

## CBSE Class 12 2025 Economics Question Paper 58-4-3 With Solutions

Time Allowed :3 Hours	Maximum Marks :80	Total questions :34
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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.

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

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

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

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

**Solution:** Under Keynesian theory, the 'Reference Line' represents the line where the investment expenditure equals savings. It is drawn at a  $45^\circ$  angle because it denotes a situation where income equals output. This means that the line through the origin at a  $45^\circ$  angle is the point where aggregate demand equals aggregate supply. Hence, the correct angle is  $45^\circ$ .

**Quick Tip**

Remember, the  $45^\circ$  line represents the point where total income (or output) is equal to total expenditure, a key concept in Keynesian economics.

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**2. 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 change in consumption divided by the change in income.

Statement 2 is false because as income increases, the proportionate increase in consumption is generally less than the increase in income. This is due to the tendency of households to save a larger portion of additional income at higher income levels.

#### Quick Tip

MPC is a fundamental concept in Keynesian economics and is typically less than 1 because people save a portion of any additional income they receive.

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### 3. The main objective of measuring the primary deficit is to highlight present .....

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

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

**Solution:** The primary deficit measures the difference between the government's fiscal deficit and its interest payments. It indicates the government's current fiscal health without the influence of past debt. The main objective of measuring the primary deficit is to highlight present fiscal imbalances. This helps assess whether the government is living within its means or borrowing excessively.

#### Quick Tip

Primary deficit is a more accurate reflection of the government's current fiscal position compared to the total fiscal deficit, which includes interest on past borrowings.

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### 4. 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.

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**5. 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.

#### 6. 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.

#### 7. 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.

### 8. 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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**9. 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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**10. 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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**11. "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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**12. (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.

### 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.

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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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**14. 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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**15. Assuming the following for a hypothetical economy, estimate the level of Break-even**

### Income and Equilibrium Income:

(i) Autonomous Consumption Expenditure ( $\bar{C}$ ) = 50 crore

(ii) Marginal Propensity to Save (MPS) = 0.2

(iii) Autonomous Investments ( $I_0$ ) = 300 crore

**Solution:** We need to calculate two things: Break-even income and Equilibrium income.

1. Break-even Income: At Break-even Income, consumption equals income, and savings is zero. The consumption function is given by:

$$C = \bar{C} + c \cdot Y$$

Where: -  $C$  is total consumption, -  $\bar{C}$  is autonomous consumption (50 crore), -  $c$  is the marginal propensity to consume (MPC), -  $Y$  is the income.

Since  $MPS = 0.2$ ,

$$MPC = 1 - MPS = 1 - 0.2 = 0.8$$

At break-even income, consumption equals income:

$$Y = \bar{C} + c \cdot Y$$

$$Y = 50 + 0.8 \cdot Y$$

$$Y - 0.8Y = 50$$

$$0.2Y = 50$$

$$Y = \frac{50}{0.2} = 250$$

Thus, the Break-even Income is 250 crore.

2. Equilibrium Income: At equilibrium, aggregate output (income) equals aggregate demand (consumption + investment). The equation for equilibrium income is:

$$Y = C + I_0$$

$$Y = \bar{C} + c \cdot Y + I_0$$

Substituting the given values:

$$Y = 50 + 0.8 \cdot Y + 300$$

$$Y - 0.8Y = 350$$

$$0.2Y = 350$$

$$Y = \frac{350}{0.2} = 1750$$

Thus, the Equilibrium Income is 1750 crore.

#### Quick Tip

At Break-even income, consumption equals income. At Equilibrium income, total output equals the total demand, which includes consumption and investment.

**16. (a) (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:** To estimate the Net Domestic Product at Factor Cost (NDP<sub>FC</sub>), we will use the following approach:

$$\text{NDP}_{FC} = \text{GDP}_{MP} - \text{Depreciation} - \text{Net Indirect Taxes}$$

Where: - GDP<sub>MP</sub> is the Gross Domestic Product at Market Price,

- Depreciation is the Consumption of Fixed Capital,

- Net Indirect Taxes is given as 20 crore.

Step 1: Calculate  $GDP_{MP}$

We need to first calculate the Gross Domestic Product at Market Price ( $GDP_{MP}$ ). This can be done using the expenditure approach:

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

Where: -  $C$  = Household Consumption Expenditure = 800 crore,

-  $I$  = Gross Investment = Gross Business Fixed Capital Formation + Gross Residential Construction Investment + Inventory Investments =  $150 + 120 + 50 = 320$  crore,

-  $G$  = Government Final Consumption Expenditure = 270 crore,

-  $(X - M)$  = Excess of Imports over Exports = 20 crore.

