CBSE Class 12 2025 Economics Question Paper (58/5/3) With Solutions

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

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

(1) 25°

(2) 45°

(3) 55°

(4) 75°

Correct Answer: (2) 45°

Solution:

In Keynesian theory, the Reference Line represents the equilibrium level of income, where aggregate demand equals aggregate supply. It is a straight line drawn at an angle of 45°, showing the relationship between aggregate income and expenditure.

Quick Tip

The 45° Reference Line is crucial in Keynesian economics because it helps visualize where the economy's total output equals total spending.

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2. According to the data presented in the Union Budget 2023 – 24, the total receipts of the government (other than borrowings), and the total expenditure are estimated as 20 lakh crore and 45 lakh crore respectively. Therefore, the value of .... deficit would be 25 lakh crore. (Choose the correct option to fill in the blank)

(1) Revenue

(2) Fiscal

(3) Trade

(4) Primary

Correct Answer: (2) Fiscal

Solution:

Fiscal deficit is calculated as the difference between the total expenditure and total receipts (excluding borrowings). Here, the fiscal deficit is 45 lakh crore (expenditure) minus 20 lakh crore (receipts), which equals 25 lakh crore.

Quick Tip

The fiscal deficit indicates the borrowing requirements of the government and is a crucial indicator of a country's economic health.

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3. Read the following statements carefully :

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

Statement 2 : As the national income of a country rises, the proportionate increase in the consumption is always more than the increase in the income.

In the light of the given statements, choose the correct option from the following :

(1) Statement 1 is true and Statement 2 is false.

(2) Statement 1 is false and Statement 2 is true.

(3) Both Statements 1 and 2 are true.

(4) Both Statements 1 and 2 are false.

Correct Answer: (1) Statement 1 is true and Statement 2 is false.

Solution:

Statement 1 is true because Marginal Propensity to Consume (MPC) is the ratio of change in consumption to the change in income. It reflects the consumption per unit of income.

Statement 2 is false because, in reality, as national income rises, the proportionate increase in consumption generally decreases. This means the MPC tends to decline as income rises.

Quick Tip

MPC is an important concept in Keynesian economics, indicating how much of an additional dollar of income will be spent on consumption.

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4. In a two-sector economy, Aggregate Supply can be determined by adding .... and .... (Choose the correct option to fill in the blanks)

(1) Consumption, investments

(2) Investments, savings

(3) Consumption, savings

(4) Savings, exports

Correct Answer: (1) Consumption, investments

Solution:

In a two-sector economy, aggregate supply is the sum of consumption and investments. Consumption refers to the total spending by households, and investment refers to the spending by businesses. These two components together make up the total output of the economy.

> Quick Tip
>
> In a two-sector model, consumption and investment are the main components determining aggregate demand and supply.

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5. Read the following statements carefully :

Statement 1 : Foreign aids are the capital receipts for the government.

Statement 2 : Disinvestments may lead to a decrease in the assets of the government.

In the light of the given statements, choose the correct option from the following :

(1) Statement 1 is true and Statement 2 is false.

(2) Statement 1 is false and Statement 2 is true.

(3) Both Statements 1 and 2 are true.

(4) Both Statements 1 and 2 are false.

Correct Answer: (3) Both Statements 1 and 2 are true.

Solution:

Statement 1 is true because foreign aids are typically considered as capital receipts for the government, as they involve inflows from foreign countries that do not need to be repaid. Statement 2 is true because disinvestments involve selling government assets, which can lead to a reduction in the total assets of the government.

Quick Tip

Foreign aid inflows and disinvestments are both related to capital receipts, but disinvestments also reduce the government's asset base.

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6. From the following, identify the situation which indicates the Current Account Surplus (CAS) in Balance of Payments (BOP) account of a nation.

(1) Excess of receipts on current account over the payments on current account.

(2) Equality of receipts on current account and payments on current account.

(3) Excess of payments on current account over receipts on current account.

(4) Excess of payments on current account over receipts on capital account.

Correct Answer: (1) Excess of receipts on current account over the payments on current account.

Solution:

Current Account Surplus (CAS) occurs when a country's receipts from exports, investments, and other transactions exceed its payments for imports and foreign obligations. This results in a surplus on the current account in the Balance of Payments (BOP).

Quick Tip

CAS is a positive economic indicator as it shows the country is earning more from its exports and investments than it is spending on imports.

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7. To arrive at the value of Net Value Added at Market Price (NVA$_{MP}$), ... must be .... to/from Gross Value Added at Market Price (GVA$_{MP}$). (Choose the correct option to fill in the blanks)

(1) Depreciation, added

(2) Depreciation, subtracted

(3) Net indirect taxes, subtracted

(4) Net indirect taxes, added

Correct Answer: (4) Net indirect taxes, added

Solution:

To calculate Net Value Added at Market Price (NVA_{MP}), we need to adjust Gross Value Added at Market Price (GVA_{MP}) by considering the net indirect taxes. Net indirect taxes (taxes minus subsidies) are added to GVA_{MP} to arrive at NVA_{MP}, as they are considered part of the value created in the economy that affects the market price of output.

> **Quick Tip**
>
> When calculating NVA_{MP}, always remember that net indirect taxes are added to GVA_{MP}, while depreciation is typically subtracted in other calculations like GDP at constant prices.

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8. Identify, which of the following does not represent a public good. (Choose the correct option)

(1) Free vaccines provided by the government

(2) Defence services provided by the military

(3) Purchase of railway ticket by an individual

(4) Street light installed by a city municipality

Correct Answer: (3) Purchase of railway ticket by an individual

Solution:

Public goods are characterized by non-excludability and non-rivalry. This means that once the good is provided, everyone can access it without reducing its availability to others. The purchase of a railway ticket by an individual is a private transaction and involves both excludability and rivalry, meaning it does not represent a public good.

> **Quick Tip**
>
> Public goods typically include services like defense, public health (e.g., vaccines), and street lighting, which are available to everyone without exclusion.

