

ECONOMICS

A Highly Simulated Practice Question Paper for CBSE Class XII Examination

Time : 3 hrs

General Instructions*

1. All questions in both the sections A and B are compulsory. However, there is internal choice in questions 1, 3, 4 and 6 marks.
2. Question Nos. 1-10 and 18-27 are objective type questions, carrying 1 mark each. They are required to be answered in one sentence each.
3. Question Nos. 11-12 and 28-29 are short answer type I questions, carrying 3 marks each. Answers should not normally exceed 60 words each.
4. Question Nos. 13-15 and 30-32 are short answer type II questions, carrying 4 marks each. Answers should not normally exceed 70 words each.
5. Question Nos. 16-17 and 33-34 are long answer type questions, carrying 6 marks each. Answers should not normally exceed 100 words each.
6. Answers should be brief and to the point and the above word limit be adhered to as far as possible.

SECTION A

Objective Type Questions

Multiple choice questions (Q. no. 1 to 5)

There are four options for each question, out of these, only one is correct. You have to identify the correct one.

1. What is meant by cash reserve ratio?
 - (a) Fraction of total deposits kept with banks
 - (b) Fraction of time deposits kept with banks
 - (c) Fraction of demand deposits kept with banks
 - (d) None of the above
2. tax structure helps in reducing inequalities of income.
 - (a) Regressive
 - (b) Proportional
 - (c) Progressive
 - (d) None of the above

*You are advised to attempt this sample paper without referring the answers given here. However cross check with the answers given at the end after you complete the paper.

3. Choose the correct option from given below
- Non-tax revenues of the government are non-recurring in nature.
 - Borrowings from rest of the world are revenue receipts.
 - During inflationary gap, government prepares deficit budget.
 - Recovery of loans from rest of the world is revenue receipt.
4. Read the following statements Assertion (A) and Reason (R). Choose one of the correct alternatives given below
- Assertion (A)** Government budget is an annual estimated statement of revenue and expenditure during coming fiscal year.
- Reason (R)** Through government budget, it tries to reduce the regional variations.
- Alternatives**
- Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
 - Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)
 - Assertion (A) is true, but Reason (R) is false
 - Assertion (A) is false, but Reason (R) is true
5. Write the correct pair.

Column I	Column II
A Currency coins	(i) Unlimited legal tender
B M_1	(ii) Currency with public + DD
C Central bank	(iii) Creator of currency
D Commercial bank	(iv) Work to maximise profits

Codes

- (a) A-(i) (b) B-(ii) (c) C-(iii) (d) D-(iv)

Case based questions (Q.no. 6 to 9)

Read the following case study paragraph carefully and answer the questions on the basis of the same.

The view that the balance of payments is essentially a monetary phenomenon, or in other words, that the demand for and supply of money play a fundamental role in its determination, has recently gained considerable appeal in the literature. In the framework of the monetary approach, the balance of payments position of a country is considered to be a reflection of decisions on the part of its residents to accumulate or to run down their stock of money balances.

It is this process of adjustment to the desired stock of money balances that results in balance of payments deficits and surpluses. If a country is small and there is perfect mobility of capital and goods (i.e. at a given level of world interest rates and prices, a country can import or export goods and financial assets without affecting their prices), domestic prices and interest rates are determined exogenously. In this case, any excess demand for money balances that emerges must be satisfied either from domestic sources or from abroad.

Since prices and interest rates cannot change, and if the domestic component of the money stock is constant, this excess demand will result in an increase in international reserves (i.e., there will be a balance of payments surplus). This increase in international reserves may come about through an improvement in the trade balance, or the capital balance, or both. The monetary approach deals only with the ultimate effect and not with the channels through which this effect occurs.

