

Class XII  
Economics (030)  
Marking Scheme 2018-19

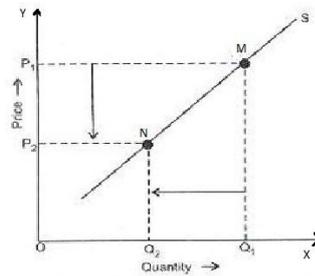
S.No	Section A- Micro Economics		Marks	
1	Total fixed cost, which remains unchanged at all given levels of output, is the reason behind vertical parallel distance between TVC curve and TC curve.  Or  Law of Variable Proportions		1	
2	₹ 3,000		1	
3	a) a straight line		1	
4	d) wages  Or  b) 70		1	
5	S.No.	Positive Economics	Normative Economics	3
	1.	Positive economics deals with economic issues as they are. It is based on facts and actual data.	Normative economics deals with economic issues as they ought to be. It is based on opinions and is suggestive in nature.	
	2.	Positive statements are strictly neutral towards ends.	Normative statements can only be assessed relative to beliefs and value judgements.	
	3.	e.g. growth rate is 5%; industrial output grew by 3%.	e.g. The unemployment rate should be reduced	
	Or			
	Central problems are economic problems faced by each and every economy. They arise due to: i) <b>Scarcity of resources:-</b> Human wants are unlimited and available resources in relation to same are scarce and limited.  ii) <b>Alternate uses of resources:-</b> Available resources can be put to multiple uses, hence, the economy has to make a choice amongst alternative uses of available resources			
6	If $\frac{MU_X}{P_X} > \frac{MU_Y}{P_Y}$ marginal utility derived by spending one rupee on consumption of commodity X is greater than the marginal utility derived by spending one rupee on consumption of commodity Y. The satisfaction derived by consuming Commodity X is greater than the satisfaction derived by consuming Commodity Y. Mr. Atal Singh will reallocate his income by spending more on commodity X, as he will consume		3	

	<p>more units of commodity X, marginal utility derived from consumption of commodity X diminishes and alternate preposition occurs for Commodity Y, this process will continue till <math>\frac{MU_X}{P_X}</math> becomes equal to <math>\frac{MU_Y}{P_Y}</math>.</p>																									
7	<p>Price elasticity of demand (Ed) = <math>\frac{\text{percentage change in quantity demanded of the commodity}}{\text{percentage change in price of the commodity}}</math></p> <p>Percentage change in price = <math>\frac{12-1}{10} \times 100 = \frac{2}{10} \times 100 = 20\%</math></p> <p>Percentage change in quantity demanded = 40%</p> <p>Price elasticity of demand (Ed) = <math>\frac{\text{percentage change in quantity demanded of the commodity}}{\text{percentage change in price of the commodity}}</math></p> <p>= <math>\frac{40\%}{20\%} = 2</math></p> <p>(minus sign is ignored as it only represents the inverse relation between price and quantity demanded.)</p> <p>Ed = 2 (Ed &gt; 1, Elastic demand)</p> <p style="text-align: center;"><b>Or</b></p> <p>When price of a good falls the purchasing power (real income) of the consumer increases as he will able to purchase more units of the given good with the same money income. This phenomenon is called as income effect and is one of the main reasons for negative slope of demand curve.</p>	4																								
8	<table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th>Variable input (in units)</th> <th>Total Physical Product (in units)</th> <th>Average Physical Product (in units)</th> <th>Marginal Physical Products (in units)</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>10</td> <td>10</td> <td>10</td> </tr> <tr> <td>2</td> <td>22</td> <td>11</td> <td>12</td> </tr> <tr> <td>3</td> <td>30</td> <td>10</td> <td>8</td> </tr> <tr> <td>4</td> <td>35</td> <td>8.75</td> <td>5</td> </tr> <tr> <td>5</td> <td>30</td> <td>6</td> <td>-5</td> </tr> </tbody> </table>	Variable input (in units)	Total Physical Product (in units)	Average Physical Product (in units)	Marginal Physical Products (in units)	1	10	10	10	2	22	11	12	3	30	10	8	4	35	8.75	5	5	30	6	-5	4
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5	30	6	-5																							
9	<p>Price Discrimination – is a situation where the monopolist charges different set of prices of the commodity from different set of consumers. Monopolist being the only seller in the market can exercise this feature by charging different prices (for the products which are homogeneous or otherwise) from different consumers. For example the electricity distribution companies might charge different prices from domestic and commercial electricity users.</p> <p style="text-align: center;"><b>Or</b></p> <p>In an oligopoly market, certain 'barriers to entry' prevent new firms to enter the industry. Such barriers maybe:</p> <ol style="list-style-type: none"> <li>i. Requirement of large capital</li> <li>ii. Patents and copyrights</li> <li>iii. Government Licences</li> </ol>	4																								



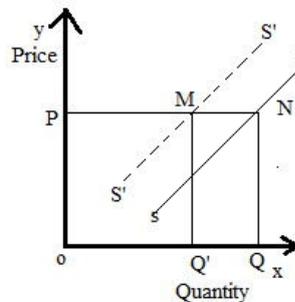
Effect on supply curve of Good X when there is a:

**i) Fall in own price of Good X** -When the price of a commodity falls, it leads to reduced profit margin of the producers, forcing them to sell lesser quantity. It is called as contraction in supply. There will be movement along the same supply curve towards the origin.