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9. Market forces of demand and supply, actively interact under .... exchange rate system to determine the foreign exchange rate. (Choose the correct option to fill in the blank)

(1) Fixed

(2) Flexible

(3) Managed floating

(4) Fixed floating

Correct Answer: (3) Managed floating

Solution:

In a managed floating exchange rate system, the market forces of demand and supply primarily determine the exchange rate. However, the central bank may intervene occasionally to stabilize the currency or prevent excessive fluctuations. This system is a hybrid of both fixed and floating exchange rate systems.

> Quick Tip
>
> The managed floating system allows market forces to play the primary role but also gives room for central bank intervention to address currency fluctuations.

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10. Read the following statements carefully :

Statement 1 : During deflationary gap, the Central Bank of a country may increase the repo rate.

Statement 2 : The government can reduce the deflationary gap by purchasing Government Securities (G-Sec) in the open market.

In the light of the given statements, choose the correct option from the following :

(1) Statement 1 is true and Statement 2 is false.

(2) Statement 1 is false and Statement 2 is true.

(3) Both Statements 1 and 2 are true.

(4) Both Statements 1 and 2 are false.

Correct Answer: (2) Statement 1 is false and Statement 2 is true.

Solution:

Statement 1 is false because during a deflationary gap, the Central Bank typically lowers the repo rate to encourage borrowing and spending, rather than increasing it.

Statement 2 is true because the government can reduce a deflationary gap by purchasing government securities in the open market, which injects liquidity into the economy and encourages spending.

Quick Tip

In a deflationary gap, monetary policy aims to increase the money supply by lowering the repo rate and purchasing securities, which stimulates economic activity.

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11. "As per the Economic Survey of India 2022 – 23, due to the outbreak of geopolitical conflict, the result was higher international prices for fertilizer and fuel. Thus, there was a higher fuel and fertilizer subsidy requirement for supporting the people."

On the basis of the given text, identify and explain the indicated objective of the government budget.

Solution: The indicated objective of the government budget, as mentioned in the text, is to provide **subsidies on fuel and fertilizer** to support the people during times of crisis. Due to the geopolitical conflict, the international prices of fertilizers and fuel have risen significantly, which impacts the common people, especially those dependent on agriculture and energy. The government's objective in this situation is to ensure that these essential commodities remain affordable for the public, particularly for farmers who rely on fertilizers for crop production and households that need fuel for daily consumption. The government allocates subsidies in the budget to offset the impact of price hikes, ensuring economic stability and supporting vulnerable populations during external shocks.

Quick Tip

Subsidies are used by the government to reduce the burden of price hikes on essential goods like fuel and fertilizers, helping people during crises.

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12. (a) State the steps pertaining to the estimation of National Income, under the Expenditure Method.

Solution: The steps to estimate National Income using the Expenditure Method are as follows:

1. **Consumption Expenditure (C):** This includes all the expenditures on goods and services by households. It consists of durable and non-durable goods and services consumed by the public.
2. **Investment Expenditure (I):** This includes the total investment made in the economy such as business investments, construction of factories, machinery, and infrastructure. It also includes residential construction.
3. **Government Expenditure (G):** This includes all government spending on goods and services, excluding transfer payments such as pensions or unemployment benefits.
4. **Net Exports (NX):** This refers to the difference between a country's exports and imports. It is calculated as:

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

5. **Total Expenditure (E):** The total expenditure is the sum of all the above components:

$$E = C + I + G + (X - M)$$

where X is the total value of exports and M is the total value of imports.
The national income is calculated by summing the consumption, investment, government expenditure, and net exports in the economy. This method is based on the principle that the total expenditure on goods and services equals the total income generated from their production.

Quick Tip

The Expenditure Method assumes that total spending in an economy directly reflects the total income generated by producing the goods and services.

OR

(b) On the basis of the following hypothetical data, calculate the percentage change in Real Gross Domestic Product (GDP) in the year 2022 – 23, using 2020 – 21 as the base year.

Year	Nominal GDP (crore)	Nominal GDP (Adjusted to Base Year Price)
$2020-21$	$3,000$	$5,000$
$2022-23$	$4,000$	$6,000$

Solution:

The percentage change in Real GDP is calculated using the following steps:

1. **Real GDP for 2022-23 (Adjusted to Base Year Price):**

The Real GDP is adjusted for inflation using the base year's prices. For 2022-23, the Real GDP is 6,000 crore (already adjusted).

2. **Real GDP for 2020-21 (Adjusted to Base Year Price):**

Similarly, for 2020-21, the Real GDP is 5,000 crore.

3. **Formula for Percentage Change in Real GDP:**

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

4. **Calculation:**

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

Therefore, the percentage change in Real GDP in 2022-23, using 2020-21 as the base year, is **20%**.

> **Quick Tip**
>
> To calculate the percentage change in Real GDP, always use the formula for percentage change between the Real GDP of two years, adjusting for inflation using the base year prices.

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13. Read the following text carefully:

In an economy, a significant reduction in Aggregate demand raised concerns about future growth prospects of the country. This economic downturn underscores the urgent need for strategic measures to boost confidence of households and stimulate economic activities. Based on the above text and common understanding, explain the measures which the government may take to stabilise the indicated situation.

Solution: To stabilize the economy during a downturn in aggregate demand, the government can take a combination of **monetary** and **fiscal** measures to stimulate economic activity. These measures would help restore confidence in the economy, increase spending, and create jobs. The following measures can be taken:

1. **Monetary Policy Measures:**

- **Lowering Interest Rates:** The Reserve Bank of India (RBI) can reduce interest rates to make borrowing cheaper for businesses and consumers. Lower rates encourage investment and consumption, boosting demand.
- **Quantitative Easing:** If conventional monetary policy is not effective, the RBI can engage in quantitative easing by purchasing government bonds to inject liquidity into the economy. This can help increase money supply and lower long-term interest rates.

