

**CBSE Class 12 2025 Economics Question Paper (58/4/2) With Solutions**

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

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**2. 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.

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**3. 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°
- (B) 40°
- (C) 45°
- (D) 70°

**Correct Answer:** (C) 45°

**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° angle from the origin on the income-expenditure diagram, indicating points where planned spending equals actual output.

#### Quick Tip

In Keynesian theory, the 45° line is crucial for showing equilibrium where income equals expenditure.

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**4. 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.

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**5. 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.

#### 6. 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.

#### 7. 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.

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### 8. 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.

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**9. 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.

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**10. 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.

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### 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.

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**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.

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**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.

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### 13. 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.

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#### **14. (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.

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**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.

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**15. Assuming the following for a hypothetical economy, estimate the Break-even level of Income and Equilibrium level of Income:**

- (i) Autonomous Consumption Expenditure ( $\bar{C}$ ) = ₹50 crore
- (ii) Marginal Propensity to Save (MPS) = 0.2
- (iii) Autonomous Investments ( $I_0$ ) = ₹100 crore

**Solution:**

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

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

Given: Autonomous Consumption Expenditure ( $\bar{C}$ ) = ₹50 crore

At break-even point, no savings means:

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

Break-even Level of Income = ₹50 crore

**2. Equilibrium Level of Income:**

We know that:

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

Substituting the given values:

$$Y = \frac{50 + 100}{0.2}$$

$$Y = \frac{150}{0.2}$$

$$Y = 750 \text{ crore}$$

**Therefore, the Equilibrium Level of Income is ₹750 crore.**

**Quick Tip**

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

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

Make sure to plug in correct values and check units to avoid mistakes in calculation.

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**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.

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**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  $GDP_{MP}$ , we include only the value of final goods and services produced for end use (final consumption). Intermediate sales among firms are excluded to avoid double counting.

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

$$GDP_{MP} = ₹57,000$$

**Final Answer:** ₹57,000

#### Quick Tip

Include only final consumption in GDP calculation. Ignore inter-firm transactions as they are intermediate goods.

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**16. (a) (ii) Discuss the likely impact of construction of 20 new hospitals in a country on the Gross Domestic Product (GDP) and Welfare in the economy.**

**Solution:**

- **Impact on GDP:** The construction of hospitals increases investment expenditure, contributing to Gross Capital Formation. It generates employment and raises income levels, which boosts GDP through multiplier effects.
- **Impact on Welfare:** More hospitals mean better access to healthcare services, leading to improvements in public health. This enhances the quality of life, productivity, and overall welfare in the economy.

#### Quick Tip

Investments in health infrastructure raise GDP by boosting production and enhance welfare through better healthcare access.

**OR**

**16. (b) (i) On the basis of the following data, estimate the value of Net Domestic Product (NDP<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:**

Step 1: Calculate Gross Domestic Product at Market Price (GDP<sub>MP</sub>)

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

Where,  $C = 800$

$$I = 150 + 120 + 50 + 130 = 450$$

$$G = 270$$

$$(X - M) = -20$$

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

Step 2: Subtract Depreciation to find NDP<sub>MP</sub>

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

Step 3: Subtract Net Indirect Taxes to get NDP<sub>FC</sub>

$$NDP_{FC} = NDP_{MP} - NIT = 1460 - 20 = 1440 \text{ crore}$$

**Final Answer: ₹1440 crore**

### Quick Tip

Follow the steps:  $GDP_{MP} \rightarrow NDP_{MP} \rightarrow NDP_{FC}$ . Deduct depreciation and indirect taxes in order.

**16. (b) (ii) “Disposition phase of circular flow of income involves flow of factor income from firms to households.”**

**Justify the statement giving valid reason.**

**Solution:**

The statement is **justified**. In the disposition phase of the circular flow of income, production generates income for households, as they provide factors of production like land, labor, capital, and entrepreneurship to firms.

Firms pay wages, rent, interest, and profits to households, which are forms of factor income. This flow from producers (firms) to factor owners (households) represents the disposition or distribution of income in the economy.

### Quick Tip

Disposition phase refers to the payment of factor incomes (like wages, rent, interest, profit) by firms to households for their productive services.

**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.”*

- On the basis of the given text, identify the indicated function of money.**
- 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.

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## SECTION B

### Indian Economic Development

**18. 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.

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**19. 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.

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**20. 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.

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**21. 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.

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**22. 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.

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### 23. 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.

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**24. 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.

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**25. 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.