Substituting these values:

$$GDP_{MP} = 800 + 320 + 270 + 20 = 1410 \text{ crore}$$

Step 2: Calculate  $NDP_{FC}$  Now, we can calculate the Net Domestic Product at Factor Cost ( $NDP_{FC}$ ) using the formula:

$$NDP_{FC} = GDP_{MP} - \text{Consumption of Fixed Capital} - \text{Net Indirect Taxes}$$

Substitute the values:

$$NDP_{FC} = 1410 - 40 - 20 = 1350 \text{ crore}$$

Thus, the value of Net Domestic Product ( $NDP_{FC}$ ) is 1350 crore.

**Quick Tip**

$NDP_{FC}$  can be calculated by subtracting depreciation and net indirect taxes from the GDP at Market Price.

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**(ii) "Disposition phase of circular flow of income involves flow of factor income from firms to households." Justify the statement giving valid reason.**

**Solution:** In the circular flow of income, the disposition phase refers to the movement of income between firms and households. Specifically, households provide factors of production (such as labor, capital, land, and entrepreneurship) to firms, and in return, they receive factor income in the form of wages, rent, interest, and profits.

This flow of factor income from firms to households constitutes the "disposition" phase of the circular flow, where firms distribute the income earned through their activities (production and sales) back to the households. This process is essential to ensure that households have the income required to purchase goods and services from firms, completing the cycle of economic activity.

#### Quick Tip

The circular flow of income model highlights the exchange of factor income between firms and households, ensuring the smooth operation of the economy.

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**OR**

**(b) (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:**

- Firm X sold goods worth 20,000 to Firm Y and 12,000 to Firm Z,
- Firm Y sold goods worth 11,000 to Firm X and 35,000 to Firm Z,
- 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  $GDP_{MP}$  using the production or value-added approach, we consider the value of final output produced by each firm. The sales to households are considered final consumption.

$$GDP_{MP} = \text{Final Consumption} + \text{Sales to other firms}$$

Step 1: Calculate the GDP

- Firm Z's final sales to households: 57,000 (Final Consumption).
- Sales to other firms:
  - Firm X's total sales:  $20,000 + 12,000 = 32,000$ .
  - Firm Y's total sales:  $11,000 + 35,000 = 46,000$ .

Thus,  $GDP_{MP}$  is the sum of all final sales:



$$\text{GDP}_{MP} = 57,000 + 32,000 + 46,000 = 135,000$$

Therefore, the value of  $\text{GDP}_{MP}$  is 135,000.

#### Quick Tip

$\text{GDP}_{MP}$  includes the value of all final goods and services produced within a country, including sales to households and other firms.

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

**Solution:** The construction of 20 new hospitals will have a significant impact on both GDP and welfare:

##### 1. Impact on GDP:

The construction of new hospitals will contribute to GDP through the increase in investments (capital formation) in the economy. The construction process will generate demand for labor, materials, and services, thereby contributing to economic output. Furthermore, the hospitals will provide services that contribute to the economy's healthcare sector. The spending on hospital construction will increase gross fixed capital formation and thus increase GDP.

##### 2. Impact on Welfare:

The construction of new hospitals will directly enhance the welfare of the population by improving access to healthcare services. This will lead to improved health outcomes, greater productivity, and a higher quality of life. Healthier individuals are more productive and can contribute more effectively to the economy. Thus, the construction of hospitals is beneficial not only for GDP but also for the long-term well-being of the population.

In conclusion, the construction of new hospitals contributes to both the immediate increase in GDP and the long-term improvement in societal welfare.

#### Quick Tip

Investment in infrastructure, such as hospitals, boosts both economic output (GDP) and social welfare by improving public services.

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

**Solution:** Credit creation is a process through which commercial banks create credit (loans) by lending a portion of their deposits. This is done by keeping a fraction of deposits as reserves and lending the rest. The reserve requirement is determined by the central bank. The process can be explained using the following steps and a numerical example:

Numerical Example:

Let the reserve ratio (required reserve ratio) be 20% (0.2). A person deposits 1,000 in a commercial bank. Based on the reserve ratio, the bank is required to keep 200 as reserves and can lend out 800. When the bank lends 800, it gets deposited in another bank, which keeps 20% of 800 as reserves (160) and lends out 640. This process continues with each bank lending a portion of the deposit and creating new money.