2. **Fiscal Policy Measures:**

- **Increase in Government Spending:** The government can increase its spending on infrastructure projects, healthcare, education, and social welfare programs. This will generate employment, boost demand, and stimulate economic activity.
- **Tax Cuts:** The government can reduce taxes on individuals and businesses to increase disposable income and incentivize investment. Lower taxes on goods and services can also increase consumption.
- **Subsidies and Incentives:** Providing subsidies on essential goods, such as fuel and food, can help reduce the burden on households and ensure that consumption continues. The government can also offer incentives to businesses to encourage production and investment.

3. **Boosting Confidence and Investment:**

- **Investor Confidence Measures:** The government can work on improving investor confidence by ensuring stable policies, protecting property rights, and making the business environment more conducive to investment.
- **Promotion of Exports:** The government can focus on increasing exports by negotiating better trade agreements, providing export incentives, and boosting the competitiveness of Indian products in global markets.

These measures, taken in combination, would help stabilize the economy by increasing aggregate demand, stimulating investment, and fostering economic growth.

Quick Tip

In times of economic downturn, a combination of monetary policy (lower interest rates, liquidity injection) and fiscal policy (increased government spending, tax cuts) can help stimulate aggregate demand and restore economic stability.

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14. (a) (i) ”The Indian economy has witnessed a sharp turnaround during 2023 – 24 with Foreign Direct Investments (FDI) inflows of US $ 70.9 Bn and net Foreign Portfolio Investments (FPI) inflows of US $ 32.4 Bn.” Distinguish between the above-mentioned economic variables.

Solution: Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) are both types of foreign investment, but they differ in terms of nature and impact on the economy:

1. **Foreign Direct Investment (FDI):**

FDI refers to investments made by foreign entities or individuals in a country's physical assets or production capabilities. These investments typically involve acquiring a significant stake (usually more than 10%) in a company or setting up new operations, such as factories, infrastructure, or joint ventures. FDI is long-term in nature and helps in creating jobs, boosting technology transfer, and enhancing the overall industrial growth of the economy. It is generally considered a more stable form of investment.

2. **Foreign Portfolio Investment (FPI):**

FPI refers to investments made by foreign investors in a country's financial assets, such as stocks, bonds, and other securities. Unlike FDI, FPIs are typically short-term investments, as foreign investors may buy and sell securities based on market conditions. FPI is more volatile than FDI, as investors can quickly withdraw their investments in response to changes in market sentiment. However, it still helps improve liquidity and contributes to the overall capital market development of the country.

In summary, FDI involves long-term investment in physical assets, while FPI refers to short-term investments in financial assets like stocks and bonds.

Quick Tip

FDI is long-term and involves physical assets, while FPI is short-term and involves financial instruments.

(ii) In which account of Balance of Payments will the given variables be entered and why?

Solution: FDI and FPI are recorded in the **Capital Account** of the Balance of Payments (BoP). The Capital Account tracks all financial transactions related to the inflow and outflow of capital.

1. **FDI:**

FDI is recorded under the ”Foreign Direct Investment” section of the capital account. Since FDI involves long-term investments in physical assets, such as purchasing stakes in businesses or setting up manufacturing facilities, it is considered a form of capital inflow.

2. **FPI:**

FPI is recorded under the ”Foreign Portfolio Investment” section of the capital account. Since FPI involves short-term investments in financial markets, such as buying stocks and bonds, it is considered a form of capital inflow that can be more volatile.

In summary, both FDI and FPI are recorded in the Capital Account because they represent financial flows into the country, whether in the form of direct or portfolio investments.

Quick Tip

FDI and FPI are both recorded in the Capital Account of the Balance of Payments, as they represent inflows of foreign capital.

OR

(b) Explain how Accommodating Transactions differ from Autonomous Transactions.

Solution: Accommodating and Autonomous Transactions are both parts of the Balance of Payments, but they differ in their nature and function:

1. **Autonomous Transactions:**

Autonomous transactions are transactions that occur independently of any external intervention. They are motivated by economic and financial activities such as trade in goods

and services, foreign investments, or remittances. These transactions are largely driven by market forces and contribute to the economic flow between countries. Autonomous transactions include exports, imports, FDI, FPI, and international borrowing/lending.
2. **Accommodating Transactions:**
Accommodating transactions are adjustments made to balance the capital and current accounts in the Balance of Payments. These transactions do not occur naturally but are undertaken by central banks or governments to offset any imbalances caused by autonomous transactions. For example, if a country faces a deficit in its current account, the central bank may borrow or lend money in the international financial markets to balance the payments. Accommodating transactions help maintain equilibrium in the Balance of Payments.
In summary, autonomous transactions are driven by market forces, while accommodating transactions are government or central bank interventions designed to balance external payments.

Quick Tip

Autonomous transactions are market-driven, while accommodating transactions are interventions made to balance payments.

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15. Suppose for two imaginary economies A and B, the value of Marginal Propensity to Consume (MPC) stands at 0.8 and 0.6 respectively. For both the economies, Autonomous Consumption (C_0) = 400 crore and Investment Expenditure (I) = 2,000 crore. Calculate the following:
(a) Break-even level of income for Economy A.
Solution: The Break-even level of income occurs when total income is equal to total expenditure. In this case, total expenditure is the sum of autonomous consumption and investment expenditure.
The formula for the break-even level of income is:

$$\text{Break-even income} = \frac{C_0 + I}{1 - MPC}$$

Substituting the given values for Economy A (MPC = 0.8, $C_0 = 400$ crore, $I = 2000$ crore):

$$\text{Break-even income} = \frac{400 + 2000}{1 - 0.8} = \frac{2400}{0.2} = 12,000 \text{ crore}$$

Thus, the break-even income for Economy A is 12,000 crore.

Quick Tip

The break-even income occurs when consumption and investment expenditure equal total income. It's calculated using the formula $\frac{C_0+I}{1-MPC}$.

(b) Equilibrium level of income for Economy B.

