B.K. BIRLA CENTRE FOR EDUCATION

SARALA BIRLA GROUP OF SCHOOLS
A CBSE DAY-CUM-BOYS' RESIDENTIAL SCHOOL

ECONOMICS

Class: XII | **ANSWER KEY** | **Time: 3 hrs**
Date: 06.01.26 | **SET - I** | **Max. Marks: 80**

SECTION – A (MACRO ECONOMICS)

Q1: c) Portfolio investment 1)

Q2: d) Assertion A is false but Reason R is true. Ex-post means actual investments; ex-ante means planned. Equilibrium equates planned saving and investment. 1)

Q3: d) Capital, debit. FPI outflow reduces capital inflows. 1)

Q4: a) Non-tax revenue receipts 1)

Q5: b) 10,5,4. Money multiplier = 1/LRR (10%=10, 20%=5, 25%=4) 1)

Q6: c) Both statements true 1)

Q7: b) fiscal. Fiscal deficit = Total expenditure - (Total receipts excluding borrowings) 1)

Q8: d) Net import (assuming chart shows imports > exports) 1)

Q9: a) Statement 1 true (MPC max=1), Statement 2 false (APC > MPC as income rises) 1)

Q10: b) 1935 1)

Q11. Gross Value Added at MP (GVA_MP) = Sales + Change in Stock - Purchase of Intermediate Goods 3)
= 3,500 + 50 - 2,000 = 1,550 lakhs.

Net Value Added at MP (NVA_MP) = GVA_MP - Consumption of Fixed Capital = 1,550 - 500 = 1,050 lakhs.

Net Value Added at Factor Cost (NVA_FC) = NVA_MP - Indirect Taxes
= 1,050 - 350 = 700 lakhs.
Answer = 700 lakhs

Q12: Refute. Fiscal deficit can exist without revenue deficit if capital receipts cover revenue surplus/expenditure. Fiscal = RE - RD + CE - CR; possible if capital surplus offsets. 3)

OR

Q12B: Deficit budget. Suits India during recession to boost AD via public spending.
Deficit Budget—best for developing countries like India during recession. Increases Aggregate Demand (G↑ → C↑ via multiplier), creates jobs, fights deflationary gap.

Q13A: False. 4)
Steps:

1. S = -500 + 0.2Y; Y=2000 crores → S = -500 + 0.2(2000) = -500 + 400 = -100 crores.
2. Y = C + S → C = Y - S = 2000 - (-100) = 2100 crores (not 1650).

3. MPS=0.2, MPC=0.8 correct, but C wrong. At equilibrium, I= S = -100? But autonomous I=50 mismatch shows no equilibrium.
4. Conclusion: Consumption is □2100 cr (NOT □1650 cr). Statement false due to calculation error.

OR

Reverse Repo Rate: Rate at which RBI borrows from commercial banks (2024: 3.35%).
Excess Demand Correction:

1. RBI raises Reverse Repo → Banks Park more funds with RBI (less lending)
2. Money supply ↓ → Interest rates ↑ → Investment ↓ → AD ↓
3. Inflation controlled, inflationary gap closed
   Example: 2022 RBI raised rates 250 bps → CPI inflation fell from 7.8% to 5.6%.

Q14. Yes, agree completely. Foreign exchange supply curve is downward sloping (unique exception). 4)
Reasons with Examples:

1. Speculation: $ falls from □85 to □80 → Traders expect further fall to □75 → Withhold dollars (Supply ↓)
2. Future Expectations: Exporters delay receipts hoping rupee recovers
3. Arbitrage Profits: Hold foreign currency for future appreciation.

Q15. RBI performs four key functions as Government's banker: 4)

1. Maintains Accounts: Single consolidated fund for Union govt receipts/payments
2. Makes Payments: Salaries, pensions, subsidies (DBT □34 lakh cr saved leakages)
3. Public Debt Management: Issues T-Bills (□5 lakh cr outstanding), bonds, handles repayments
4. Adviser: Budget recommendations, tax policy, borrowing strategy (2024: suggested 4.9% FD target)

Forex Role: Manages import payments, remittances. Example: During 2020 oil crisis, RBI facilitated $100 bn payments seamlessly.
Importance: Ensures fiscal discipline, efficient cash management. Without RBI, govt transactions = 1000s of individual accounts chaos.

Q16. a) GDP sole measure? 3)
No. GDP measures production value but ignores welfare costs:

1. Negative Externalities: Factory pollution adds to GDP but causes □50,000/family health costs annually
2. Resource Depletion: Mining boosts GDP, depletes forests (India lost 2.3% forest 2001-21)
3. Inequality: Top 1% captures 22% income growth—poor unchanged
   Example: Bhopal Gas Tragedy 1984—cleanup expenditure INCREASED GDP despite welfare disaster.

b) Alternatives: 3)

1. Green GDP: GDP - Environmental costs (China calculates officially)
2. HDI: Life expectancy + Education + Per capita income
3. IHDI: HDI adjusted for inequality (India rank 132 vs HDI 130)
4. GPI: Genuine Progress Indicator (social + environmental).