Thus, the total credit created can be calculated using the formula:

$$\text{Total Credit Created} = \frac{\text{Initial Deposit}}{\text{Reserve Ratio}} = \frac{1000}{0.2} = 5000$$

Therefore, the total credit created in the economy would be 5,000, including the initial deposit of 1,000. The remaining 4,000 is the credit created by the banks.

**Quick Tip**

Credit creation is a key function of the banking system, and it leads to an increase in the money supply in the economy. The total credit created depends on the reserve ratio.

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**(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.**

**Solution:** The indicated function of money in the given text is the “Unit of Account”.

Money serves as a unit of account because it provides a common measure of value, allowing different items to be evaluated and compared against a standard. It helps in setting prices and keeping financial records.

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

**Solution:** Apart from being a unit of account, two other important functions of money are:

1. Medium of Exchange: Money is used to facilitate transactions for goods and services. It eliminates the need for bartering and simplifies trade.
2. Store of Value: Money acts as a store of value, meaning it can be saved and used later without losing its purchasing power. This function helps individuals and businesses store wealth over time.

#### Quick Tip

Money's functions include being a medium of exchange, unit of account, store of value, and standard of deferred payment.

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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.**

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

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

**Solution:** The dual pricing policy was not a similarity between the policies of India and Pakistan post-1947. While both countries adopted mixed economic systems, implemented import substitution strategies, and encouraged the Green Revolution, the dual pricing policy was specific to certain sectors in India, whereas Pakistan did not adopt this policy. Thus, (A) is the correct answer.

#### Quick Tip

Post-independence, India and Pakistan shared several similarities in their economic policies, including import substitution and a mixed economic system, but the dual pricing policy was unique to India.

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**19. Identify, which of the following statements is incorrect about the Rural Banking system in India.**

- (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. While the State Bank of India (SBI) plays an important role in the Indian banking system, the Rural Banking system in India works under various agencies, including the Reserve Bank of India (RBI), NABARD, and others, not just the SBI. The other statements are correct, as the Rural Banking system in India involves multi-agency institutions, and the development of a well-structured system was initiated post-independence.

**Quick Tip**

The Rural Banking system is managed by various institutions including the RBI, NABARD, and others, not just the State Bank of India.

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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.**

- (A) 8
- (B) 7
- (C) 6
- (D) 5

**Correct Answer:** (D) 5

**Solution:** The policymakers of India focused on 'self-reliance' for the first five Five Year Plans. The first Five Year Plan (1951–1956) emphasized self-sufficiency in food grains, and this theme of self-reliance continued through subsequent plans until the introduction of liberalization in the 1990s.

**Quick Tip**

The first five Five Year Plans in India focused on achieving self-reliance in key sectors, especially in agriculture and industry.

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**21. Production of diverse varieties of crops rather than one specialized crop is known as diversification of .....**

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

**Correct Answer:** (A) crops

**Solution:** Diversification of crops refers to the practice of growing different types of crops rather than focusing on a single crop. This helps in reducing risks associated with crop failure, improves soil fertility, and enhances food security.

**Quick Tip**

Crop diversification is a strategy to increase agricultural resilience and reduce dependence on a single crop.

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**22. Identify, which of the following statements is incorrect about the functions of environment.**

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

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

**Solution:** The environment performs several vital functions that are essential for sustaining life, including providing resources, absorbing waste, and sustaining life itself. However, it does not deteriorate the quality of life. In fact, a healthy environment contributes to improving the quality of life. Thus, option (D) is incorrect.

**Quick Tip**

A healthy environment provides resources, sustains life, and helps absorb waste, but it does not deteriorate 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.

(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 the Food Corporation of India (FCI) does maintain buffer stocks of wheat and rice to ensure that food supplies are available during periods of shortage and to stabilize prices. This is an important part of the government's market mechanism for controlling food inflation.

Statement 2 is also true because the Minimum Support Price (MSP) is a policy measure used by the government to ensure that farmers get a minimum price for their produce, protecting them from price fluctuations in the market.

### Quick Tip

Buffer stocks and MSP are tools used by the government to stabilize the agricultural market and support farmers.