Solution: The equilibrium level of income occurs when total income is equal to total expenditure, i.e., the sum of consumption and investment expenditure. The formula for the equilibrium level of income is:

$$\text{Equilibrium income} = \frac{C_0 + I}{1 - MPC}$$

Substituting the given values for Economy B (MPC = 0.6, $C_0 = 400$ crore, $I = 2000$ crore):

$$\text{Equilibrium income} = \frac{400 + 2000}{1 - 0.6} = \frac{2400}{0.4} = 6,000 \text{ crore}$$

Thus, the equilibrium income for Economy B is 6,000 crore.

Quick Tip

The equilibrium income is the income level at which total income equals total expenditure. It's calculated similarly to break-even income but focuses on the economy's balance between consumption and investment.

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16. (a) "In a country, routine economic operations rely on a stable medium, to facilitate transactions for maintaining smooth economic activities." Discuss briefly the indicated function of money.

Solution: The indicated function of money in the statement is its role as a **medium of exchange**. In economic operations, money serves as a universally accepted intermediary in transactions. Instead of engaging in barter, where goods and services are exchanged directly, money allows for a more efficient transaction process. It facilitates buying and selling activities by providing a standard unit of value. A stable medium of exchange ensures that goods and services are traded at agreed-upon values, without the need for direct negotiation

of barter terms. This stability promotes smooth economic activities and enhances market efficiency.
Money also simplifies transactions, fosters specialization, encourages savings, and supports investment by maintaining stable value over time.

> Quick Tip
>
> The role of money as a medium of exchange simplifies trade and supports economic growth by providing a standard for value and facilitating smooth transactions.

(b) State the meaning and components of M1 measure of money supply.

Solution: The M1 measure of money supply refers to the **narrow money supply**. It includes the most liquid forms of money that are used for transactions. M1 includes:
1. **Currency with the public:**
This includes coins and paper currency in circulation that are held by the public, excluding currency with banks.
2. **Demand deposits with banks:**
These are deposits that can be withdrawn on demand by the account holder without any delay, including checking accounts.
3. **Other deposits with the Reserve Bank of India (RBI):**
This includes the deposits held by the RBI that are available for immediate withdrawal.
M1 is the most liquid measure of the money supply, as it includes only those forms of money that can be used for immediate consumption.

> Quick Tip
>
> M1 is the measure of money supply that includes currency with the public, demand deposits, and other deposits that can be used immediately for transactions.

(c) State the formula to compute Credit Multiplier.

Solution: The **Credit Multiplier** is the ratio of the total amount of credit created in the economy to the initial deposit. It is given by the formula:

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

Where the **Reserve Requirement Ratio (RRR)** is the fraction of deposits that a commercial bank is required to hold as reserves (either in cash or as deposits with the central bank) and cannot lend out. The higher the reserve requirement ratio, the lower the credit multiplier, as banks can lend out less of their deposits.

Quick Tip

The credit multiplier is calculated as the inverse of the reserve requirement ratio, determining the total credit creation in the banking system.

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17. (a) (i) Explain the likely impact of construction of 100 new super specialty hospitals in a nation on Gross Domestic Product (GDP) and welfare in the economy.

Solution: The construction of 100 new super specialty hospitals will result in an increase in GDP, as it will lead to more investments in infrastructure, creating employment opportunities, and generating income. The increased expenditure in construction and healthcare will have a multiplier effect on the economy, driving higher consumption and business activities.

Moreover, these hospitals will improve the healthcare infrastructure of the country, leading to better health outcomes, reduced mortality rates, and improved labor productivity, thereby boosting overall welfare. The establishment of these hospitals will also lead to an increase in the availability of healthcare services, which can improve the quality of life for the citizens.

Quick Tip

Investment in healthcare infrastructure not only boosts GDP but also enhances long-term welfare by improving the quality of life and productivity of the population.

17. (a) (ii) Suppose, there are only three firms in a hypothetical economy, viz. A, B and C. During a given period of time, the following transactions were undertaken by them:

(I) Firm A sold goods worth 2,000 to Firm B and 1,200 to Firm C.

(II) Firm B sold goods worth 1,100 to Firm A and 3,500 to Firm C.

(III) Firm C sold to households for final consumption, goods worth 5,700.

Estimate the value of Gross Domestic Product at Factor Cost (GDP$_{PC}$), assuming the value of Net Indirect Taxes to be 240.

To calculate the GDP at Factor Cost, we use the following formula:

$$GDP_{PC} = \text{Value of Final Goods and Services Produced} + \text{Net Indirect Taxes}$$

Step 1: Calculate the value of final goods and services produced:

- Total goods sold by Firm A:

2,000 (to Firm B) + 1,200 (to Firm C) = 3,200

- Total goods sold by Firm B:

1,100 (to Firm A) + 3,500 (to Firm C) = 4,600

- Total goods sold by Firm C:

5,700 (to households for consumption)

Thus, the total value of goods produced by the firms is:

$$\text{Total Value of Goods Produced} = 3,200 + 4,600 + 5,700 = 13,500$$

Step 2: Add Net Indirect Taxes:

Net Indirect Taxes = 240

So,

$$GDP_{PC} = 13,500 + 240 = 13,740$$

Thus, the value of GDP$_{PC}$ = 13,740.

Quick Tip

When calculating GDP at Factor Cost, always remember to add Net Indirect Taxes, which include taxes less subsidies on production.

OR

17. (b) (i) "All consumption goods are durable in nature." Defend or refute the given statement with a valid argument.

Solution: The statement "All consumption goods are durable in nature" is **false**.

- **Durable Goods:** These are goods that have a long life span, and can be used repeatedly over an extended period of time, such as cars, appliances, and furniture.
- **Non-Durable Goods:** These are goods that are consumed immediately or within a short period of time, and are used up in a single or few uses, such as food, beverages, and toiletries.

While durable goods are part of consumption, many consumption goods are non-durable. For instance, when people purchase groceries or clothing, these items are consumed or used up in a short period. Therefore, not all consumption goods are durable.

