Sample Question Paper – I
Economics
Class – XII

Time – 3 Hours. **Maximum Marks – 100**

Instructions

1. *All questions in both the sections are compulsory.*
2. *Marks for questions are indicated against each.*
3. *Question Nos. 1-5 and 17-21 are very short-answer questions carrying 1 mark each. They are required to be answered in one sentence each.*
4. *Question Nos. 6-10 and 22-26 are short-answer questions carrying 3 marks each. Answer to them should not normally exceed 60 words each.*
5. *Question Nos. 11-13 and 27-29 are also short-answer questions carrying 4 marks each. Answer to them should not normally exceed 70 words each.*
6. *Question Nos. 14-16 and 30-32 are long-answer questions carrying 6 marks each. Answer to them should not normally exceed 100 words each.*
7. *Answer should be brief and to the point and the above word limit be adhered to as far as possible.*

Section A

1. State two features of resources that give rise to an economic problem. (1)

2. What happens to total expenditure on a commodity when its price falls and its demand is price elastic? (1)

3. What happens to equilibrium price of a commodity if there is an 'increase' in its demand and 'decrease' in its supply? (1)

4. Give the meaning of equilibrium price. (1)

5. What is meant by cost in economics? (1)

6. State any three factors that cause an 'increase' in demand of a commodity. (3)

7. What will be the price elasticity of supply at a point on a positively sloped, straight line supply curve? (3)

8. Explain the shape of a production possibility frontier. (3)

OR

Explain the meaning of the market economy and the centrally planned economy.

9. How does the nature of a commodity influence its price elasticity of demand? (3)

10. Explain the changes that will take place in the market for a commodity if the prevailing market price is less than the equilibrium price. (3)

11. Calculate the price elasticity of demand for a commodity when its price increases by 25% and quantity demanded falls from 150 units to 120 units. (4)

12. Explain the relation between marginal revenue and average revenue when a firm is able to sell more quantity of output (4)
(i) at the same price.
(ii) only by lowering the price.

OR

Explain the effect of the following on the supply of a commodity:
(a) Fall in the prices of factor inputs.
(b) Rise in the prices of other commodities.

13. On the basis of the information given below, determine the level of output at which the producer will be in equilibrium. Use the marginal cost – marginal revenue approach. Give reasons for your answer. (4)

Output (Units)	Average Revenue (Rs)	Total Cost (Rs)
1	7	8
2	7	15
3	7	21
4	7	26
5	7	33
6	7	41

14. Why does the difference between Average Total Cost and Average Variable Cost decrease with an increase in the level of output? Can these two be equal at some level of output? Explain. (6)

15. Explain the implications of the following features of perfect competition: (6)
(a) large number of buyers and sellers
(b) freedom of entry and exit of firms

16. For a consumer to be in equilibrium why must marginal rate of substitution be equal to the ratio of prices of the two goods? (6)

OR

Why is the consumer in equilibrium when he buys only that combination of the two goods that is shown at the point of tangency of the budget line with an indifference curve? Explain.

For Blind Candidates in lieu of choice question of question No. 16

Explain how a consumer consuming two commodities X and Y attains equilibrium under the utility approach.

Section B

17. Give the meaning of involuntary unemployment. (1)

18. What is the relationship between marginal propensity to save and marginal propensity to consume? (1)

19. The price of 1 US Dollar has fallen from Rs 50 to Rs 48. Has the Indian currency appreciated or depreciated? (1)

20. State the two components of money supply. (1)

21. What is meant by cash reserve ratio? (1)

22. From the following data relating to a firm, calculate its net value added at factor cost: (3)

	(Rs in Lacs)
(i) Subsidy	40
(ii) Sales	800
(iii) Depreciation	30
(iv) Exports	100
(v) Closing stock	20
(vi) Opening stock	50
(vii) Intermediate purchases	500
(viii) Purchase of machinery for own use	200
(ix) Import of raw material	60

23. Give the meaning of Nominal GDP and Real GDP. Which of these is the indicator of economic welfare? (3)

24. 'Machine' purchased is always a final good.' Do you agree? Give reasons for your answer. (3)

25. Explain the effect of depreciation of domestic currency on exports. (3)

OR

Explain the effect of appreciation of domestic currency on imports.

26. Distinguish between the current account and capital account of balance of payments account. Is import of machinery recorded in current account or capital account? Give reasons for your answer. (3)

27. What is a government budget? Give the meaning of : (4)

a) Revenue deficit
b) Fiscal deficit

28. Categorise the following government receipts into revenue and capital receipts. Give reasons for your answer. (4)
(a) Receipts from sale of shares of a public sector undertaking.
(b) Borrowings from public.
(c) Profits of public sector undertakings.
(d) Income tax received by government.

29. Explain the meaning of equilibrium level of income and output using savings and investment approach. Use a diagram. (4)

OR

Complete the following table:

Income	Saving	Marginal Propensity to Consume	Average Propensity to Consume
0	-20	-	-
50	- 10	_____	_____
100	0	_____	_____
150	30	_____	_____
200	60	_____	_____

For Blind Candidates in lieu of Question 29
Explain the meaning of equilibrium level of income and output using savings and investment approach.

30. Explain the process of money creation by commercial banks. (6)

31. Draw a straight line consumption curve. From it derive a savings curve explaining the process. Show on this diagram: (6)
(a) the level of income at which Average Propensity to Consume is equal to one.
(b) a level of income at which Average Propensity to Save is negative.

For Blind Candidates in lieu of Question 31
Explain the meaning of underemployment equilibrium. State two policy measures that the government can take to make the economy reach full employment equilibrium.