For e.g. When price falls from  $OP_1$  to  $OP_2$  in the given figure, quantity supplied contracts from  $OQ_1$  to  $OQ_2$  and the producer moves from point M to point N.

**ii) Rise in price of factor input producing Good X** -When price of factor input producing Good X rises, profit margin of the producers fall, forcing them to produce less quantity of Good X at the given price. Supply curve will shift leftwards.



As in the figure, initially the producer was producing  $OQ$  quantity at  $OP$  price, if price of factor input increases, producer will now be willing produce less quantity say  $OQ'$  at same price. Supply curve will shift leftwards from  $SS$  to  $S'S'$ .

Or

The two conditions of producer's equilibrium are:

- (i) Marginal Cost should be equal to Marginal Revenue (MC= MR )
- (ii) Marginal Cost should be rising at the point of equilibrium.

Output	Marginal Revenue (MR) ( in ₹)		Marginal Cost (MC (in ₹)
1	20	<	14
2	10	<	10
3	6	<	7
<b>4</b>	<b>4</b>	<b>=</b>	<b>4</b>
5	2	<	6

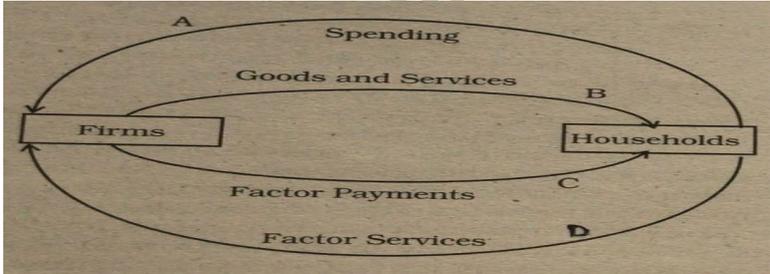
Producer will be at equilibrium, producing 4<sup>th</sup> units of output because it satisfies both the conditions of equilibrium.

- (i) If MC is less than MR i.e. at any output level less than 4 units, it is profitable for the producer to produce more units till MC becomes equal to MR.

When MC becomes greater than MR after the MR = MC condition, i.e. at 5<sup>th</sup> units, production of each additional unit is sold at a loss, which leads to decline in profits for the producer.

#### Section B- Macro Economics

13	Money Multiplier = $\frac{1}{LRR} = \frac{1}{20\%} = 5$	1
14	It refers to the total quantity of money in circulation in the economy at a given point of time.	1
	<b>Or</b>	
	Reverse Repo Rate is the rate at which central bank of a country (RBI in India) borrows funds from commercial banks within the country.	
15	c) Profits of LIC, a public enterprise	1
16	d) Fiscal deficit is the sum of primary deficit and interest payment.	1
17	<p>The Aggregate Demand (AD) function is given as :</p> <p><b>AD = C + I</b></p> <p style="margin-left: 100px;"><b>AD = {c + b(Y)} + I</b></p> <p style="margin-left: 100px;">(Given)</p> <p style="margin-left: 100px;">b or MPC = 1 – MPS = 1 – 0.2 = 0.8</p> <p>Substituting the values of c and b in AD function, we get :</p> <p style="margin-left: 40px;">AD = {50 + 0.8 (4000)} + 100 = ₹3,350 crores</p> <p>Aggregate Demand is ₹3,350 crores</p>	3
	<b>Or</b>	