**24. Suppose an economy is experiencing a situation of rise in Real Gross Domestic Product (GDP), without any corresponding rise in the employment opportunities.**

**In economic parlance, such a situation is termed as ..... growth.**

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

**Correct Answer:** (D) jobless

**Solution:** When an economy experiences growth in GDP but does not see a corresponding increase in employment opportunities, it is referred to as 'jobless growth'. This implies that economic growth is not being accompanied by a rise in employment, which often occurs due to technological advancements or increased productivity in existing sectors that do not create additional jobs.

### Quick Tip

Jobless growth occurs when GDP rises without a corresponding increase in employment due to automation or higher productivity.

**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:** Assertion (A) is true because the license raj system in India (under which the government controlled industries and production through licenses) slowed down the pace of development and efficiency in the private sector.

Reason (R) is also true, as private firms were often more focused on securing permits rather than improving efficiency, product quality, and competitiveness on the international stage. This, in turn, hindered their growth. Thus, Reason (R) correctly explains Assertion (A).

#### Quick Tip

The permit license raj system stifled private sector efficiency by focusing on regulatory processes rather than market-driven innovation and quality improvement.

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### 26. Read the following statements carefully:

Statement 1: The British policies were accountable for the commercialization of Indian agriculture.

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

(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 British policies, particularly the commercialization of agriculture, were aimed at extracting resources for Britain's own benefit. These policies led



to the focus on cash crops and reduced the cultivation of food crops.

Statement 2 is false because while the British did focus on some infrastructural development, such as railways, it was primarily for the purpose of extracting resources and moving goods for trade rather than benefiting the local population. The overall goal was to serve British colonial interests, not the welfare of the Indians.

#### Quick Tip

The British were more focused on extracting resources from India rather than promoting the welfare of its population.

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### 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:** Assertion (A) is true because information is vital for individuals to make informed decisions about their investment in human capital. For instance, people may decide to pursue further education or job training based on the available information regarding job market conditions.

Reason (R) is also true as individuals do indeed invest in acquiring knowledge about the labor market and other sectors (like education and healthcare) to make informed decisions.

Reason (R) correctly explains why information is important for decision-making in human capital investment.

#### Quick Tip

Informed decisions about investing in education or skill development are crucial for optimizing human capital.

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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 a variety of factors, including:

#### 1. Historical Factors:

Pakistan's history of colonial rule left it with an economy heavily reliant on agriculture and few industries. The economic policies during British rule were designed to benefit the colonial powers rather than the local population, leaving Pakistan with a weak industrial base after independence.

#### 2. Political Instability:

Frequent changes in government and political instability have hampered long-term planning and economic development. Frequent military coups and periods of authoritarian rule have undermined the policy continuity needed for economic growth.

#### 3. Poor Education System:

Limited access to quality education has resulted in a poorly skilled labor force, making it difficult for Pakistan to industrialize or adopt advanced technologies. This has limited the country's economic potential and increased poverty.

#### 4. Overpopulation:

Pakistan has a high population growth rate, which strains the resources of the country. The population is growing faster than the economy can create jobs, leading to widespread poverty.

#### 5. Corruption and Mismanagement:

Corruption at various levels of government and mismanagement of resources have led to inefficient use of funds. This has resulted in poor infrastructure, lack of social services, and

hindered economic growth.

#### 6. Dependency on Agriculture:

Pakistan's economy has remained heavily dependent on agriculture, which is vulnerable to weather fluctuations and has low productivity. This dependency on a sector that is prone to crises has contributed to a high level of poverty, especially in rural areas.

#### 7. Lack of Infrastructure Development:

Insufficient infrastructure in key areas such as transportation, energy, and healthcare has prevented economic development. Without proper infrastructure, industries cannot grow, and rural areas remain underdeveloped.

In conclusion, the combination of historical, political, educational, demographic, and economic factors has played a significant role in the emergence and persistence of poverty in Pakistan.

#### Quick Tip

Poverty in Pakistan is the result of a complex interplay of historical, political, economic, and demographic factors that have hindered its development.

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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:** The statement about economic exploitation under British rule in India is valid, and here is the justification:

#### 1. Extraction of Raw Materials:

During British colonial rule, India was used as a source of raw materials for British industries. Cotton, jute, opium, and other raw materials were extracted from India and exported to Britain for processing. These goods were then sold back to the Indian market at high prices, leaving India economically drained.