32. From the following data calculate National Income by Income and Expenditure methods: (6)

	(Rs crores)
(i) Government final consumption expenditure	100
(ii) Subsidies	10
(iii) Rent	200

(iv) Wages and salaries	600
(v) Indirect taxes	60
(vi) Private final consumption expenditure	800
(vii) Gross domestic capital formation	120
(viii) Social security contributions by employers'	55
(ix) Royalty	25
(x) Net factor income paid to abroad	30
(xi) Interest	20
(xii) Consumption of fixed capital	10
(xiii) Profit	130
(xiv) Net exports	70
(xv) Change in stock	50

OR

Calculate Gross National Disposable Income and Personal Income from the given data:

	(Rs crores)
(i) Personal tax	120
(ii) Net indirect tax	100
(iii) Corporation tax	90
(iv) National income	1000
(v) Net factor income from abroad	5
(vi) Consumption of fixed capital	50
(vii) National debt interest	70
(viii) Retained earnings of private corporate sector	40
(ix) Net current transfers to the rest of the world	(-)20
(x) Current transfers from government	30
(xi) Share of government in national income	80

Marking Scheme for Sample Question Paper 1

Section A

1. The two features of resources that give rise to an economic problem are (i) resources are limited and (ii) they have alternative uses. ½ x2

2. Total expenditure will increase. 1

3. Equilibrium price will increase. 1

4. It is the price at which market demand and market supply are equal. 1

5. Cost of producing a good is the sum of actual expenditure on inputs and the imputed expenditure on the inputs supplied by the owner. 1

6. The factors causing an increase in demand of a commodity are:
(i) Rise in the price of substitute goods.
(ii) Fall in the price of complementary goods.
(iii) Rise in income of its buyers (in case of a normal good).
(iv) Fall in income of its buyers (in case of an inferior good).
(v) Favourable change in taste etc for the good.
(vi) Increase in the number of its buyers. 1x3
(Any three)

7. Es = 1, at any point on the supply curve if it touches the origin when extended.
Es >1, at any point on the supply curve if it touches the y-axis when extended.
Es<1, at any point on the supply curve if if it touches the x-axis when extended.

   Note: This question if answered with the help of diagrams will also be treated as correct. 1x3

8. Production Possibility Frontier (PPF) is a downward sloping, concave curve. It shows increasing Marginal Rate of Transformation (MRT) as more quantity of one good is produced by reducing quantity of the other good. This behaviour of the MRT is based on the assumption that all resources are not equally efficient in production of all goods. As more of one good is produced, less and less efficient resources have to be transferred to the production of the other good which raises marginal cost i.e. MRT. 3

OR

   In a market economy resources are privately owned. The central problems in such an economy are solved by the price mechanism and the objective of production is to earn profit. 1½

   In a centrally planned economy the resources are owned by the state. All economic activities are planned by the government or a central authority. The objective of production is social welfare. 1½

9. A commodity for a person may be a necessity, a comfort or a luxury.
When a commodity is a necessity its demand is generally inelastic.
When a commodity is a comfort its demand is generally elastic.
When a commodity is a luxury its demand is generally more elastic that the demand for comforts. 1x3

10. When price is lower than equilibrium price, market demand is greater than market supply. This will result in competition among buyers. The price will rise. A rise in price will reduce the demand and raise the supply. This will reduce the original gap between market demand and market supply. These changes will continue till price rises to a level at which market demand is equal to market supply. This is the equilibrium price. 3

11. $E_d = \frac{\text{percentage change in demand}}{\text{percentage change in price}}$ 1½

$$= \frac{\frac{-30}{150} \times 100}{25}$$ 2

$$= -0.8$$ ½

12. (i) Price is constant. As price means average revenue, so average revenue is also constant. Average revenue is constant only when marginal revenue is equal to average revenue. Thus, when a firm is able to sell more quantity of output at the same price marginal revenue is equal to average revenue. 2

(ii) If more can be sold only by lowering the price, it means that average revenue falls as more is sold. Average revenue falls only when marginal revenue is less than average revenue. Thus, when a firm is able to sell more quantity by lowering the price, marginal revenue will be less than the average revenue. 2

OR

(i) When the prices of factor inputs decreases, the cost of production decreases. Thus, it becomes more profitable to produce the commodity and so its supply will increase. 2

(ii) When the prices of other goods rise, it becomes relatively more profitable to produce these goods in comparison to the given good. This results in diversion of resources from the production of given good to other goods. So, the supply of the given good decreases. 2

13.

Output (units)	AR (Rs)	TC (Rs)	MC (Rs)	MR (Rs)
1	7	8	8	7
2	7	15	7	7
3	7	21	6	7
4	7	26	5	7
5	7	33	7	7
6	7	41	8	7

1

The producer achieves equilibrium at 5 units of output. It is because this level of output satisfies both the conditions of producer's equilibrium : 1

(i) Marginal cost is equal to marginal revenue. 1

(ii) Marginal cost becomes greater than MR after this level of output. 1

14. Average Total Cost (ATC) minus Average Variable Cost (AVC) is equal to Average Fixed Cost (AFC). AFC = TFC / Output. As the level of output increases, AFC falls. So, the difference between ATC and AVC decreases with increase in output. 3

ATC and AVC can never be equal at any level of output as AFC can never be zero because TFC is positive. 3

15. (a) The number of sellers is so large that the share of each is insignificant in the total supply. Hence, an individual seller cannot influence the market price. Similarly, a single consumer's share in total purchase is so insignificant because of their large numbers that she cannot influence the market price on her own. 3

(b) The implication is that firms will earn only normal profit in the long run. In the short run, there can be abnormal profits or losses. If there are abnormal profits, new firms enter the market. The total market supply increases, resulting in a fall in market price and a fall in profits. This trend continues till profits are reduced to normal.
Similarly, if there are losses, firms start exiting. The total market supply decreases resulting in a rise in market price, and a reduction in losses. This trend continues till losses are wiped out. 3