6. What will be the impact on aggregate demand in an open economic model, if there is decrease in foreign exchange rate?
- Increase
 - Decrease
 - Remain constant
 - Depends upon the purchasing power parity

S.No.	Items	(₹) In crores
(vi)	Compensation of Employees	
(vii)	Net Factor Income to Employees	
(viii)	Net Indirect Income to Abroad	
(ix)	Net Indirect Taxes	2,000
(x)	Net Exports	60
(xi)	Consumption of Fixed Capital	120
	Net Domestic Capital Formation	(-) 80
		100
		680

17. Find equilibrium level of Savings (S) and Investments (I), when Income (Y) = ₹ 4,400, Marginal Propensity to Consume (MPC) = 0.75 and Autonomous Consumption (\bar{C}) = ₹ 100. Do you think that the concept of autonomous consumption is valid in real life?

SECTION B

Objective Type Questions

(7 Mark)

Multiple choice questions (Q. no. 18 to 22)

ere are four options for each question, out of these, only one is correct. You have to identify the correct option.

18. Which government agency purchases and maintain buffer stocks of food grains (wheat and rice)?
- Food Corporation of India (FCI)
 - Public Distributions System (PDS)
 - Food Safety and Standards Authority of India (FSSAI)
 - Reserve Bank of India (RBI)
19. degree of worker population ratio is better for country.
- Lower
 - Higher
 - Moderate
 - None of these
20. Choose the correct statement from given below
- Agricultural marketing includes selling crops directly to the consumers.
 - MSP is the maximum price given to the farmers for their crops by the buyers.
 - Human development and human capital are one or the same thing.
 - Montreal protocol was formed to safeguard ozone layer.
21. Read the following statements Assertion (A) and Reason (R). Choose one of the correct alternatives given below
- Assertion (A)** Infrastructure is a support system on which the efficient working of a modern industrial economy depends.
- Reason (R)** The quality of transport and communication can affect access to healthcare.

Alternatives

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

22. Write the correct pair.

Column I	Column II
A Deutsche Bank's Report	(i) India will emerge as one among four major growth centres in the world by 2020
B This FYP recognised the importance of human capital	(ii) Eighth
C UNDP	(iii) United National Diversification Plan
D Mahbub Ul Haq	(iv) Bangladeshi economist

Codes

- (a) A-(i) (b) B-(ii)
(c) C-(iii) (d) D-(iv)

Case based questions (Q.no. 23 to 26)

Read the following case study paragraph carefully and answer the questions on the basis of the same.

New Economic Policy of India was launched in the year 1991 under the leadership of PV Narasimha Rao. This policy opened the door of the Indian economy for the global exposure for the first time. In this New Economic Policy, PV Narasimha Rao government reduced the import duties, opened reserved sector for the private players, devalued the Indian currency to increase the export. This also known as the LPG model of growth.

New Economic Policy refers to economic liberalisation or relaxation in the import tariffs, deregulation of markets or opening the markets for private and foreign players, and reduction of taxes to expand the economic wings of the country.

23. Which of the following are the objectives of long-term planning in India?

(i) Growth (ii) Self reliance (iii) Modernisation (iv) Equality
(v) Full employment

Choose from the options below

- (a) (i), (ii), (iii), (iv) (b) (i), (iii), (iv), (v)
(c) (i), (ii), (iii), (v) (d) All of these

24. Identify the incorrect pair from the given below

Column I	Column II
A Chairman of Panning Commission	(i) Prime Minister
B The monetary assistance given by government for production activities	(ii) Subsidy
C Quantity of goods that can be imported	(iii) Tariff
D Improvements in the field of agriculture to increase its productivity	(iv) Land Reforms

Codes

- (a) A - (i) (b) B - (ii) (c) C - (iii) (d) D - (iv)

25. The Minister of Finance, Government of India at the time of new economic policy was
(Dr. Manmohan Singh/ PV Narasimha Rao)

26. Which of the following are the components of New Economic Policy of 1991?

(a) Removal of trade barriers (b) Increase the limit of FDI in banks
(c) Removal of licensing policy (d) All of these

27. Two major environmental issues facing the world today are and
Or The was set up by the government in the year 1974 to address the problems related to water and air pollution.

Cash Credit Under this arrangement, the bank advances cash loan upto a specified limit against current assets and other securities. The bank opens an account in the name of the borrower and allows him to withdraw the borrowed money from time to time. Interest is charged on the amount withdrawn and not on the sanctioned amount.