Q17. (A) a) Gap AE1 4)
AE1 = Excess Demand/Inflationary Gap (AD > AS at full employment).
Three Measures:

1. Increase Taxes: T↑ → C↓ → AD shifts left
2. Reduce Govt Spending: G↓ → Direct AD reduction
3. RBI Actions: CRR↑ (6→8%) or Repo Rate↑ (6.5→7%) → Money supply↓ → I↓

b) MPC effect: Higher MPC → Higher multiplier k=1/(1-MPC). MPC 0.6→k=2.5; 2)
MPC 0.8→k=5. Same ΔI causes larger ΔY, steeper AD curve.

OR

(B) **a) Effect of increase in government expenditure on Aggregate Demand (AD)** **2)**

Government expenditure is one of the components of Aggregate Demand:
AD=C+I+G+X−MAD = C + I + G + X - MAD=C+I+G+X−M

Here, **G = Government expenditure**.
When the government increases spending on roads, bridges, and schools:

1. **Workers get jobs** (construction workers, engineers, suppliers, transporters, etc.).
2. **Incomes rise**, so people spend more on goods such as food, clothes, transport and services.
3. This creates **higher demand** in other sectors as well.

Therefore, **Aggregate Demand increases** because government spending injects money into the economy, leading to higher production, employment and income.

Example:
If the government builds a highway, construction workers earn wages and spend them in markets. Shopkeepers earn more, producers supply more goods, and overall economic activity increases.

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b) Calculate the Investment (Income) Multiplier when MPC = 0.75 **2)**

Formula for multiplier:1/1-MPC
So, the **investment multiplier is 4**.

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c) Total increase in income when government spends □500 crores **2)**

K = ΔY/ΔI
So, the **total increase in income = □2000 crores**.

Understanding with an example
Government spends **□500 crores** on building schools:

- Construction companies hire workers
- Cement, bricks, steel, and transport industries get more orders
- Workers spend their income in markets
- Shopkeepers, farmers, and service providers earn more income
- They also spend part of it again

This repeated spending process leads to a **total income rise much larger** than the original □500 crores — finally becoming **□2000 crores** because of the multiplier effect.

SECTION – B (INDIAN ECONOMIC DEVELOPMENT)

Q18: d) Preventive medicine 1)

Q19: b) Commune system 1)

Q20: a) Both true, R explains A 1)

Q21: b) B-ii 1)

Q22: b) Jobless growth 1)

Q23: a) i and ii 1)

Q24: c) 1958 1)

Q25: a) A-iii, B-iv, C-i, D-ii 1)

Q26: d) i, ii, iii 1)

Q27: c) i and iii 1)

Q28: Females more in primary (gender disparity); males in secondary/tertiary. Indicates lower skill access for women. 3)

Q29. Four key benefits for small farmers (86% holdings <2 ha): 3)

1. Cost Saving: No chemical fertilizers, uses farm waste
2. Premium Prices: Organic basmati □80/kg vs □50/kg regular
3. Soil Sustainability: Natural fertility → no land degradation
4. Govt Support:

OR

Sandeep has taken a loan of **□1,00,000 at a low rate of interest** and also received a **30% subsidy from the government**.
This shows that the loan is taken from an **institutional (formal) source of credit**, such as:

- **Commercial Banks**
- **Regional Rural Banks (RRBs)**
- **Co-operative Banks**
- **Government-sponsored schemes supported by NABARD**

These institutions provide loans under various government programmes for farmers, small entrepreneurs and start-ups, often with subsidies.
Because subsidy is given, it clearly indicates that the **loan is linked to a government scheme** (for example: Mudra Yojana, Start-up schemes, agricultural development schemes etc.).

Q30. Disagree completely—human capital is economic growth foundation: 4)

1. Productivity: Literate workers 30% more productive (World Bank)
2. Innovation: IITs produced 10,000 startups.
3. Adopt Technology: Kerala health model → pharma hub ($10 bn exports)
   Examples:

- South Korea: Education spend 1960-90 → GDP/capita $200→$35,000
- India IT: 5 mn engineers → $200 bn exports
  Mechanism: Skilled labor adopts mechanization, quality improves, attracts FDI. 1 year schooling → 10% lifetime earnings ↑. Japan miracle post-WWII proves human capital > natural resources.

OR

a) Role of Self-Help Groups (SHGs) in meeting the credit requirements of the poor **2)**
Self-Help Groups (SHGs) are small voluntary groups, mainly of poor women, who regularly save small amounts and create a common fund. These savings are used to meet the credit needs of members.
Role of SHGs:

1. **Easy access to credit:**
   SHGs provide loans to members at low interest rates, reducing dependence on moneylenders who charge very high interest.
2. **Promotes savings habit:**
   Even very poor women are encouraged to save small amounts regularly, as seen in Kudumbashree mobilising □1 crore as thrift savings.
3. **Collateral-free loans:**
   Loans are given on the basis of mutual trust and group responsibility, so no security or collateral is required.

Example:
Kudumbashree SHGs act like small informal banks, helping women start small businesses, manage household needs and escape poverty.

