. While this policy can initially protect local industries, it can also lead to adverse outcomes if not handled prudently.

**Arguments in support:**

**– Positive Impact:**

- \* Protects nascent domestic industries from foreign competition.
- \* Conserves foreign exchange by reducing imports.

\* Generates employment and encourages industrialisation.

– **Negative Impact:**

\* **Lack of Competition:** Domestic industries might become inefficient and complacent in the absence of foreign competition.

\* **Higher Prices and Limited Quality:** Consumers may face higher prices and limited product choices as domestic producers face no competition.

\* **Technological Obsolescence:** Insulation from global markets discourages technological upgradation and innovation.

\* **Balance of Payment Issues:** Limited exports and stagnant industrial growth can result in balance of payments difficulties over time.

**Conclusion:** Thus, while import substitution can support initial industrial development, its prolonged or excessive use without competitive reforms can hurt the economy's long-term efficiency and global competitiveness.

**Quick Tip**

Import substitution helps young industries, but unchecked protectionism can reduce competitiveness and efficiency.

---

**33. (b)(ii) Distinguish between stabilising measures and structural measures, as taken up by the Government of India in 1991.**

**Solution:**

<b>Stabilising Measures</b>	<b>Structural Measures</b>
These are short-term policy actions aimed at controlling economic crises like inflation, balance of payment deficits, and fiscal imbalance.	These are long-term policy reforms aimed at improving the efficiency and competitiveness of the economy.
Focuses on immediate economic stability.	Focuses on changing the fundamental structure of the economy.
Examples: Devaluation of currency, reduction in fiscal deficit, tightening of monetary policy.	Examples: Liberalisation, privatisation, and globalisation (LPG policy), financial sector reforms, trade policy reforms.
Implemented to restore investor confidence and stabilise the macroeconomic situation.	Implemented to promote sustainable growth and increase productivity in the long run.

#### Quick Tip

Stabilising measures tackle short-term crises; structural measures restructure the economy for long-term growth.

### 34. Read the following text carefully:

Indian labour market indicators have improved in the last six years, as per the Periodic Labour Force Survey Data. The unemployment rate has fallen to 3.2% in 2022–23.

Rising youth and female participation in the workforce present an opportunity to tap the demographic and gender dividend. The factory employment data exhibits the bounce back of the organised manufacturing sector in FY 2022–23 with rise in employment and the upscaling of factories.

The net payroll additions under EPFO have more than doubled in the past five years, signalling healthy growth in formal employment.

To generate and sustain quality employment, agro-processing and care economy are two promising candidates.

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

**(a) State any one significance of rising youth and female participation in the Indian workforce.**

**Solution:** The rising youth and female participation in the workforce is significant because it helps tap into the demographic dividend. The increasing participation of these groups means that a larger section of the population is contributing to economic activities, which enhances the overall productivity of the country. The youth bring energy, innovation, and technological familiarity, while the inclusion of women in the workforce contributes to greater gender equality and economic independence for women. This leads to increased household incomes and improved standards of living. Moreover, it enhances the diversity and skill set within industries, leading to more balanced and inclusive economic growth.

#### Quick Tip

Increased youth and female participation helps tap the demographic dividend, leading to a more inclusive and productive economy.

---

**(b) Identify any two sectors which may be highlighted as promising for generating quality employment in India.**

**Solution:** Two sectors that can be highlighted as promising for generating quality employment in India are:

1. Agro-Processing Industry:

The agro-processing sector holds immense potential for generating quality jobs in India. By adding value to raw agricultural products through processing, packaging, and branding, the sector can create employment opportunities across rural areas, benefiting farmers and workers involved in the processing units. Moreover, agro-processing promotes sustainable agricultural practices and improves the supply chain infrastructure.

2. Care Economy:

The care economy, which includes healthcare, elder care, child care, and services

related to well-being, is a rapidly growing sector. With India's ageing population and increasing demand for healthcare services, this sector has vast potential for generating jobs, especially for women. Additionally, the sector can offer diverse roles across various levels, from healthcare professionals to caregivers, and provide stable, quality employment.

Both of these sectors can significantly contribute to quality job creation while supporting the broader goals of social and economic development.

#### Quick Tip

Agro-processing and care economy are promising sectors for generating quality employment by tapping into rural potential and meeting the demands of an ageing population.

---

**(c) Elaborate the meaning of disguised unemployment with the help of a suitable example.**

**Solution:** Disguised unemployment refers to a situation where more people are employed than actually needed for a task or activity. It typically occurs in sectors where labor productivity is low, and the workforce is overstaffed, leading to an inefficient allocation of resources. The workers in such situations appear to be employed, but they do not contribute effectively to production.

Example:

In rural India, agriculture is a common area where disguised unemployment is prevalent. For instance, if a family owns a small piece of land and all its members (including children and elderly) are involved in farming, it may appear that all members are employed. However, the actual work could be done by fewer people, as the land is small, and additional labor does not contribute to an increase in output. The extra workers are technically employed, but they are not efficiently contributing to agricultural production. This results in underutilization of labor, with the extra workers being "disguisedly unemployed."

Disguised unemployment limits economic growth as it leads to inefficient resource use,

and is especially common in agricultural and informal sectors.

**Quick Tip**

Disguised unemployment occurs when more people are employed than are actually needed, leading to inefficiency, especially in rural and agricultural areas.

---