Quick Tip

Consumption goods are classified into durable and non-durable goods. Non-durable goods provide utility for a shorter period and are often replaced more frequently than durable goods.

17.b(ii) On the basis of the given data, estimate the value of Net Domestic Product at Factor Cost (NDP_{PC}):

Given Data:

S.No.	**Items**	**Amount (in Crore)**
(i)	Household Consumption Expenditure	1,800
(ii)	Gross Business Fixed Capital Formation	1,150
(iii)	Gross Residential Construction Expenditure	1,020
(iv)	Government Final Consumption Expenditure	2,170
(v)	Excess of Imports over Exports	720
(vi)	Inventory Investments	540
(vii)	Gross Public Investments	1,300
(viii)	Net Indirect Taxes	240
(ix)	Net Factor Income from Abroad	(–) 250
(x)	Consumption of Fixed Capital	440

Solution: The formula for calculating Net Domestic Product at Factor Cost (NDP_{PC}) is:

$$NDP_{PC} = GDP_{PC} - \text{Depreciation}$$

We know that:

$GDP_{PC} =$ Household Consumption Expenditure+Gross Business Fixed Capital Formation+Gross Resi

Substituting the values from the given data:

$$GDP_{PC} = 1,800 + 1,150 + 1,020 + 2,170 + 1,320 + 540 - 720 = 7,280$$

Now, to calculate NDP$_{PC}$, we subtract depreciation (if given or assumed). Since depreciation is not provided, we assume it's a known value, say 250 crore.

Thus,

$$NDP_{PC} = 7,280 - 250 = 7,030$$

Therefore, the value of NDP$_{PC}$ = 7,030 crore.

Quick Tip

NDP$_{PC}$ is calculated by subtracting depreciation from GDP$_{PC}$. Depreciation accounts for the wear and tear of capital goods.

SECTION B

Indian Economic Development

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

(1) Environment provides resources.

(2) Environment absorbs wastage.

(3) Environment sustains life.

(4) Environment deteriorates the quality of life.

Correct Answer: (4) Environment deteriorates the quality of life.

Solution:

The environment, in its natural state, sustains life by providing resources, absorbing waste, and maintaining ecological balance. However, it is not correct to say that the environment itself deteriorates the quality of life. In fact, human activities such as pollution and deforestation can lead to environmental degradation, which in turn harms the quality of life.

Quick Tip

A healthy environment contributes to better quality of life, while environmental degradation leads to the deterioration of living conditions.

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

Assertion (A) : Under the financial sector reforms introduced in 1991, foreign investment limit in banks was raised up to around 74Reason (R) : Foreign Institutional Investors (FIIs) were allowed to invest in Indian financial markets, post-1991.

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

(2) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(3) Assertion (A) is true, but Reason (R) is false.

(4) Assertion (A) is false, but Reason (R) is true.

Correct Answer: (2) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

Solution:

Assertion (A) is true because foreign investment limits in Indian banks were indeed raised to 74Reason (R) is also true because FIIs were allowed to invest in Indian financial markets post-1991. However, Reason (R) does not directly explain Assertion (A), as the reforms encompassed broader financial liberalization measures, not just foreign investments.

Quick Tip

Financial reforms in India aimed at increasing foreign investments, improving market transparency, and liberalizing the economy.

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20. "Suppose an imaginary economy is experiencing a situation of rise in Real Gross Domestic Product (GDP), without any corresponding adequate rise in the employment opportunities in the economy." In economic parlance, such a situation is termed as .... growth.

(Choose the correct option to fill in the blank)

(1) Casual

(2) Informal

(3) Formal

(4) Jobless

Correct Answer: (4) Jobless

Solution:

Jobless growth refers to a situation where an economy experiences growth in GDP but fails to create enough jobs to absorb the growing labor force. This often occurs due to technological advancements or productivity gains that reduce the need for labor despite economic growth.

Quick Tip

Jobless growth is a concern for policymakers because it implies that economic growth is not benefiting the broader population in terms of employment.

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21. Read the following statements carefully :

Statement 1 : The British policies led to huge employment generation in the secondary and tertiary sectors of the Indian Economy.

Statement 2 : The real motive of the colonial government's infrastructural development was to benefit the interests of India.

In the light of the given statements, choose the correct alternative from the following :

(1) Statement 1 is true and Statement 2 is false.

(2) Statement 1 is false and Statement 2 is true.

(3) Both Statements 1 and 2 are true.

(4) Both Statements 1 and 2 are false.

Correct Answer: (4) Both Statements 1 and 2 are false.

Solution:

Statement 1 is false because British policies did not lead to significant employment generation in India's secondary and tertiary sectors. Instead, they primarily focused on exploiting India's resources for the benefit of the British economy, which led to limited industrialization in India.

Statement 2 is also false because the colonial government's infrastructural development was mainly aimed at serving British economic and strategic interests, not benefiting India's economy. The focus was on facilitating British trade and control.

Quick Tip

The British colonial policies did not significantly focus on industrial development in India, and infrastructure was primarily built to serve British interests.

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22. Read the following statements carefully :

Statement 1 : The purchase of food grains, made by the government on the Minimum Support Price (MSP), is maintained as buffer stock.

Statement 2 : Minimum Support Price (MSP) safeguards the farmers against any sharp fall in farm product prices.

In the light of the given statements, choose the correct option from the following :

(1) Statement 1 is true and Statement 2 is false.

(2) Statement 1 is false and Statement 2 is true.

(3) Both Statements 1 and 2 are true.

(4) Both Statements 1 and 2 are false.

Correct Answer: (3) Both Statements 1 and 2 are true.

Solution:

Statement 1 is true because the government procures food grains at the Minimum Support Price (MSP) and maintains a buffer stock to ensure food security and stabilize market prices. Statement 2 is also true because the MSP is designed to provide a safety net for farmers, protecting them from price fluctuations and ensuring a minimum income for their crops.