(iii) **Loans and Advances** A loan is a lump sum advance repayable on the expiry of the specified period. It may be secured or unsecured. Interest is charged on the whole amount sanctioned. The bank may allow the borrower to repay the loan in a lumpsum or in instalments.

12. Two main objectives of a government budget are as follows

(i) **Generation of Employment** Government tries to promote labour-intensive technology, public works programmes like construction of roads, dams, canals, bridges, etc. to promote employment generation in the economy.

(ii) **Economic Stability** Government tries to establish economic stability by its budgetary policies. Several programmes are initiated through budget to reduce the problem of poverty and unemployment. Economic stability refers to a situation without fluctuations in price levels and stability of exchange rate in an economy. Economic stability is achieved by protecting the economy from harmful effects of various trade cycles and its phases, i.e. boom, recession, depression and recovery.

Or

Government deficit and government debt are closely related. Deficit can be thought of as a flow which add to the stock of the debt. If the government continues to borrow year after year, then it leads to the accumulation of debt and the government has to pay more by way of interest. This leads to increase in government expenditure, further leading to increase in government deficit.

13. **Injections** These are the flow variables which cause an expansion or increase in the process of circular flow (or the process of income generation) in the economy.

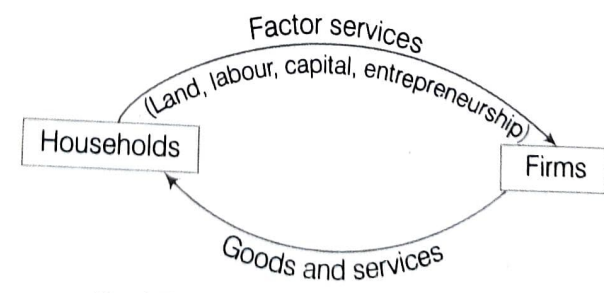
- Following are the examples of injections
- (i) Investments
 - (ii) Exports
 - (iii) Consumption expenditures by the household or the government

Leakages These are the flow variables which cause a contraction or decrease in the process of circular flow in the economy. All these variables reduce the flow of income in economy and are also called withdrawals.

- Following are the examples of leakages
- (i) Savings
 - (ii) Imports
 - (iii) Taxes by the government

Or

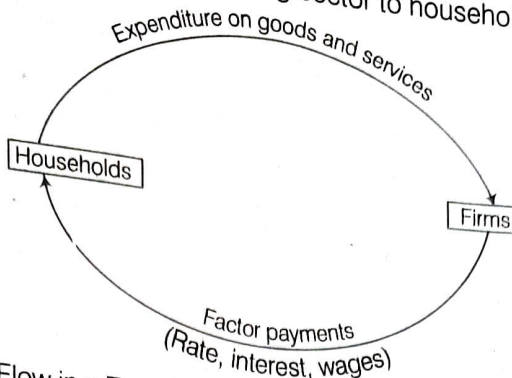
Real Flow It refers to the flow of goods and services across different sectors of the economy. e.g. Flow of factor services from the household sector to the producing sector and flow of goods and services from producing sector to household sector.



Real-Flow in a Two-Sector Economy

Money Flow It refers to the flow of money, in terms of 'payments and receipts' across different sectors of economy.

e.g. Flow of money from the household sector to the producing sector in terms of payments for the purchase of goods and services and flow of money by the producing sector to household sector in terms of factor payments.



Money Flow in a Two-Sector Economy without Financial Market

14. (i) No, the statement is false. (2)

If the ratio of Marginal Propensity to Consume (MPC) and Marginal Propensity to Save (MPS) is 4 : 1, then the value of investment multiplier is 5 and not 4.