**26. 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.

**27. 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.

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**28. Elaborate the reasons responsible for emergence of poverty in Pakistan.**

**Solution:**

The emergence of poverty in Pakistan can be attributed to several structural and socio-economic reasons:

- **Slow Economic Growth:** Pakistan’s economic growth has often been unstable and insufficient to create enough jobs and raise living standards for a large population.

- **Political Instability:** Frequent changes in government, corruption, and weak governance have hindered long-term policy implementation and development.
- **Inequitable Distribution of Resources:** A large portion of the wealth is concentrated in the hands of a few, leading to income disparities and social exclusion of the poor.
- **Underdeveloped Agricultural Sector:** Agriculture, employing a large percentage of the population, suffers from outdated techniques, low productivity, and inadequate infrastructure.
- **Low Literacy and Poor Health Facilities:** Inadequate investment in education and health limits human capital formation, further perpetuating poverty.
- **Population Pressure:** High population growth rate has outpaced economic development, putting strain on resources, jobs, and basic services.

#### Quick Tip

Link poverty causes to structural issues like economic policies, inequality, and lack of social development to frame a comprehensive answer.

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**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.

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**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.

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**30.(a)**

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

**Solution:** Human capital and physical capital are both critical components of an economy, but they differ significantly:

1. Human Capital:

Human capital refers to the skills, knowledge, education, health, and abilities of individuals that make them productive in the workforce. This is an intangible form of capital that can be enhanced through education, training, and healthcare. Human capital is crucial because it determines the quality and productivity of labor in an economy.

## 2. Physical Capital:

Physical capital refers to tangible assets used in the production process, such as machinery, buildings, tools, equipment, and infrastructure. Unlike human capital, physical capital is a tangible resource that can be accumulated and depreciates over time. It plays a direct role in the production of goods and services and is essential for improving productivity.

In summary, human capital is the intellectual and skill-based asset of individuals, while physical capital is the tangible resource used in the production process. Both are necessary for economic growth but function in distinct ways.

### Quick Tip

Human capital enhances the productivity of physical capital. A well-educated workforce can use physical capital more effectively to improve productivity.

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## (ii) Describe 'LPG' and 'Gobar Gas' as strategies used to achieve sustainable development in rural areas.

**Solution:** Both LPG and Gobar Gas play an important role in promoting sustainable development, especially in rural areas. These initiatives address key issues such as energy access, environmental protection, and rural economic growth:

### 1. LPG (Liberalization, Privatization, and Globalization):

LPG refers to the economic reforms introduced in India in 1991 to open up the economy and promote growth through market forces. These strategies helped increase foreign investment, boost industrial growth, and expand access to global markets. In rural areas, LPG reforms have stimulated economic growth by encouraging private sector participation, improving agricultural efficiency, and creating new job opportunities. Additionally, LPG led to improvements in infrastructure and access to technology,

which are essential for sustainable development in rural areas.

## 2. Gobar Gas (Biogas):

Gobar Gas, or biogas, is produced from the anaerobic digestion of organic materials such as cow dung and agricultural waste. It is used as a clean and renewable source of energy in rural areas for cooking, lighting, and other energy needs. The use of biogas reduces dependence on firewood and kerosene, which are harmful to the environment and human health. It also promotes waste management by converting agricultural waste into energy, which can be used for cooking and lighting in households. Moreover, biogas helps improve soil quality by producing organic fertilizers.

Together, these strategies promote sustainable development by improving energy access, reducing environmental harm, and fostering economic growth in rural areas. They support cleaner, more efficient energy use, and enhance the quality of life for rural populations.

### Quick Tip

LPG reforms and Gobar Gas initiatives are crucial for rural development, providing clean energy solutions and fostering economic growth while protecting the environment.

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**OR**

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

**Solution:** Micro-credit programs have been one of the key tools for financial inclusion in rural India. These programs provide small loans to the poor, especially women, to help them start small businesses, invest in agriculture, or address other basic needs. However, their effectiveness is mixed.

Positive Aspects of Micro-Credit Programs:

#### 1. Financial Inclusion:

Micro-credit programs have significantly improved access to financial services for the rural poor, particularly those who are excluded from traditional banking systems. This has empowered rural individuals, especially women, by providing them with the

financial resources to start small businesses and improve their livelihoods.

## 2. Empowering Women:

Many micro-credit initiatives are designed to empower women by giving them financial independence. In rural India, this has led to an increase in women-led businesses and greater financial autonomy, which helps improve their social status and contributes to overall community development.