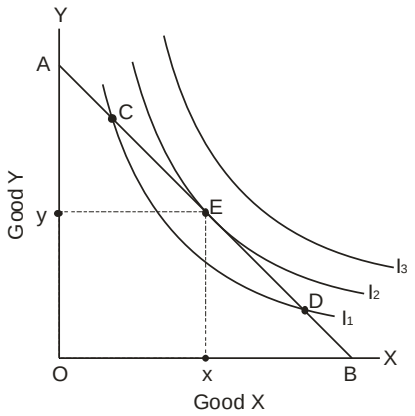
16. Let the two goods be X and Y. MRSxy is the number of units of Y the consumer is willing to sacrifice to obtain one extra unit of X. The ratio of prices is Px/Py which also equals the ratio of the number of units of Y required to be sacrificed to obtain one extra unit of X in the market. 2

Initially when the consumer starts purchases, MRSxy is greater than Px/Py. It means that to obtain one extra unit of X the consumer is willing to sacrifice more than he has to sacrifice actually. The consumer gains. As he goes on obtaining more and more units of X, marginal utility of X goes on declining. Therefore the consumer is willing to sacrifice less and less of Y each time he obtains one extra unit of X. As a result MRSxy falls and ultimately becomes equal to Px/Py at some combination of X and Y. At this combination the consumer is in equilibrium. 3

If the consumer attempts to obtain more units of X beyond the equilibrium level, MRSxy will become less than Px/Py and he will start losing. So he will not try to obtain more of X. 1

OR

2



2

Let the two good be X and Y as shown in the diagram. The tangency is at point E where :

2

Slope of indifference curve = Slope of budget line
Or
MRSxy = Px/Py

The equilibrium purchase is Ox of X and Oy of Y on the indifference curve I_2.

The consumer cannot get satisfaction level higher than I_2 because his income does not permit him to move above the budget line AB. The consumer will not like to purchase any other bundle on the budget line AB, for example the bundle at C and D, because they all lie on the lower indifference curve, and give him lower satisfaction. Therefore, the equilibrium choice is only at the tangency point E. 2

For Blind candidates in lieu of choice question of Q. No. 16

A consumer will attain equilibrium if he allocates his given income on purchase of goods X and Y in a manner that gives him maximum satisfaction. 2

He will get maximum satisfaction if he buys only that quantity of each good that gives him same utility from the last rupee spent on each good.
In other words, M.U.x must be equal to M.U.y

$$\frac{\text{M.U.x}}{\text{Px}} \quad \text{and} \quad \frac{\text{M.U.y}}{\text{Py}}$$

2

If $\frac{\text{M.U.x}}{\text{Px}}$ is not equal to $\frac{\text{M.U.y}}{\text{Py}}$ then the consumer is not in equilibrium. If $\frac{\text{M.U.x}}{\text{Px}} > \frac{\text{M.U.y}}{\text{Py}}$ then per rupee M.U.x > per rupee M.U.y. He will buy more of X and less of Y. This will reduce M.U.x and increase M.U.y. These changes will continue till $\frac{\text{M.U.x}}{\text{Px}} = \frac{\text{M.U.y}}{\text{Py}}$ and he will be in equilibrium. 2

Section B

17. Involuntary unemployment occurs when those who are able and willing to work at the prevailing wage rate do not get work. 1

18. The sum of MPC and MPS is equal to one. 1

19. Indian currency has appreciated. 1

20. The two components of money supply are: currency held with the public and demand deposits with commercial banks. 1

21. Cash reserve ratio is the ratio of bank deposits that commercial banks must keep as reserves with the Central bank. 1

22. NVAfc = (ii) + (v) – (vi) – (vii) - (iii) + (i) 1
= 800 + 20 - 50 – 500 – 30 + 40 1½
= Rs 280 lakhs ½

23. Nominal GDP values the current year's output in an economy at current year prices. 1
Real GDP values the current year's output in an economy at base year prices. 1
Real GDP is the indicator of economic welfare. 1

24. Whether 'machine' is a final good or not depends on how it is being used.
If the machine is bought by a household, then it is a final good. 1
If the machine is bought by a firm for its own use, then also it is a final good. 1
If the machine is bought by a firm for re-sale then it is an intermediate good. 1

25. Depreciation of domestic currency mean a fall in the price of domestic currency (say rupee) in terms of a foreign currency (say $). It means one $ can be exchanged for more rupees. So with the same amount of dollars more of goods can be purchased from India. It means exports to USA have become cheaper. They may result in increase of exports to USA.

OR

Appreciation of domestic currency means a rise in the price of domestic currency (say rupee) in terms of a foreign currency (say $) It means one rupee can be exchanged for more $. So with the same amount of money (Rupees) more goods can be purchased from USA. It means imports from USA have become cheaper. They may result in increase of imports (from USA). 3

26. The current account records transactions relating to the export and import of goods and services, income and transfer receipts and payments during a year. 1
The capital account records transactions affecting foreign assets and foreign liabilities during a year. 1
Since import of machinery is an import of good, it is recorded in the current account. 1

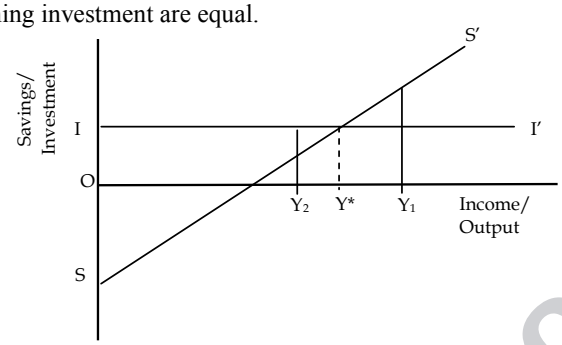
27. Government budget is a statement of expected receipt and expenditure of the government during a financial year. 1

(a) Revenue deficit is the excess of revenue expenditure over revenue receipts 1½

(b) Fiscal deficit is the excess of total expenditure over total receipts excluding borrowings. 1½

28. (a) It is a capital receipt as it results in a reduction of assets. 1
(b) It is a capital receipt as it creates a liability. 1
(c) It is a revenue receipt as it neither creates a liability nor reduces any asset. 1
(d) It is a revenue receipt as it neither creates a liability nor reduces any asset. 1