#### 2. Drain of Wealth:

The British established policies that led to the drain of India's wealth. Large amounts of wealth were transferred to Britain through various means, such as the taxes on Indian

peasants and the export of raw materials, which were paid for by Indian labor.

### 3. Deindustrialization of India:

British policies led to the deindustrialization of India, particularly in textiles. Indian handloom industries were destroyed through the import of cheap British manufactured goods, and the local artisans were left without livelihood.

### 4. Introduction of Unequal Trade:

The British established an unequal trade relationship where India was a supplier of raw materials and a market for British manufactured goods. This drained India's resources and kept it dependent on Britain for finished products.

### 5. Economic Policies Favoring Britain:

British economic policies, such as the imposition of heavy taxes on Indian agriculture, caused widespread poverty among the Indian peasantry. At the same time, Britain benefited from these policies by securing resources at very low costs.

### 6. Destruction of Indian Agriculture:

British policies, such as land revenue systems, caused hardship for Indian farmers. The peasants were burdened with heavy taxes, and much of the agricultural produce was sent to Britain, leaving little for local consumption. This led to famines and widespread poverty. In conclusion, the British economic policies systematically drained resources from India and redirected wealth to Britain, undermining India's economic growth and development during colonial rule.

#### Quick Tip

The economic exploitation of India under British rule involved the extraction of raw materials, wealth transfer, deindustrialization, and oppressive tax policies.

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**OR**

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

**Solution:** The Navratna policy was introduced by the Government of India as part of its economic reforms in 1991 to empower public sector enterprises (PSEs) and increase their

efficiency and profitability. The main goal of the policy was to make certain PSEs competitive in the global market and encourage private investment. The key aspects of the Navratna policy were:

**1. Selection of Nine Public Sector Enterprises (Navratnas):**

The government identified nine major PSEs that were deemed to be well-managed and financially viable. These included companies like ONGC, Indian Oil Corporation, and BHEL. These companies were given autonomy to make decisions, especially in terms of financial and operational management.

**2. Increased Autonomy:**

The Navratna policy gave these companies the freedom to take decisions regarding investments, expansion, and other strategic matters without seeking government approval, which made them more competitive and efficient.

**3. Financial Strength and Investment Opportunities:**

The selected PSEs under the Navratna scheme were allowed to raise funds from the market, making them more financially independent. This helped them increase their capital base and fund expansion projects.

**4. Encouraging Global Competitiveness:**

The policy was aimed at making the selected PSEs more competitive globally. By giving them autonomy and the ability to raise funds, the government hoped they would be able to compete with multinational corporations.

**5. Strategic Investments:** The companies were also encouraged to undertake strategic investments, mergers, and acquisitions to expand their global presence and capabilities.

In conclusion, the Navratna policy was a significant step towards empowering PSEs, improving their competitiveness, and making them self-reliant in the global economy.

**Quick Tip**

The Navratna policy gave public sector enterprises more autonomy and financial freedom to enhance their competitiveness and operational efficiency.

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**30. 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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### 31.

#### (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) 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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### **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.

**(a) (i) "Indian economy has hugely benefited by the disinvestment policy adopted by the Government of India in the post-1991 period."** Defend or refute the given statement with valid arguments.

**Solution:** The statement that the Indian economy has benefited from the disinvestment policy adopted by the government in the post-1991 period is **True**. The disinvestment policy, which involves selling a portion of government stakes in public sector enterprises (PSEs), was implemented to improve the efficiency of PSEs, reduce fiscal deficits, and promote private sector participation. The arguments in favor of the policy are as follows:

1. Improved Efficiency:

Disinvestment led to improved performance and efficiency in the public sector. With the introduction of private participation, many PSEs underwent modernization, management reforms, and a focus on profitability. This increased their competitiveness and helped them better serve consumers.

2. Fiscal Benefits:

The proceeds from disinvestment helped the government reduce its fiscal deficit. By selling stakes in large public sector companies, the government was able to generate revenue, which was then used for development projects or debt repayment.

3. Attracting Foreign Investment:

Disinvestment helped attract foreign direct investment (FDI) into India. With the reduction of government ownership in PSEs, foreign investors saw more opportunities to invest in the country's growing economy, which boosted overall economic growth.

#### 4. Private Sector Participation:

The disinvestment process opened the door for private companies to play a more significant role in sectors like infrastructure, telecommunications, and energy. This led to faster industrial growth and the development of a more diversified economy.