Here,

$$MPC = \frac{4}{4+1} = \frac{4}{5} = 0.8 \quad \text{as} \quad \frac{MPC}{MPS} = \frac{4}{1}$$

$$K = \frac{1}{1-0.8} = \frac{1}{0.2} = 5$$

(ii) No, the statement is false. (2)

The sum of Average Propensity to Consume (APC) and Marginal Propensity to Consume (MPC) is not necessarily 1. Consider the following schedule

Income (Y)	Consumption (C)	Change in Income (ΔY)	Change in Consumption (ΔC)	Average Propensity to Consume (C/Y)	Marginal Propensity to Consume (ΔC/ΔY)
1,000	800	—	—	0.8	—
1,500	1,200	500	400	0.8	0.8

In the given schedule, APC = 0.8 and MPC = 0.8 and 0.8 + 0.8 ≠ 1

Therefore, the sum of APC and MPC is not 1.

i.e. APC + MPC ≠ 1 (2)

5. Fixed exchange rate system refers to the system under which the rate of exchange of a currency is fixed in terms of gold or in terms of another currency by the central authority of the country. (2)

The system of exchange rate in which exchange rate is officially declared and fixed by the government is called fixed exchange rate system. (2)

Advantages of fixed exchange rate system are as follows

- (i) It contributes to the coordination of macro policies of countries in an interdependent world economy.
- (ii) It ensures that major economic disturbances in the member countries do not occur. (1 × 2 = 2)

6. (i) Yes, I agree. The differences between intermediate goods and final goods are given below

Basis	Intermediate Goods	Final Goods
Final use	These goods are not ready for use by their final users as they are still within the boundary line of production.	These goods are ready for use by final users as these goods have crossed the boundary line of production.
Value added	Value is yet to be added to those goods.	Value is not to be added to these goods.
Inclusion in national income	These goods are not included in estimation of national income.	These goods are included in the estimation of income.

- (ii) (a) Car purchased by a taxi-operator is a final good, as it is to be used by him as a fixed asset.
- (b) Pen purchased by a retail dealer for resale purpose is an intermediate good as value is yet to be added in it.
- (c) Milk purchased by a sweet-maker is intermediate good as it will be used as a raw material. $(1 \times 3 = 3)$

Or **Income Method**

$$\begin{aligned} \text{Net Domestic Product at Factor Cost (NDP}_{FC}) &= \text{Compensation of Employees} \\ &+ \text{Operating Surplus} + \text{Mixed Income} \\ &= 2,000 + (300 + 500 + 1,280) + 0 \\ &= ₹ 4,080 \text{ crore} \end{aligned}$$

$$\begin{aligned} \text{National Income (NNP}_{FC}) &= \text{NDP}_{FC} - \text{Net Factor} \\ &\quad \text{Income to Abroad} \\ &= 4,080 - 60 \\ &= ₹ 4,020 \text{ crore} \end{aligned} \quad (3)$$

Expenditure Method

$$\begin{aligned} \text{Gross Domestic Product at Market Price (GDP}_{MP}) &= \text{Private Final Consumption Expenditure} \\ &+ \text{Government Final Consumption} \\ &\quad \text{Expenditure} + \text{Gross Domestic} \\ &\quad \text{Capital Formation} + \text{Net Exports} \\ &= 2,400 + 1,200 + (680 + 100) + (-80) \\ &= ₹ 4,300 \text{ crore} \end{aligned}$$

$$\begin{aligned} \text{National Income (NNP}_{FC}) &= \text{GDP}_{MP} - \text{Depreciation} - \text{Net Factor Income to} \\ &\quad \text{Abroad} - \text{Net Indirect Taxes} \\ &= 4,300 - 100 - 60 - 120 \\ &= ₹ 4,020 \text{ crore} \end{aligned} \quad (3)$$

17. It is given that,

$$\text{Income (Y)} = ₹ 4,400,$$

Marginal Propensity to Consume (MPC or b)

$$= 0.75 \text{ and}$$

$$\text{Autonomous Consumption } (\bar{C}) = ₹ 100$$

We know that,

$$\text{Income (Y)} = \text{Consumption (C)} + \text{Savings (S)} \dots (i)$$

Also,

$$\text{Consumption (C)} = \bar{C} + bY, \text{ so,}$$

$$\Rightarrow Y = \bar{C} + bY + S \dots (ii)$$

On substituting the given variables in Eq (ii), we get

$$4,400 = 100 + 0.75 \times 4,400 + S$$

$$\text{or } 4,400 = 3,400 + S$$

$$\Rightarrow S = ₹ 1,000$$

At equilibrium level, Savings = Investments

$$\therefore \text{Investments} = ₹ 1,000$$

i.e. savings and investments at equilibrium level of income = ₹ 1,000. (5)

Yes, I think that the concept of autonomous consumption is valid in real life because every individual needs a minimum consumption level to sustain himself, even if his income is zero.