## 3. Support for Entrepreneurship:

Micro-loans have supported small-scale enterprises in rural India. These loans have helped individuals engage in productive economic activities, increasing their income and providing job opportunities in their communities.

## Criticism of Micro-Credit Programs:

### 1. High Interest Rates:

Many micro-credit institutions charge high interest rates on loans, which can lead to significant financial strain for borrowers, especially when they are unable to repay due to low-income generation from their businesses.

### 2. Over-Indebtedness:

Some borrowers, especially in rural areas, take loans from multiple micro-lenders, which can result in over-indebtedness. This becomes a vicious cycle, making it difficult for borrowers to repay their loans and ultimately leading to financial instability.

### 3. Limited Impact on Poverty Alleviation:

While micro-credit programs help improve access to capital, they do not necessarily address the root causes of poverty, such as lack of education, health services, and infrastructure. Without addressing these fundamental issues, micro-credit alone may have limited success in eradicating poverty.

## Conclusion:

Micro-credit programs in rural India have provided financial access to millions of poor individuals, helping them improve their livelihoods and contribute to the rural economy. However, challenges like high-interest rates, over-indebtedness, and the limited scope of poverty alleviation indicate that these programs need to be complemented by broader social and economic policies to be more effective.

### Quick Tip

Micro-credit is a useful tool for financial inclusion, but it should be accompanied by complementary initiatives, such as education and healthcare, to effectively address rural poverty.

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### (ii) State the meaning of sustainable development.

**Solution:** Sustainable development refers to development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It involves managing resources in a way that promotes economic growth, environmental protection, and social equity.

Sustainable development requires a balance between three key pillars:

1. **Economic Growth:** Promoting growth that supports long-term prosperity and reduces poverty.
2. **Environmental Protection:** Ensuring the responsible use of natural resources and reducing environmental damage.
3. **Social Equity:** Ensuring that the benefits of development are shared equitably, and that no one is left behind.

Sustainable development aims to create a just, equitable, and environmentally-friendly society that can continue to thrive in the long term.

### Quick Tip

Sustainable development is about balancing economic, environmental, and social factors to ensure a better quality of life for all, both today and in the future.

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### 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.

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**(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.

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

**(a) Organic farming offers a means to substitute costlier agricultural inputs with locally produced organic inputs.**

**Solution:** This statement is **True**. Organic farming indeed provides an opportunity to reduce reliance on costly chemical fertilizers and pesticides by substituting them with

locally available organic inputs. These inputs include compost, green manure, bio-fertilizers, and natural pesticides. Organic farming focuses on sustainable practices, improving soil health, and reducing environmental harm. While organic inputs may sometimes be less efficient or costlier initially, over time they improve soil fertility, enhance biodiversity, and reduce the costs associated with chemical inputs. Moreover, organic farming can increase market prices due to the growing demand for organic produce.

In India, where agricultural practices are still heavily dependent on chemical inputs, organic farming provides an alternative that can be more sustainable and cost-effective in the long run, particularly for small farmers.

#### Quick Tip

Organic farming can help farmers reduce input costs in the long run and improve sustainability through locally sourced, natural inputs.

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#### **(b) Informalisation of workforce in India has increased various concerns on the front of employment generation among the youth of the country.**

**Solution:** This statement is **True**. The informalisation of the workforce in India has indeed led to growing concerns regarding employment generation, particularly among the youth. The informal sector includes unorganized labor, such as daily wage workers, casual laborers, and those working in small-scale industries, often without job security, benefits, or regular wages. This sector has expanded rapidly in recent years due to factors like inadequate formal sector jobs, lack of vocational training, and economic liberalization policies.

While informal work provides some employment, it is typically characterized by lower wages, lack of social security, and poor working conditions, which lead to insecurity and poverty for workers. The rise of informal employment is particularly concerning for the youth, who often lack stable and fulfilling job opportunities. Furthermore, it limits the potential for skill development, job benefits, and long-term financial stability.

There is also concern that the informal sector, which operates outside of formal

regulations, contributes to the rise in job inequality and hinders the generation of quality employment. In the face of India's growing youth population, more efforts are needed to formalize employment and provide better job security, benefits, and training programs to address this issue.

#### Quick Tip

The rise of informal employment is a significant issue in India, especially for youth, as it often results in job insecurity and poor working conditions.

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### 33. 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.

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**(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.