29. The equilibrium level of income and output is that level at which planned saving and planning investment are equal. 1



1

At an income level OY_1, planned savings are greater than planned investment. This means that households aggregate expenditure is less than output. As a result inventories increase. Firms, seeing a build up of unplanned inventories start cutting production, and hence output, income and savings fall. This process continues till planned savings and planned investment are equal. 1

At an income level OY_2, planned savings are less than planned investment. This means that aggregate expenditure is more than output. Firms, seeing a depletion of planned inventories step up production, and hence output and income increase. Savings increase. This process continues till planned savings and planned investment are equal. 1

OR

Income	**ΔY**	**Saving**	**Consumption**	**ΔC**	**MPC**	**APC**	
0		-20	20		-	-	
50	50	-10	60	40	0.8	1.2	
100	50	0	100	40	0.8	1	
150	50	30	120	20	0.4	0.8	
200	50	60	140	20	0.4	0.7	½x8

For Blind Candidates in lieu of Question No.29

Same as above except diagram. 4

30. Money creation (or deposit creation or credit creation) by the banks is determined by (1) the amount of the initial fresh deposits and (2) the Legal Reserve Ratio (LRR), the minimum ratio of deposit legally required to be kept as cash by the banks. It is assumed that all the money that goes out of banks is redeposited into the banks.

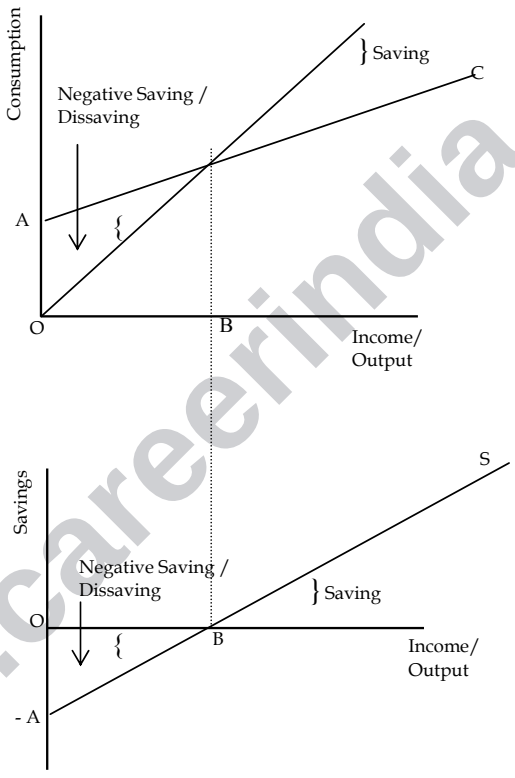
Let the LRR be 20% and there is a fresh deposit of Rs. 10,000. As required, the banks keep 20% i.e. Rs. 2000 as cash. Suppose the banks lend the remaining Rs. 8000. Those who borrow use this money for making payments. As assumed those who receive payments put the money back into the banks. In this way banks receive fresh deposits of Rs. 8000. The banks again keep 20% i.e. Rs. 1600 as cash and lend Rs. 6400, which is also 80% of the last deposits. The money again comes back to the banks leading to a fresh deposit of Rs. 6400. The money goes on multiplying in this way, and ultimately total money creation is Rs. 50000.

Given the amount of fresh deposit and the LRR, the total money creation is :

$$\text{Total money creation} = \text{Initial deposit} \times \frac{1}{\text{LRR}}$$

6

31.



2

AC is the consumption curve and OA is the consumption expenditure at zero level of income.

Income minus consumption is savings. When income is zero, the economy's consumption level is OA. Thus, the corresponding level of savings is –OA.

So, A is the starting point of saving curve

At OB level of income consumption is equal to income, so savings are zero. So B is another point on saving curve — 2

Joining A and B and extending we get the saving curve S. — 1

(a) The level of income at which APC is equal to one is OB — 1

(b) A level of income at which APS is negative is the level less than OB.

For Blind Candidates in lieu of Question No. 31

An economy is in equilibrium when aggregate demand is equal to aggregate supply. If aggregate demand is only sufficient to support a level of aggregate supply at less than full employment, then the economy is in under full employment equilibrium. — 4

The two policy measures that the government can take are : — 1

(i) Increase government expenditure — 1

(j) Increase availability of credit

32. **Income Method**

National Income = iv + viii + (iii + ix) + xi +xiii – x — 1
= 600 + 55 + (200 +25) + 20 +130 -30 — 1½
= Rs 1,000 crores — ½

Expenditure Method

National Income = vi + i + vii + xiv – v + ii – xii – x — 1
= 800 + 100 + 120 + 70 – 60 + 10 – 10 – 30 — 1½
= Rs 1,000 crores — ½

OR

GNDI = iv + ii + vi – ix — 1
= 1000 + 100 + 50 – (-20) — 1½
= Rs 1170 crores — ½

Personal Income = (iv –xi) + (vii – ix + x) – viii – iii — 1
= 1000 -80 + 70 – (- 20) + 30 – 40 – 90 — 1½
= Rs 910 crores — ½

Sample Question Paper I
Economics
Class XII

Max. Marks – 100 **Time : 3 hrs.**

Question wise Analysis

S. No. of Q.	Unit No.	Marks allotted	Estimated Time (Min)	Estimated difficulty level
1	**1**	**1**	**1½**	A
2	2	1	1½	B
3	4	1	1½	A
4	4	1	1½	A
5	3	1	1½	C
6	2	3	5	A
7	3	3	5	A
8	1	3	5	A
9	2	3	5	A
10	4	3	5	B
11	2	4	6	A
12	3	4	6	B
13	3	4	6	B
14	3	6	10	B
15	4	6	10	B
16	2	6	10	C
17	8	1	1½	A
18	8	1	1½	A
19	10	1	1½	C
20	7	1	1½	A
21	7	1	1½	A
22	6	3	5	B
23	6	3	5	A
24	6	3	5	B
25	10	3	5	B
26	10	3	5	B
27	9	4	6	A
28	9	4	6	B
29	8	4	6	B
30	7	6	10	C
31	8	6	10	C
32	6	6	10	B