18. (a) Food Corporation of India (FCI)
19. (b) Higher
20. (b) MSP is the maximum price given to the farmers for their crops by the buyers.
21. (b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)
22. (a) A-(i)
23. (d) All of these
24. (c) C-(iii)
25. Dr. Manmohan Singh
26. (d) All of these
27. global warming, ozone depletion

Or

Central Pollution Control Board (CPCB)

28. The development of health infrastructure has shown gender, income and regional biasedness in India.

Rural areas do not have access to or cannot afford medical care. Even though majority of population lives in rural areas, only one-fifth of India's hospitals are located in rural areas with only half the number of dispensaries.

Out of 7 lakh beds, roughly 11% of them are available in rural areas. The Public Health Centres (PHCs) in rural areas do not offer basic medical care like X-ray or blood testing devices.

In rural areas, the percentage of people who have no access to proper aid has risen from 15 in 1988 to 24 in 2003.

States like Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh are relatively lagging behind in healthcare facilities. (3)

Or

The government generates employment through direct and indirect efforts. The government makes direct efforts at employing people in various departments for administrative purposes.

It runs various enterprises and when the output of goods and services of these enterprises increase, it leads to further increase in employment.

The various private enterprises that are linked to the government enterprises might also benefit from increased output of these enterprises and thus, increase their output and employment also.

This way government indirectly generates employment also. (3)

29. **Traditional Challenges** are those which the rural areas have been facing for a long time. Rural credit and agricultural marketing are examples of traditional challenges.

Modern Challenges are those which the rural areas face with the changing times. Diversification of agricultural activities and problems related to organic farming are examples of modern challenges.

30. The economic reforms initiated through NEP had benefitted the country in many ways. $(1\frac{1}{2} \times 2 = 3)$

They helped the country to become a vibrant economy, have stimulated industrial production, helped to check fiscal deficit and inflation.

They also led to a substantial increase of foreign exchange reserves and foreign investment.

However, these reforms have led to an increase in the income of those who were already rich.

Quality of consumption of only high income groups has increased and economic growth has not trickled down to the poorer sections of the society.

Growth has been concentrated only in some selected areas in the service sector such as telecommunication, information technology, finance, entertainment, travel, hospitality services, real estate and trade.

Vital sectors, such as agriculture and industry, which provide livelihood to millions of people in the country have not been benefitted much from reforms thereby increasing income disparities.

Besides, large scale production has been promoted under reforms at the cost of small scale industries, again leading to concentration of economic power with large industrial houses and MNCs.

So, we can conclude that economic reforms in India have not promoted social justice and welfare. (4)

Or

The following were the purposes/objectives of liberalisation of trade and investment in 1991

- (i) To increase competition among domestic industries.
- (ii) To increase foreign capital formation and improve the technology.
- (iii) To decrease the debt of the country.
- (iv) To encourage cross border trade.
- (v) To expand the size of the market.

Since the NEP aims to achieve all the above stated objectives, therefore it is said that, NEP is liberal. (4)

31. Poverty alleviation programmes have completed almost six decades. But these programmes have failed to address the problem of poverty.

It is mainly because of the careless and insensitive attitude of the government officials.

These officials have no regard for the needs of the poor people. They are corrupt and use the power in their hand to benefit the undeserving.

Effective implementation of these programmes can only be achieved if the government officials are sympathetic to the poor people.

So, it is necessary to sensitise the government officials to be specially sympathetic to the poor people. (4)

32. The development of India, China and Pakistan with respect to some salient human development indicators can be assessed and compared with the help of the following points (any four)

(i) China is ahead of India and Pakistan in human development indicators.

China has better ranking in terms of income indicator such as Gross Domestic Product (GDP) per capita, or proportion of population below poverty line or health indicators such as mortality rates, access to sanitation, literacy, life expectancy or malnourishment.