Quick Tip

The MSP is a key policy tool used to ensure fair prices for farmers and to avoid market instability in agricultural products.

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23. Study the following image carefully :

Similarities in Policies of India and Pakistan
Mixed Economic System
Green Revolution
____

From the following, choose the correct option which indicates similarities in the policies of India and Pakistan, in the post-1947 period:

(1) Dual pricing policy

(2) Commune system

(3) Import substitution

(4) Great Proletarian Cultural Revolution

Correct Answer: (3) Import substitution

Solution:

Both India and Pakistan adopted similar development strategies after independence in 1947. These included the adoption of a mixed economic system, implementation of the Green Revolution to enhance agricultural output, and a policy of import substitution industrialization to reduce foreign dependence by promoting domestic industries.

Quick Tip

Import substitution involves replacing foreign imports with domestically produced goods to strengthen internal markets and reduce reliance on foreign goods.

24. Production of diverse varieties of crops, rather than one specialised crop, is known as diversification of ....

(1) Crops

(2) Agricultural Production

(3) Sectoral Composition

(4) Employment

Correct Answer: (1) Crops

Solution:

Diversification in the context of agriculture refers to the practice of growing a variety of different crops rather than specializing in one single crop. This method reduces risk and increases resilience by ensuring that the farm's income is not dependent on the success or failure of a single crop. Thus, the correct term is "diversification of crops."

> Quick Tip
>
> Diversifying crops helps in reducing the economic risks posed by climate change, pest infestations, and market fluctuations.

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

Assertion (A) : People spend to acquire information related to labour and other markets (like, education and health).

Reason (R) : Expenditure on information is necessary for efficient utilisation of the human capital stock.

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

(2) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(3) Assertion (A) is true, but Reason (R) is false.

(4) Assertion (A) is false, but Reason (R) is true.

Correct Answer: (1) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

Solution:

Assertion (A) is true as acquiring information related to labour, education, and health is essential for human capital formation.

Reason (R) is true because expenditure on acquiring such information is key to efficient use of human resources, as it helps individuals and businesses to make better decisions. Thus, Reason (R) explains Assertion (A).

> **Quick Tip**
>
> Human capital development relies on access to information, which leads to better decisions in health, education, and employment.

---

26. In the post-independence era, the policy makers of India emphasised on 'self-reliance' for the first .... Five Year Plans.

(Choose the correct option to fill in the blank)

(1) 6

(2) 7

(3) 8

(4) 9

Correct Answer: (1) 6

Solution:

The first five-year plans in India (1951-1956) emphasized on self-reliance, particularly in agriculture, to build the foundation for a strong economic base and reduce dependence on foreign imports.

> **Quick Tip**
>
> The focus on self-reliance was part of India's strategy to build its economy from the grassroots level, emphasizing domestic resources and capabilities.

---

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

(1) The Rural Banking system in India consists of a set of multi-agency institutions.

(2) In the post-independence period, a well-structured Rural Banking system was formulated in India.

(3) Regional Rural Banks, Cooperative and Land Development Banks are components of the Rural Banking system in India.

(4) The Rural Banking system in India works under the guidance, instruction and supervision of the State Bank of India.

Correct Answer: (4) The Rural Banking system in India works under the guidance, instruction and supervision of the State Bank of India.

Solution:

The Rural Banking system in India does not work under the direct guidance and supervision of the State Bank of India. Instead, it operates under the supervision of the Reserve Bank of India (RBI), which ensures the efficient functioning of various rural banking institutions like Regional Rural Banks (RRBs) and cooperative banks.

> Quick Tip
>
> The RBI plays the key role in regulating the Rural Banking system in India, not the State Bank of India.

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28. Using the following data, analyse the sectoral contribution of India and Pakistan towards Gross Value Added (GVA).

Sectoral Share of Employment and GVA (%) in 2018–19

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

Solution:

From the data provided, we can interpret the economic structure and productivity in each country:

- **India:** The agriculture sector employs 43% of the workforce but contributes only 16% to GVA, indicating low productivity. The services sector, with only 32% of the workforce, contributes the highest to GVA (54%), which reflects high productivity and a growing service-based economy.
- **Pakistan:** Agriculture also employs a high share (41%) but contributes 24% to GVA. The services sector dominates in terms of contribution to GVA (57%) with 35% of the workforce. This shows a reliance on services, but relatively higher productivity in agriculture compared to India.
- **China:** Shows a more balanced and efficient structure. Agriculture has both low employment (26%) and low GVA (7%), while industry leads with 41% GVA and 28% workforce, reflecting strong industrial growth and productivity. Services are also efficient, contributing 52% GVA with 46% of the workforce.

Hence, China demonstrates better alignment between sectoral employment and GVA contribution, while India and Pakistan still show a structural imbalance, especially in agriculture.

Quick Tip

High employment with low GVA in a sector reflects low productivity. A shift from agriculture to industry and services is key for economic transformation.

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29. (a) "British colonial rule in India resulted into systematic deindustrialisation of Indian indigenous industries." Explain the two-fold motive of the British with valid arguments.

Solution: The British colonial rule systematically led to the deindustrialization of India through various policies that primarily served their economic and imperial interests. The two-fold motive behind these policies was:

1. **Extraction of Raw Materials:**

The British aimed to transform India into a supplier of raw materials like cotton, jute, and indigo for British industries. This necessitated the destruction or stagnation of Indian industries that were producing similar goods. For instance, India's textile industry, which was once one of the most advanced in the world, was deliberately undermined by British policies.
- **Impact:** Local industries were either forced out of business or faced severe restrictions, and India became heavily dependent on Britain for manufactured goods.
2. **Monopolization of Indian Markets:**
The British sought to establish a market for their own goods by destroying local industries. This was achieved through policies such as high import duties on Indian goods, while British goods were allowed to enter India with minimal tariffs. This prevented the growth of indigenous industries and stunted economic development.
- **Impact:** The local industry was unable to compete with cheap British goods, leading to the decline of small-scale industries in India. The deindustrialization led to massive unemployment and economic backwardness.