Reference for difficulty level

A	Easy	30%	30 Marks
B	Average	50%	50 Marks
C	Difficult	20%	20 Marks

SAMPLE QUESTION PAPER 2
ECONOMICS
Class XII

Maximum Marks: 100 **Time: 3 hours**

BLUE PRINT

Sl. No.	Forms of Questions Content Unit	Very Short (1 Mark)	Short Answer (3,4 Marks)	Long Answer (6 Marks)	Total
1.	Unit 1		4 (1)	-	4 (1)
2.	Unit 2	1 (1)	3 (1) 4 (2)	6(1)	18 (5)
3.	Unit 3	1 (3)	3 (3)	6 (1)	18 (7)
4.	Unit 4	1 (1)	3 (1)	6 (1)	10 (3)
5.	Unit 6	-	3 (1)	6 (2)	15 (3)
6.	Unit 7	1 (1)	3 (1) 4 (1)		8 (3)
7.	Unit 8	-	3 (2)	6 (1)	12 (3)
8.	Unit 9	1 (1)	3 (1) 4 (1)	-	8 (3)
9	Unit 10	1 (3)	4 (1)	-	7 (4)
	Sub-Total	10 (10)	30 (10) 24 (6)	36 (6)	100 (32)

Notes: *Figures within brackets indicate the number of questions and figures outside the brackets indicate the Marks for each question.*

Sample Question Paper – II
Economics
Class – XII

Time – 3 Hours. **Maximum marks – 100**

Instructions

1. *All questions in both the sections are compulsory.*
2. *Marks for questions are indicated against each.*
3. *Question Nos. 1-5 and 17-21 are very short-answer questions carrying 1 mark each. They are required to be answered in one sentence each.*
4. *Question Nos. 6-10 and 22-26 are short-answer questions carrying 3 marks each. Answer to them should not normally exceed 60 words each.*
5. *Question Nos. 11-13 and 27-29 are also short-answer questions carrying 4 marks each. Answer to them should not normally exceed 70 words each.*
6. *Question Nos. 14-16 and 30-32 are long-answer questions carrying 6 marks each. Answer to them should not normally exceed 100 words each.*
7. *Answer should be brief and to the point and the above word limit be adhered to as far as possible.*

Section A

1. What causes an upward movement along a demand curve of a commodity ? (1)

2. What is the price elasticity of supply of a commodity whose straight line supply curve passes through the origin forming an angle of 75°? (1)

3. What change will take place in marginal product, when total product increases at a diminishing rate? (1)

4. Give the meaning of marginal cost. (1)

5. Give the meaning of 'oligopoly'. (1)

6. Explain the inverse relationship between the price of a commodity and its demand. (3)

7. State the 'law of supply'. What is meant by the assumption 'other things remaining the same' on which the law is based? (3)

8. The price elasticity of supply of good X is half the price elasticity of supply of Good Y. A 10% rise in the price of good Y results in a rise in its supply from 400 units to 520 units. Calculate the percentage change in quantity supplied of good X when its price falls from Rs 10 to Rs 8 per unit. (3)

9. State the distinction between explicit cost and implicit cost. Give an example of each. (3)

10. Explain the implication of 'product differentiation' feature of monopolistic competition. (3)

OR

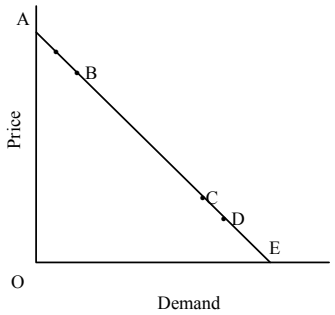
Explain the implication of 'homogenous product' feature of perfect competition.

11. Explain the effect of a rise in the prices of 'related goods' on the demand for a good X. (4)

12. Distinguish between: (4)
(a) Positive and normative economic perspectives in economics
(b) Microeconomics and Macroeconomics

OR

Explain the central problem of distribution in an economy.

13. 

The diagram shows AE is the demand curve of a commodity. On the basis of this diagram, state whether the following statements are true or false. Give reasons for your answer:

(a) Demand at point B is price inelastic.
(b) Demand at point C is more price elastic than at point B.
(c) Demand at point C is price elastic.
(d) Price elasticity of demand at point C is greater than the price elasticity of demand at point D. (4)

For Blind candidates in lieu of Q. No. 13

Calculate the percentage fall in demand for a good whose price rises from Rs. 10 per unit to Rs. 11 per unit. Its price elasticity of demand is -0.25. (4)

14. Explain the likely behaviour of Total Product and Marginal Product when for increasing production only one input is increased while all other inputs are kept constant. (6)

15. There is a simultaneous 'decrease' in demand and supply of a commodity. When will it result in:
(a) No change in equilibrium price.
(b) A fall in equilibrium price.
Use diagrams.

For Blind Candidates in lieu of Ques. 15

There is a simultaneous 'decrease' in demand and supply of a commodity. Explain its effect on equilibrium price. (6)

16. (a) What is a budget line? What does the point on it indicate in terms of prices?
(b) A consumer consumes only two goods X and Y. Her money income is Rs 24 and the prices of Goods X and Y are Rs 4 and Rs 2 respectively. Answer the following questions:
(i) Can the consumer afford a bundle 4X and 5Y? Explain
(ii) What will be the MRS_{XY} when the consumer is in equilibrium? Explain.