(ii) Pakistan is ahead of India in reducing proportion of people below the poverty line with 51% people below poverty line while the ratio being 61% for India.

(iii) Pakistan's performance in education, sanitation and access to water is better than India.

(iv) Maternal mortality is very high in India and Pakistan as compared to China. In China, for one lakh births, only 32 women die whereas in India and Pakistan, more than 150 women die.

(v) All the three countries provide improved water sources for most of their population.

(vi) Considering the international poverty rate of \$ 2 a day, India has the largest share of poor among the three countries in absolute terms. $(1 \times 4 = 4)$

33. The relevant objective is self-reliance. It means that a country should be capable of fulfilling all its needs by itself.

It should not be dependent on other countries for its needs. The first seven Five Year Plans gave importance to self-reliance by avoiding imports. (1)

Some major achievements of the Five Year Plans are (any five)

(i) **Increase in National Income** Prior to planning the National Income of India increased at the rate of 0.5% per annum. During the period of planning, the average annual growth rate in India had been around 5%.

(ii) **Increase in Per Capita Income** During the planning period, per capita income increased at the rate of 2.9% per annum.

(iii) **Institutional and Technical Changes in Agriculture** Planning has contributed tremendously towards the development of agriculture in our country.

During the period of planning average growth rate of agricultural produce was 2.8% per annum.

(iv) **Growth and Diversification of Industry** During the period of planning, the growth rate of industrial production has been around 7% per annum.

Basic and capital goods industries have shown tremendous growth. In consumer goods industries, the country has become self-sufficient. Industrial sector has been diversified and modernised.

(v) **Economic and Social Infrastructure** During the period of planning, economic infrastructure such as means of transport and communication, irrigation facilities and power, banking and insurance facilities have shown significant growth. Health and educational facilities have recorded a significant rise.

(vi) **Employment** Concentrated efforts have been made to increase employment opportunities during the plan period.

In the eleventh Five Year Plan, the government fixed the target of creating 58 million jobs. The Twelfth Plan aims at creating 70 million jobs.

(vii) **International Trade** India's international trade has also grown at a phenomenal rate. In 1948-49, the value of foreign trade was ₹ 792 crore. In 2011-2012, it stood at ₹ 38,11,422 crore.

So, we can say that our economy showed considerable progress during the plan period.

(1 x 5 = 5)

There are two views on how economic development affects environment

According to first view, economic development upgrades our environment by using natural resources for production of goods and services.

Economic development results in pollution in the form of air pollution, water pollution and land pollution.

According to second view, economic development improves environment quality. The discovery of new materials and sources not only use less of natural resources, but sometimes replace them. Thus, with economic development, degradation of environment decreases.

From the above discussion, we find that relationship between environment and economic development is dynamic and complex.

It is difficult to decide whether the economic development leads to degradation of environment or not.

Undoubtedly, economic development leads to excessive extraction of natural resources and generation of pollutants, but it introduces new processes, materials and discoveries.

We should be careful and ensure that the economic development should not damage the environment.

Or As a resident of a village, a few measures which I would suggest to alleviate poverty from rural areas are as follows (any six)

(i) Identifying the poorest who is in the most urgent need of assistance.

(ii) Allocation of funds for poverty alleviation programmes must be increased.

(iii) Implementation of poverty alleviation programmes should be done by involving the village panchayat and local people.

(iv) Focus of schemes should be more on providing income generating assets which can provide sustainable income for the poor.

(v) Vocational training should be provided to the youth to enable them to earn their livelihood.

(vi) Improved delivery mechanism should be put in place in schools so that the level of education is brought up to the required standards.

(vii) Credit facilities through banks and micro finance institutions should be provided to the people to save them from indebtedness to the exploitative moneylenders.

(viii) Farmers should be provided land for cultivation and irrigation, warehousing and marketing facilities should be provided to small farmers.

(ix) Targeted Public Distribution System (PDS) should be adopted to provide food security to Below Poverty Line (BPL) families.

(x) Committed government officials should be given the responsibility of rural development programmes.

(1 x 6 = 6)