However, critics argue that the disinvestment process was not always transparent, and some strategic sectors may have been sold at undervalued prices. There were concerns that privatization led to job losses and undermined the welfare of workers in certain industries. Nevertheless, overall, the policy contributed to the economic liberalization process that helped India grow at a faster pace post-1991.

In conclusion, the disinvestment policy has had positive impacts on the Indian economy by improving efficiency, reducing fiscal deficits, and increasing private sector involvement.

#### Quick Tip

The disinvestment policy in India helped improve efficiency in the public sector and generated fiscal revenue, but transparency and fair pricing were concerns.

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#### (ii) Distinguish between Tariffs and Quotas.

**Solution:** Tariffs and quotas are both trade barriers used by countries to regulate imports, but they function in different ways:

##### 1. Tariffs:

A tariff is a tax or duty imposed by a government on imported goods. It increases the cost of the imported goods, making them less attractive compared to domestic goods. Tariffs are used to protect domestic industries from foreign competition and to raise government revenue. There are two types of tariffs: ad valorem (a percentage of the value of the goods) and specific (a fixed amount per unit).

##### 2. Quotas:

A quota is a limit on the quantity or value of a specific product that can be imported or exported during a given period. Unlike tariffs, which raise the price of imports, quotas directly restrict the volume of imports. They are used to protect domestic industries by limiting the competition from foreign goods.

In summary, tariffs make foreign goods more expensive by imposing taxes on them, while quotas limit the quantity of foreign goods that can be imported. Both are used to control trade flows but in different ways.

#### Quick Tip

Tariffs impose a tax on imports, making them more expensive, while quotas directly limit the quantity of imports.

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**OR**

**(b) (i) Discuss briefly the financial sector reforms undertaken by the Government of India in the post-1991 period.**

**Solution:** The financial sector reforms undertaken by the Government of India in the post-1991 period were designed to liberalize, modernize, and increase the efficiency of the banking and financial systems. Some of the key reforms include:

**1. Banking Sector Reforms:**

The government introduced measures to improve the efficiency of public sector banks, such as allowing them greater autonomy and introducing performance-based targets. The Reserve Bank of India (RBI) also implemented prudential norms for banks, such as capital adequacy ratios, which improved the stability of the banking system.

**2. Liberalization of Interest Rates:**

In the early 1990s, India moved towards liberalizing interest rates, which allowed banks to offer competitive rates to their customers. This increased the efficiency of financial intermediation and helped allocate resources more effectively.

**3. Private Sector Participation:**

The government allowed private banks and foreign banks to enter the Indian market. This increased competition, improved services, and brought in capital and expertise to the sector. The entry of new banks also expanded the availability of credit to different sectors of the economy.

**4. Capital Market Reforms:**

Reforms in the capital markets included the establishment of the Securities and Exchange

Board of India (SEBI) to regulate and promote the development of the stock market. The government also introduced measures to improve transparency, such as the requirement for companies to disclose financial information and the introduction of electronic trading.

#### 5. Insurance Sector Reforms:

The insurance sector was also liberalized with the entry of private players. The government allowed foreign investment in the sector and improved regulations to make it more efficient. This expanded the reach of insurance services to a wider section of the population. These reforms contributed to the growth of the financial sector, increased capital flows, improved access to finance, and facilitated India's integration into the global economy.

#### Quick Tip

The post-1991 financial sector reforms in India aimed to modernize the banking system, promote private sector participation, and improve financial market efficiency.

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

**Solution:** Multilateral and bilateral trade are two forms of international trade agreements, but they differ in scope and the number of countries involved:

##### 1. Multilateral Trade:

Multilateral trade refers to trade agreements between more than two countries, where each country agrees to certain terms and conditions for trade with all the others involved. Examples of multilateral trade agreements include the World Trade Organization (WTO) agreements, which involve many countries working together to regulate trade practices, reduce tariffs, and resolve trade disputes.

##### 2. Bilateral Trade:

Bilateral trade refers to trade agreements between two countries, where both nations agree on the terms of trade, such as reducing tariffs or eliminating trade barriers for certain products. Bilateral trade agreements are typically easier to negotiate and can be more tailored to the specific needs of both countries involved.

In summary, multilateral trade involves multiple countries and aims for broad international cooperation, while bilateral trade involves two countries focusing on their mutual trade



interests.

#### Quick Tip

Multilateral trade involves multiple countries, while bilateral trade focuses on the relationship between two nations.

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### 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.

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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.

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**(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.