OR

Explain the following:
(a) Why is an indifference curve convex to the origin?
(b) Why does a higher indifference curve represent a higher level of satisfaction? (6)

Section B

17. What is meant by foreign exchange rate? (1)

18. What is meant by Statutory Liquidity Ratio? (1)

19. How is primary deficit calculated? (1)

20. What is meant by balance of trade? (1)
21. State two sources of supply of foreign currency. (1)

22. Can an economy be in equilibrium when there is unemployment in the economy. Explain. (3)

23. In an economy income increases by 10,000 as a result of a rise in investment expenditure by 1,000. Calculate: (3)
(a) Investment Multiplier
(b) Marginal Propensity to Consume

24. How does money solve the problem of double coincidence of wants? (3)

25. How can budgetary policy be used for reducing inequalities in income and wealth? (3)

OR

How can budgetary policy be used for allocation of resources in the economy?

26. Calculate gross fixed capital formation from the following data: (3)

	Rs crores
(i) Private final consumption expenditure	1,000
(ii) Government final consumption expenditure	500
(iii) Net exports	(-) 50
(iv) Net factor income from abroad	20
(v) Gross domestic product at market price	2,500
(vi) Opening stock	300
(vii) Closing stock	200

27. What are the implications of a large revenue deficit? Give two measures to reduce this deficit. (4)

28. Explain the function of a Central Bank as a banker to the government. (4)

OR

Explain the open market operations method of credit control used by a Central Bank:

29. Explain the meaning of deficit in Balance of Payments. (4)

30. State whether the following statements are true or false. Give reasons for your answer: (6)
(a) Capital formation is a flow.
(b) Bread is always a consumer good.
(c) Nominal GDP can never be less than Real GDP.
(d) Gross domestic capital formation is always greater than gross fixed capital formation.

31. Given below is the consumption function in an economy: (6)
$C = 100 + 0.5Y$
With the help of a numerical example show that in this economy as income increases APC will decrease.

OR

The savings function of an economy is $S = - 200 + 0.25Y$. The economy

is in equilibrium when income is equal to 2,000. Calculate:

(a) Investment expenditure at equilibrium level of income.
(b) Autonomous consumption.
(c) Investment multiplier.

32. Calculate Gross National Product at market price and Personal Disposable income from the following data: (6)

	(Rs crores)
(i) Subsidy	20
(ii) Net factor income from abroad	(-) 60
(iii) Consumption of fixed capital	50
(iv) Personal tax	110
(v) Savings of private corporations	40
(vi) Dividend	20
(vii) Indirect tax	100
(viii) Corporation tax	90
(ix) Net national disposable income	1,000
(x) National debt interest	30
(xi) Net current transfers from abroad	20
(xii) Current transfers from government	50
(xiii) Miscellaneous receipts of the government administrative departments	30
(xiv) Private income	700
(xv) Private final consumption expenditure	380

Marking Scheme
Sample Question Paper II
Economics : Class XII

Section A

1. Rise in the price of the good. 1
2. Price elasticity of supply is equal to one. 1
3. Marginal product will decline but remain positive. 1
4. Marginal cost is the addition to total cost on producing one more unit of output. 1
5. It is a form of market in which there are a few firms, or a few large firms. 1
6. A consumer purchases that much quantity of a good at which its marginal utility equals its price. Given this situation, suppose price falls. It makes marginal utility greater than the price and induces the consumer to buy more of the good. This establishes inverse relation between price and demand. 3
7. According to the law there is a direct relation between price of the good and its supply, other things remaining the same. Other things include all factors, other than the own price, which can influence supply, like prices of inputs, taxes on production, prices of other goods, etc. 3

8. $$E_s \text{ of good Y} = \frac{\%\text{ change in supply of Y}}{\%\text{ change in price of Y}}$$ ½

$$= \frac{\frac{120}{400} \times 100}{10} = \frac{30}{10} = 3$$ ½

Since Es of X is half of the Es of Y, therefore ½

Es of X = 3/2 = 1.5

Substituting values to find supply of X, ½

$$1.5 = \frac{\%\text{ change in supply of Y}}{\frac{-2}{10} \times 100}$$

% change in Sx = 1.5 x -20 = -30 ½

Therefore supply of X falls by 30 percent. ½

9. Explicit cost is the actual monetary expenditure on inputs, like expenditure on purchases of raw materials, on payment of wages, interest, rent, etc. 1½

Implicit cost is the estimated value of inputs supplied by the owner of the firm, like imputed salaries of the owners, imputed rent of the building of the owners, imputed interest on the money invested by the owners, etc. 1½

10. Product differentiation means that the buyers of a product differentiate between the same product produced by different firms. Therefore, they are also willing to pay

different prices for the same product produced by different firms. This gives an individual firm some monopoly power to influence market price of its product. 3

OR

Homogonous product means that the buyers treat products of all the firms in the industry as identical. Therefore, the buyers are willing to pay only the same price for the products of all the firms in the industry. It also implies that no individual firm is in a position to charge a higher price for its product. This ensures uniform price in the market. 3

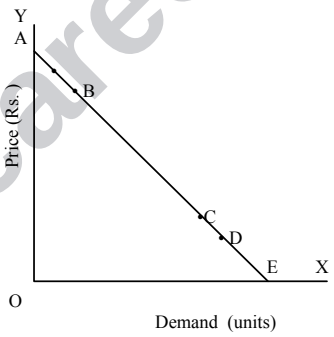
11. Related goods can be substitutes or complementary to goods X.
Rise in the price of a substitute makes good X relatively cheaper. So X will be substituted for this good. Hence demand for good X will increase. 2
Rise in price of complementary good will result in fall in its demand. As good X and its complementary good are used together, demand for good X will decrease. 2

12. (a) Positive economics deals with "what is" or "what is likely to be". It is based on cause and effect relationship. Normative economics deals with "what should be" or "what is desirable" based on value judgments. 2
(b) Microeconomics deals with the individual economic unit. Macroeconomics deals with the economy as a whole. 2

OR

The problem is related to distribution of goods and services produced in the economy. It arises because the output produced is limited while the wants of people are unlimited. In other words it is the problem of distribution of income because income gives the people power to purchase these goods. 4

13.