OR

29. (b) "The trade and investment policy initiated by the Indian Government during 1991 economic reforms involved some major decision-making with respect to local industries." Elaborate any two major decisions and their respective impacts on the Indian economy.

Solution: The 1991 economic reforms in India marked a significant shift in the country's trade and investment policies, which had profound impacts on local industries. Two key decisions are:
1. **Liberalization of Trade Policy:**
The government significantly reduced tariffs, restrictions, and licensing requirements for imports and exports. This was aimed at opening up the Indian economy to the global market, encouraging competition, and improving the efficiency of domestic industries.
- **Impact:** Local industries had to modernize and improve productivity to compete with foreign products. While it caused some short-term challenges, it also spurred growth in sectors like information technology, telecommunications, and automotive industries due to increased competition and access to global markets.
2. **Encouragement of Foreign Direct Investment (FDI):**

The Indian government allowed more foreign investments in domestic industries by reducing restrictions and offering incentives to foreign investors.
- **Impact:** This led to an influx of capital, technology, and managerial expertise into Indian industries. It helped modernize local industries, created jobs, and improved the quality of products. The IT and automotive industries were among the biggest beneficiaries of FDI, resulting in exponential growth.

> **Quick Tip**
> Deindustrialization during the British colonial era was a deliberate process aimed at securing economic control over India while hindering its industrial development.

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30. (a)

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

(ii) **Define Sustainable Development.**

OR

(b)

(i) **Describe briefly the importance of micro-credit programmes in Rural India.**

(ii) **State any one strategy involved in attaining sustainable development in India.**

Solution:

(a)

(i) **Distinction between human capital and physical capital:**

- **Human Capital:** Refers to the skills, knowledge, and abilities possessed by individuals in an economy. Human capital is developed through education, training, and experience, and contributes to higher productivity.
- **Physical Capital:** Refers to tangible assets like machinery, buildings, and infrastructure that are used to produce goods and services. Physical capital increases productivity by providing the necessary tools for production.

(ii) **Sustainable Development:** Sustainable development refers to the development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It balances economic, social, and environmental factors, promoting long-term growth without depleting natural resources.

OR

(b)

(i) **Importance of micro-credit programmes in Rural India:**

Micro-credit programmes provide small loans to individuals in rural areas who do not have access to traditional banking services. These loans help improve the livelihoods of the poor, enabling them to start small businesses, improve agricultural productivity, or invest in education and health. Micro-credit empowers women, promotes financial inclusion, and contributes to poverty alleviation in rural areas.

(ii) **One Strategy for Attaining Sustainable Development in India:**

One key strategy for sustainable development in India is the promotion of renewable energy sources like solar and wind power. This reduces dependency on fossil fuels, lowers greenhouse gas emissions, and ensures energy security for future generations.

Quick Tip

To distinguish human capital and physical capital, focus on the difference between knowledge/skills (human) vs tangible assets (physical). For sustainable development, always link economic growth with environmental preservation.

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31. Read the following text carefully and compare the impact of subsequent reforms initiated by China and India.

China underwent substantial policy changes to stimulate their economy. China's economic growth was rapid in the late 1970s across various sectors. However, India had to wait much longer for its economic transformation. India's significant economic progress was only realised after the economic reforms of 1991, which were implemented out of compulsion. On the basis of given text and common understanding, compare the impact of subsequent reforms initiated by China and India.

Solution:

China initiated major economic reforms in the late 1970s, focusing on liberalization, opening to foreign trade and investment, and allowing private enterprise. These reforms were proactive and voluntary, enabling China to rapidly industrialize and grow economically, with early and sustained success across multiple sectors.

India, on the other hand, implemented its economic reforms in 1991 in response to a balance of payments crisis. These reforms were more reactive than proactive. India's reforms focused on liberalization, privatization, and globalization (LPG model). The outcomes were positive but slower compared to China.

Comparison of Impact:

- **China:** Achieved high GDP growth, global manufacturing dominance, and large-scale poverty reduction. The reforms transformed China into an economic powerhouse.
- **India:** Showed steady growth, especially in the service sector. While India's growth improved post-1991, the impact was not as immediate or large-scale as China's.

Quick Tip

China's early and aggressive reforms led to faster growth. India's reforms were successful but more gradual in impact, with strength in services rather than manufacturing.

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

(a) Under the Golden Revolution there was tremendous growth in horticulture, making India the world leader in this field.

Answer: True

Solution: The Golden Revolution, which took place from the 1990s, refers to the significant growth in India's horticulture sector, including fruits, vegetables, flowers, and spices. India saw remarkable progress in the production and export of horticultural products. The country became a global leader, particularly in the production of fruits like mangoes, bananas, and apples, as well as vegetables and flowers. This revolution significantly contributed to the Indian economy, providing employment and improving the livelihoods of farmers.

(b) Small and marginal farmers are given preference in getting credit from non-institutional sources like Regional Rural Banks, Cooperative Banks, etc.

Answer: False

solution: While small and marginal farmers are theoretically given priority in getting credit from institutional sources like Regional Rural Banks (RRBs) and Cooperative Banks, they often face barriers to accessing credit from formal financial institutions due to collateral requirements, lack of financial literacy, and procedural delays. As a result, many small and marginal farmers resort to non-institutional sources, such as moneylenders, who charge high-interest rates and exploit these farmers. Therefore, while there is a preference on paper, in practice, small farmers often remain dependent on non-institutional, informal credit sources.

Quick Tip

While formal credit institutions provide priority to small farmers, accessibility remains a challenge, leading to reliance on non-institutional sources of credit.

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33. (a) (i) "Import substitution policy, if not applied carefully, can be a double-edged sword for any economy."

Do you agree with the given statement? Justify your answer with valid arguments.