**34. (a) (i) "Indian economy has greatly benefitted by the process of globalisation."**

**Justify the given statement with valid arguments.**

**Solution:**

Globalisation has played a significant role in transforming the Indian economy in various sectors. The benefits of globalisation for India can be elaborated as follows:

- **Inflow of Foreign Investment:** Globalisation facilitated the inflow of Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII) into India. Sectors like automobile, telecom, retail, and banking witnessed rapid expansion with foreign capital and technology.
- **Access to Advanced Technology:** Collaboration with multinational companies helped Indian firms adopt modern production techniques, increasing efficiency and product quality.
- **Expansion of Services Sector:** India experienced a boom in its services sector, especially in IT and ITES, due to global outsourcing. Companies like Infosys, Wipro, and TCS expanded rapidly, generating jobs and boosting GDP.
- **Increased Exports and Trade:** Globalisation opened up international markets for Indian goods and services. Exports of software, textiles, pharmaceuticals, and engineering goods increased significantly.
- **Rise in Employment Opportunities:** The entry of foreign firms and global outsourcing created new jobs in sectors like IT, BPO, retail, hospitality, and manufacturing.
- **Improved Consumer Choices:** With global brands entering Indian markets, consumers enjoyed a wider range of goods and services, often at competitive prices.
- **Integration with Global Economy:** India became more connected with the world through trade, capital flow, technology, and labour migration, enhancing its global presence.

Thus, globalisation significantly contributed to India's economic growth, competitiveness, and structural transformation.

### Quick Tip

To justify economic benefits of globalisation, link reforms to outcomes like FDI inflows, employment, exports, and technology transfer.

### 34. (a) (ii) Distinguish between Multilateral Trade and Bilateral Trade.

#### Solution:

Multilateral Trade	Bilateral Trade
Trade agreements involving more than two countries.	Trade agreements between two countries only.
These are governed by international institutions like the World Trade Organization (WTO).	These are governed by mutually signed treaties between two specific nations.
Examples include WTO trade rounds, ASEAN Free Trade Area, etc.	Examples include India-Bhutan trade treaty or India-Sri Lanka Free Trade Agreement.
Helps in global integration by reducing trade barriers among many countries simultaneously.	Focuses on enhancing trade relations specifically between the two countries involved.
Complex and time-consuming to negotiate.	Easier and quicker to finalize compared to multilateral agreements.

### Quick Tip

Remember: "Multi" means many countries; "Bi" means two countries. Multilateral trade promotes global cooperation, while bilateral trade deepens strategic partnerships.

OR

### 34. (b) (i) Discuss briefly the foreign exchange reforms undertaken by the Government of India in the post 1991 period.

**Solution:**

Post-1991, India undertook significant foreign exchange reforms as part of the broader liberalisation policy. The key reforms included:

- **Devaluation of Rupee:** In 1991, India devalued its currency to promote exports by making Indian goods cheaper in global markets.
- **Market Determined Exchange Rate:** India moved from a fixed exchange rate system to a market-determined exchange rate system. This allowed demand and supply to determine the value of the rupee.
- **Current Account Convertibility:** Full convertibility was allowed on current account transactions (trade in goods and services), enhancing ease of doing international business.
- **Liberalisation of Capital Flows:** Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII) were encouraged by easing rules and raising limits in several sectors.
- **Establishment of Foreign Exchange Management Act (FEMA), 1999:** FEMA replaced the restrictive Foreign Exchange Regulation Act (FERA) and provided a liberal and transparent legal framework for managing foreign exchange.
- **Growth in Forex Reserves:** These reforms helped India build robust foreign exchange reserves, reducing its vulnerability to external shocks.

These reforms made India's external sector more resilient, competitive, and globally integrated.

**Quick Tip**

Link foreign exchange reforms to 1991 crisis recovery—devaluation, convertibility, and FEMA improved external sector stability.

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**34. (b) (ii) Distinguish between Tariffs and Quotas.****Solution:**

<b>Tariffs</b>	<b>Quotas</b>
Tariffs are taxes imposed on imported goods.	Quotas are physical limits on the quantity of goods that can be imported.
They raise the price of imported goods, making them less competitive.	They restrict the supply of imports directly, regardless of price.
Generate revenue for the government.	Do not generate any direct revenue.
Allow importers to continue importing if they pay the higher cost.	Completely block imports once the quota limit is reached.
Example: 10% customs duty on imported mobiles.	Example: Import limit of 1 lakh tonnes of sugar in a year.

#### Quick Tip

Tariffs = Price barrier; Quotas = Quantity barrier. Both restrict imports but in different ways.