(a) False . Demand at B is price elastic

$$\text{Elasticity of demand} = \frac{\text{lower segment}}{\text{upper segment}}$$

As BE (lower segment) > BA (upper segment) Elasticity >1. 1

(b) False. Demand is less elastic at C than at B 1

Because $\frac{CE}{AC} < \frac{BE}{AB}$

(c) False. Demand at C is in elastic because CE/AC is less than 1. 1

(d) True.

At pt. C, $e = \frac{CE}{CA}$

At pt. D, $e = \frac{DE}{DA}$

As $\frac{CE}{CA} > \frac{DE}{DA}$ elasticity at pt C is greater than elasticity at pt. D. 1

For Blind candidates in lieu of Q. No. 13

$$Ed = \frac{\text{Percentage change in demand}}{\text{Percentage change in price}} \quad 1½$$

$$Ed = \frac{\text{Percentage change in demand}}{\frac{1}{10} \times 100} \quad ½$$

$$-0.25 = \frac{\text{Percentage change in demand}}{10} \quad 1$$

Percentage change in demand = -0.25 x 10
= 2.5 % fall. 1

14. The likely behavior of TP and MP is summed up as the Law of Variable proportions and is :

Phase I :

Initially TP increases at increasing rate i.e. MP rises. It is because initially the quantity of the variable input is too small in relation to the fixed input. As the quantity of the variable input increases the fixed input is effectively utilized leading to rise in MP of the variable input. 2

Phase II :

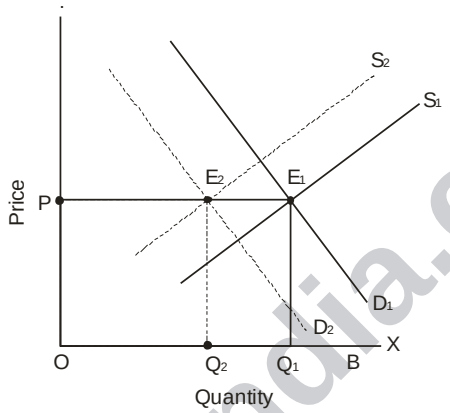
After a certain level of output TP increases at a decreasing rate i.e. MP starts falling but remaining positive. It is because now a pressure is being felt on fixed inputs as the variable input is increased further. This leads to fall in MP of the variable input. 2

Phase III :

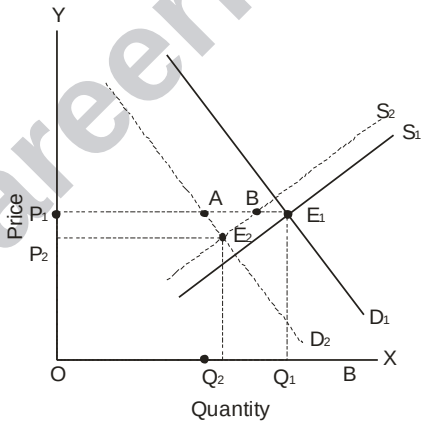
Ultimately TP starts falling and MP is negative and decreasing. It is because the quantity of fixed input now becomes too small to accommodate the continuously rising variable input. This makes MP of the variable input negative. 2

15. Decrease in demand means less quantity demanded at the same price. This leads to shift of demand curve leftward from D_1 to D_2 and decrease in supply means less quantity supplied at same price. This leads to leftward shift of supply curve from S_1 to S_2. 1

(a) If decrease in demand is equal to decrease in supply there will be no change in equilibrium price. In the diagram (A) the two decreases are equal to Q_2 Q_1. The equilibrium price remains unchanged at OP. 1



(A) 1½



(B) 1½

(b) Equilibrium price will fall when decrease in demand is greater than decrease in supply. In diagram (B) decrease in demand (AE_1) is greater than decrease in supply (BE_1) leading to fall in the equilibrium price from OP_1 to OP_2. 1

For the blind candidates in lieu of Q.No. 15

There are three possible effects on the equilibrium price:

(i) If decrease in demand is equal to decrease in supply the equilibrium price remains unchanged. 2

(ii) If decrease in demand is greater than the decrease in supply, equilibrium price will fall. 2

(iii) If decrease in demand is less than the decrease in supply, equilibrium price will rise. 2

16. (a) Budget line is the locus of points that show different possible combinations of the two goods which a consumer can afford, given his income and the market prices of the two goods. 1

In terms of prices, a point on the budget line represents the ratio of price of the good shown on the X-axis to the price of the good shown on the Y-axis. 2

(b) (i) The cost of 4X + 5Y = (4x4) + (5x2) = Rs. 26 1

Since the income is only Rs. 24 the consumer cannot afford the bundle.

(ii) When the consumer is in equilibrium,

MRS = Px/Py

Substituting Px = 4, and Py = 2,

MRS = 4/2 = 2 2

OR

(a) The indifference curve being convex to origin means that Marginal Rate of Substitution (MRS) between the two goods continuously falls. Let the two goods be X and Y shown on the X-axis and the Y-axis respectively. It means that the consumer is willing to sacrifice less and less of Y each time he obtains one more unit of X. Sacrifice of Y is the price the consumer is willing to pay for obtaining X. As he obtains more and more units of X marginal utility of X declines and therefore he is willing to sacrifice only less of Y. 3

(b) Any point on a higher indifference curve means more of both the goods or the same quantity of one good and more quantity of the other good. The indifference curve analysis is based on the assumption that preference are monotonic which means that consumption of more goods means more satisfaction. Therefore, a higher indifference curve represents higher level of satisfaction. 3

Section B

17. Foreign exchange rate is the price of one unit of foreign currency in terms of the domestic currency. 1

18. Statutory Liquidity Ratio is the ratio of demand deposits of a commercial bank which it has to keep in the form of special liquid assets. 1

19. Primary deficit = Fiscal deficit – interest payments. 1

20. Balance of trade is the difference between value of exports of goods and imports of goods. 1

21. Exports of goods; exports of services; remittances into a country; borrowings from abroad, foreign direct investment; etc. ½x2