Solution: Yes, I agree with the statement. Import substitution policy (ISP) aims to reduce dependency on foreign imports by promoting domestic industries to produce goods locally. However, if not applied carefully, it can have negative consequences, such as:

- **Higher Prices and Inefficiency:** By shielding domestic industries from foreign competition, local producers may lack the incentive to improve efficiency, leading to higher prices and lower-quality goods. Consumers may end up paying more for inferior products.
- **Retaliation and Trade Wars:** If countries impose excessive tariffs to encourage local production, it may lead to retaliatory trade measures, reducing export opportunities and harming the economy.
- **Lack of Innovation:** Protection from global competition can reduce the pressure on local industries to innovate and improve their products or processes, potentially leading to stagnation.
- **Resource Misallocation:** When industries are artificially supported, resources might be

misallocated, and non-competitive sectors might receive undue support, hindering overall economic efficiency.

Thus, while import substitution can support domestic industries in the short term, it can harm the economy if overused or improperly implemented.

(ii) State how multilateral trade is different from bilateral trade.

Solution: Multilateral trade refers to trade agreements and exchanges involving more than two countries or parties. It typically involves negotiations under international organizations such as the World Trade Organization (WTO), aiming for broader and more inclusive trade liberalization. Examples of multilateral agreements include the General Agreement on Tariffs and Trade (GATT) and regional trade agreements like the European Union (EU).

Bilateral trade, on the other hand, involves trade between two countries or parties. These agreements are often negotiated to reduce tariffs, promote investment, and facilitate trade between the two nations involved. For example, the India-US Bilateral Trade Agreement focuses on improving trade relations between the two countries.

OR

b.(i) Discuss briefly, causes and consequences of the tax reforms initiated during economic reforms in India.

Solution: The tax reforms initiated in India during the 1991 economic reforms were aimed at simplifying the tax structure, broadening the tax base, and improving compliance. The key causes and consequences were:

- **Causes:**

The tax system in India was inefficient, complex, and plagued by high tax rates and a narrow base.

The government needed to raise more revenue, ensure equitable distribution, and increase efficiency in tax administration.

- **Reforms Implemented:**
- Reduction in tax rates for both individuals and corporations.
- Introduction of the Goods and Services Tax (GST) to simplify indirect taxes.
- Modernization of tax administration and introduction of e-filing.
- **Consequences:**

- Increased revenue collection due to improved compliance.
- More business-friendly environment and increased foreign investment.
- Economic growth with better fiscal management.
- The GST system, despite initial challenges, streamlined indirect taxation across the country.

These tax reforms led to a more efficient tax system, supporting economic liberalization and growth.

(ii) State one example each of a Maharatna and a Miniratna company in the public sector in India.

Solution: - **Maharatna Example:** Oil and Natural Gas Corporation (ONGC) is a Maharatna public sector company in India. This status allows the company to make independent investment decisions up to 5,000 crore without prior approval from the government.

- **Miniratna Example:** Bharat Sanchar Nigam Limited (BSNL) is a Miniratna company in India. It has been granted greater operational autonomy but has limits on the capital expenditure it can undertake without government approval.

> Quick Tip
>
> Import substitution can stimulate local industries, but it must be carefully implemented to avoid inefficiency, high prices, and stagnation. Proper trade policies can ensure balanced growth and competitiveness.

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34. Read the following text carefully:

The Labour Force Participation Rate (LFPR) measures the percentage of the population either employed or actively seeking employment in a nation. In India, the labour force grew by 99·2 million persons between 2000 – 2019. The labour force grew from 396·3 million to 495·5 million.

During 2012 – 2019, the labour force grew without a matching increase in employment, leading to higher unemployment.

The gender disparity in India's labour market is notable with women's LFPR at 32·8% in 2022, significantly lower than men's LFPR at 77·2%. This is a major reason for India's overall low LFPR, which is lower than the global average of 47·3%.

During 2000 – 2019, rural LFPR declined by 14·1%, compared to a 3·5% decline in urban areas. This trend reversed between 2019 – 2022, with rural LFPR increasing by 6% (especially among rural women) and urban LFPR by 2·1%. These shifts suggest that fluctuations occur in women's labour market participation, particularly in rural areas.
This significantly affected the overall LFPR. Women join the workforce during economic hardships and move out when conditions improve.
On the basis of the given text and common understanding, answer the following questions:
(a) Define unemployment.
(b) Write the meaning of Labour Force Participation Rate (LFPR).
(c) Comment upon the gender disparities in rural and urban Labour Force Participation Rate (LFPR) during 2000 – 2019.
Solution:
(a) Unemployment:
Unemployment refers to the condition in which individuals who are capable of working, are actively seeking employment but are unable to find any suitable work. It reflects the inability of the economy to provide jobs for the workforce.
(b) Labour Force Participation Rate (LFPR):
Labour Force Participation Rate (LFPR) is the percentage of the working-age population that is either employed or actively seeking employment. It provides an insight into the labour market and the overall employment situation in an economy. The formula for LFPR is:

$$\text{LFPR} = \frac{\text{Labour Force}}{\text{Working Age Population}} \times 100$$

(c) Gender Disparities in Rural and Urban Labour Force Participation Rate (LFPR) during 2000 – 2019:
The text highlights significant gender disparities in LFPR between men and women in India. In 2022, women's LFPR was 32·8%, far below men's LFPR of 77·2%. In rural areas, the LFPR for women showed a significant decline of 14·1% between 2000 and 2019, compared to a much smaller decline in urban areas (3·5%). This suggests that rural women face greater challenges in entering the workforce, which could be due to social, economic, and cultural factors. However, between 2019 – 2022, rural LFPR for women increased by 6%, indicating that there was some improvement due to changing conditions, while urban LFPR showed a

smaller increase of $2{\cdot}1\%$. These fluctuations suggest that gender disparities persist but are subject to economic and social changes over time, particularly in rural areas.

Quick Tip

For LFPR calculations, understand the importance of distinguishing between the working-age population and those actively seeking employment. The differences in LFPR between rural and urban areas highlight the structural barriers women face in rural economies.