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b) Drawbacks of micro-credit programmes **2)**
Despite their benefits, micro-credit programmes have certain limitations:

1. **Limited loan amount:**
   SHGs usually provide small loans, which may be insufficient for larger investments or business expansion.
2. **Group pressure:**
   If one member fails to repay, other members are pressurised to repay on her behalf, which may cause stress and conflicts.
3. **Possibility of misuse:**
   Loans may sometimes be used for consumption purposes rather than income-generating activities, reducing their effectiveness in poverty reduction.

Q31. **Factors responsible for rapid economic growth and development in China** **4)**
China's rapid economic growth is the result of several interrelated factors:

1. **Agricultural reforms**
   China introduced the *Household Responsibility System*, which allowed farmers to use land more efficiently and sell surplus produce in the market. This increased agricultural productivity and rural incomes.
2. **Industrial growth**
   China focused on large-scale industrialisation, especially in manufacturing. It developed township and village enterprises (TVEs) and modern industries, leading to higher output, employment and exports.
3. **High investment rate**
   China invested heavily in infrastructure such as roads, ports, power, education and technology. High domestic savings supported continuous capital formation and economic expansion.
4. **Export-led growth and foreign investment**
   China promoted exports by setting up Special Economic Zones (SEZs) and encouraging Foreign Direct Investment (FDI). Access to global markets increased production, foreign exchange earnings and technology transfer.

Q32. a) Agriculture trend 2)

Declining sharply: 1950-51: 4.6% growth → 2017-18: 2.1%. Green Revolution 1960s peak 5.2%, then stagnation. Reasons: Small holdings, low irrigation (47%), climate shocks. Structural shift—agri GDP share fell 50%→15%.

b) Post-1991 comparison 2)

Services outperformed: Industry 6.5%, Services 8.2% (1991-2017). IT/Finance boom post-liberalization. Industry faced global competition; services (BPO, software) leveraged English skills.

Q33. (A) a. Modernisation, as a goal of economic planning, does not mean only the use of advanced machines or technology. It also includes changes in **institutions, attitudes and social systems**. 3)

1. **Change in outlook and institutions**
   Modernisation involves developing a scientific outlook, improving management practices, and adopting new methods of organisation in agriculture, industry and services.
2. **Use of technology along with human skills**
   Economic planning emphasised training, education and skill development so that people could effectively use modern technology.
3. **Social and economic transformation**
   Modernisation aims at removing outdated traditions, promoting gender equality and encouraging innovation to improve productivity and efficiency in the economy.

Thus, modernisation focuses on **overall transformation of the economy and society**, not merely on technological advancement.

(b) "Economic reforms of 1991 changed the structure of the financial sector in India to a large extent."
Justification highlighting any two financial sector reforms. 3)
The economic reforms of 1991 brought significant changes in India's financial sector to improve efficiency and competitiveness.

1. **Deregulation of interest rates**
   Banks were given the freedom to fix interest rates based on market conditions, improving competition and efficient allocation of credit.
2. **Reduction in statutory requirements**
   The Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) were reduced, enabling banks to lend more funds to productive sectors of the economy.

(Other reforms include entry of private and foreign banks, strengthening of RBI's supervisory role, and adoption of prudential norms.)

OR

(B) Casualization of employment is becoming increasingly common in India." 2)
Two main reasons behind this trend are:

Cost reduction by employers – Casual workers are hired to avoid long-term commitments like job security, paid leave, provident fund, and other social security benefits.

Growth of informal sector and outsourcing – Expansion of informal activities, contract work, and subcontracting has increased the demand for temporary and casual labour.

(b) Why are children not included in the working population? 2)
Children are not included in the working population because:

Legal restrictions – Child labour is prohibited by law to protect children from exploitation.

Education and development – Children are expected to attend school, as education is essential for their physical, mental, and social development.

(c) "The opportunity costs of negative environmental impacts are high." Do you agree? 2)
Yes, I agree with this statement. Negative environmental impacts lead to high opportunity costs because environmental degradation causes loss of natural resources, health problems, reduced productivity, and increased future expenditure on restoration and healthcare. These costs outweigh the short-term economic benefits of environmentally harmful activities.

Q34.
(a) Drawbacks of Organic Farming 3)

- Lower yields in the short run – Organic farming generally gives lower output compared to chemical-based farming, especially during the initial years of conversion.
- Higher labour and input costs – It requires more labour for compost preparation, pest control, and weed management, increasing the cost of production.
- Limited availability and higher prices – Organic inputs and certified organic products are not easily available, and organic produce is usually costlier, reducing its adoption by farmers and consumers.

(b) Critical Evaluation of Rural Development 3)

- Positive aspects – Rural development programmes have helped improve infrastructure, irrigation facilities, literacy levels, and employment opportunities through schemes like MGNREGA.

- Limitations in implementation – Benefits often do not reach the poorest due to corruption, lack of awareness, and poor execution at the grassroots level.

- Need for a holistic approach – Rural development still faces challenges such as disguised unemployment, low agricultural productivity, and inadequate non-farm opportunities, indicating the need for integrated and sustainable development strategies.

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