(Any two)

22. An economy is in equilibrium when aggregate demand and aggregate supply are equal. Aggregate demand may not be sufficient for aggregate supply at full employment. This means aggregate demand is only sufficient to support aggregate supply at less than full employment level. So the two would be equal at less than full employment. Thus the economy can be in equilibrium when there is unemployment in the economy. 3

23. (a) Multiplier $= \frac{\Delta Y}{\Delta I} = \frac{10,000}{1,000} = 10$ 1

(b) Multiplier $= \frac{1}{1\text{-MPC}}$ 1

$10 = \frac{1}{1\text{-MPC}}$ ½

MPC $= 0.9$ ½

24. Double coincidence of wants means that what one person wants to sell and buy must coincide with what some other person wants to buy and sell. It was very difficult that such coincidence of wants to take place. Money has removed this difficulty. You can sell your goods for money to whosoever wants it and with this money you can buy what you want from whosoever wants to sell that. 3

25. To reduce inequalities in income and wealth government can use a progressive taxation policy. The government puts a higher rate of taxation on rich people and lower rates of taxation on lower income groups. This reduces disparities in income and wealth. 1½

The government can provide subsidies and other amenities to people whose income levels are low. This increases their disposable income and thus reduces the inequalities. 1½

OR

There are certain goods and services in which the private sector shows little interest due to huge investment required and lower profits, like sanitation, roads, parks, etc. Government can undertake the production of these goods and services. Alternatively, it can encourage private sector by giving tax concessions and subsidies.

26. Gross fixed capital formation = (v) – (i) – (ii) – (iii) - (vii) + (vi) 1½

= 2500 – 1000 – 500 – (-) 50 - 200 + 300

= Rs 1150 crores. ½

27. Revenue deficit is the excess of government's revenue expenditure over its revenue receipts. A large revenue deficit means large borrowings for financing this deficit. Large borrowings will result in increased revenue expenditure (interest payments) and a larger revenue deficit in future. 2

For reducing revenue deficit the government should reduce its revenue expenditure and raise more tax revenue. 2

28. The Central Bank acts as a banker to the Central government and state governments. It carries out all the banking business of the government It accepts receipts and makes payments for the government. It provides short term credit to the government. It also advises the government on banking and financial matters. 4

OR

Buying and selling of government securities in the open market by the Central Bank is called open market operations. When Central bank buys securities it makes payments to the sellers who deposit the same in commercial banks. This raises deposits with them and thus directly increases banks' ability to give credit. When central bank sells securities the buyers make payments by cheques. As a result the deposits with the commercial banks decline, reducing banks' ability to give credit. 4

29. The transactions recorded in the balance of payments accounts can be categorized as autonomous transactions and accommodating transactions. Autonomous transactions are transactions done for some economic consideration such as profit. When the total inflows on account of autonomous transactions is less than total outflows on account of such transactions, there is a deficit in the balance of payments account. 4

30. (a) True. Capital formation is measured over a period of time. 1½
(b) False. It depends on the use of bread. When it is purchased by a household, it is a consumer good. If it is purchased by restaurant, it is a producer (intermediate) good. 1½
(c) False. Nominal GDP can be less than real GDP, if prices in the current year are less than the prices in the base year. 1½
(d) False. Gross domestic capital formation can be less than gross fixed capital formation if change in stock is negative. 1½

31. C = 100 + 0.5Y

Let us take Y as 400, 500, 600

When Y = 400

C = 100 + 0.5 x 400 = 300

When Y = 500

C = 100 + 0.5 x 500 = 350

When Y = 600

C = 100 + 0.5 x 600 = 400 2

Thus :

Y	C	$APC = \frac{Y}{C}$
400	300	0.75
500	350	0.7
600	400	0.67

3

Thus as income increases APC falls. 1

OR

S = -200 + 0.25Y

(a) At equilibrium planned savings are equal to planned investment. ½

Equilibrium level of income is 2,000. Substituting the value of Y in the savings function, we get;

S = - 200 + 0.25 x 2000

S = 300

∴ I = 300 1½

Thus, investment expenditure at equilibrium level of income is 300.

(b) Consumption + Savings = Income

Autonomous consumption means the level of consumption expenditure when income is zero. 1

When y = 0, Saving = -200

So autonomous consumption = 200

1

(c) Investment multiplier = 1/MPS

From the savings function, we know that MPS = 0.25

Investment multiplier = 1/0.25 = 4 1

32. GNP at market price = (ix) + (iii) – (xi) 1

= 1000 + 50 – 20 1½

= Rs 1030 crores ½

Personal disposable income = (xiv) – (v) – (viii) – (iv) – (xiii) 1

= 700 – 40 – 90 – 110 – 30 1½

= Rs 430 crores ½

Sample Question Paper II
Subject : Economics
Class – XII

Max. Marks : 100 **Time : 3 hrs.**

Question wise Analysis

S.No. of Questions	Unit Number	Marks Allotted	Estimated Time Minutes	Estimated difficulty level
1	2	1	1½	A
2	3	1	1½	A
3	3	1	1½	B
4	3	1	1½	A
5	4	1	1½	A
6	2	3	5	B
7	3	3	5	A
8	3	3	5	B
9	3	3	5	A
10	4	3	5	B
11	2	4	6	A
12	1	4	6	A
13	2	4	6	C
14	3	6	10	B
15	4	6	10	B
16	2	6	10	C
17	10	1	1½	A
18	7	1	1½	A
19	9	1	1½	A
20	10	1	1½	A
21	10	1	1½	A
22	8	3	5	B
23	8	3	5	B
24	7	3	5	A
25	9	3	5	B
26	6	3	5	B
27	9	4	6	B
28	7	4	6	A
29	10	4	6	C
30	6	6	10	B
31	8	6	10	C
32	6	6	10	B

Reference for difficulty level

A	Easy	30%	30 marks
B	Average	50%	50 marks
C	Difficult	20%	20 marks