	<p>No, the Economy is not in a state of equilibrium at ₹1500 crores          Given Consumption function, <math>C = 200 + 0.5Y</math>          Investment expenditure (I) = ₹400 crore</p> <p style="text-align: center;">At the equilibrium level  <math>Y = C + I</math></p> <p>Substituting the values from the question:  <math>Y = \{200 + 0.5Y\} + 400</math>  <math>Y - 0.5Y = 600</math>  <math>0.5Y = 600</math>  <math>Y = \frac{600}{0.5} = 1200</math></p> <p>The equilibrium level of income is ₹1200 crores. The given income ₹1500 crore is greater than equilibrium level of income. Therefore, the economy is not in equilibrium.</p>	
18	<p>Effective demand refers to that level of output where Aggregate demand is equal to the Aggregate supply.</p> <p>If Aggregate Demand exceeds Aggregate Supply, it means buyers are planning to buy more goods and services than producers are planning to produce. Thus, the inventories in hand with the producers will start falling. As a result, producers will plan to raise the production. This will increase the level of income upto the level Aggregate Demand is equal to Aggregate Supply.</p>	3
19	<p>The problem of double counting arises when the value of certain goods and services are counted more than once while estimating National Income by Value Added Method. This happens when the value of intermediate goods is counted in the estimation of National Income alongwith the final value of goods and services.</p> <p>Two methods to avoid the problem of double counting:</p> <ol style="list-style-type: none"> <li>i. To consider only the final value of output produced.</li> <li>ii. To consider only the value added of the output produced.</li> </ol>	4
<b>Or</b>		
<p>Circular Flow of income in a two sector economy - Households are owners of factors of production, they provide factor services to the firms (producing units). Firms provide factor payments in exchange of their factor services. So, factor payments flow from firms (producing units) to households.</p> <div data-bbox="245 1240 1015 1514" style="text-align: center;">  </div> <p>Households purchase goods and services from firms (producing units) for which they make payment to them. So, consumption expenditure (spending on goods and services) flows from households to the firms.</p>		
20	<p>Economic Growth implies a sustainable increase in real GDP of an economy, i.e. an increase in volume of goods and services produced in an economy. Budget can be an effective tool to ensure the economic growth in a country.</p> <ol style="list-style-type: none"> <li>i) If the government provides tax rebates and other incentives for productive activities,</li> </ol>	



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Initial increase in investment increases the final income of the economy. Investment multiplier explains this effect;

Multiplier (k) is the ratio of the increase in National Income ( $\Delta Y$ ) due to a given increase in investments ( $\Delta I$ ).

$$k = \left\{ \frac{\Delta Y}{\Delta I} \right\}$$

For eg. If an additional investment of ₹ 1,000 crores is made by government for a bullet train project in a country; this extra investment will generate an extra income of ₹1,000 crore, as expenditure of one is income for another. Also, it is assumed that Marginal Propensity to Consume of the country is 0.8.

An additional investment of ₹1,000 crores ( $\Delta I$ ) made by government will generate an extra income of ₹1,000 crores in first round. If MPC of this country is 0.8, the nationals who are receiving this additional income will spend 80% portion of this additional income, i.e. ₹ 800 crores which in return becomes additional income during third round. Similarly, in third round ₹ 640 crores of income is generated.

Consumption expenditure in every round will be 0.8 times of additional income received from previous round.

Round	Increase in Investment ( $\Delta I$ ) (₹Crore)	Increase in Income ( $\Delta Y$ ) (₹Crore)	Increase in Consumption ( $\Delta C$ ) (₹ Crore) ( $\Delta Y \times 0.8$ )	Increase in Saving (₹Crore) ( $\Delta S = \Delta Y - \Delta C$ )
1 <sup>st</sup>	1,000	1000	800 (1000X0.8)	200
2 <sup>nd</sup>	--	800	640 (800X0.8)	160
3 <sup>rd</sup>	--	640	512 (640 X 0.80)	128
4 <sup>th</sup>	--	512	409.6 (512 X 0.8)	102.4
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$\infty$	--	--	--	--
<b>Total</b>	<b>1,000</b>	<b>5,000</b>	<b>4,000</b>	<b>1,000</b>

Thus, additional investment of ₹1,000 crores leads to total increase of ₹5,000 crores  $\{1000 \times \frac{1}{1-0.8}\}$  in Income.

As a result Multiplier (k) is  $\frac{\Delta Y}{\Delta I} = \frac{5000}{1000} = 5$ .

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- a) USA has a valid point of argument as devaluation of a currency encourages exports of a country. As exported goods become cheaper in the international market giving a competitive edge for the goods of domestic country (China). Devaluation of the value of domestic currency promotes the exports of the country and may adversely impact the production and sale of importing country (USA).

3

	<p>b) Current Account Deficit (CAD) is a situation that arises when the receipts on current account are less than the payments on current account. In simple words, Current Account Deficit (CAD) arises when the value of exports of goods and services is less than the value of imports of goods and services.</p> <p>Current Account surplus (CAS) is a situation that arises when the receipts on current account is more than the payments on current account. In simple words, Current Account Surplus (CAS) arises when the value of exports of goods and services is more than the value of imports of goods and services.</p> <p>CAD signifies that the nation is a borrower from rest of the world, whereas, CAS signifies that the nation is a lender to the rest of the world.</p>	3
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