



Grade XII
Economics

Time allowed: 3 Hours
Maximum Marks: 80

General Instructions:

- (i) All the questions in both the sections are compulsory. Marks for questions are indicated against each question.
- (ii) Question number 1 to 20 are multiple choice questions carrying 1 mark each.
- (iii) Question number 21-24 are short-answer questions carrying 3 marks each.
- (iv) Question number 25 to 30 are also short-answer questions carrying 4 marks each.
- (v) Question number 31 -34 are long answer questions carrying 6 marks each.
- (vi) It is mandatory to write the complete answer in MCQs or no marks will be awarded.

Q No.	Questions	Marks										
✓ 1	A firm produces ₹200 worth of goods per year, ₹40 is the value of intermediate goods used by it during the year and ₹20 is the value of capital consumption, the net value added will be: a. ₹200 b. ₹160 c. ₹140 d. ₹130	(1)										
✓ 2	In order to encourage investment in the economy, the central bank may _____: a. Reduce cash reserve ratio b. Increase cash reserve ratio c. Sell government securities in open market d. Increase bank rate	(1)										
✓ 3	Balance of Payments of an economy records _____ for a fiscal year: a. Income and expenditure of the government. b. Inflow and outflow of funds of the government. c. Inflow and outflow of foreign exchange to/from the economy. d. Inflow and outflow of loans to/from rest of the world.	(1)										
✓ 4	Identify the correct pair from the following <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;">Column 1</th> <th style="width: 50%;">Column 2</th> </tr> </thead> <tbody> <tr> <td>a. At break even point</td> <td>i. $C=Y$</td> </tr> <tr> <td>b. value of aggregate supply</td> <td>ii. equals to domestic income</td> </tr> <tr> <td>c. marginal propensity to save</td> <td>iii. ratio of change in savings to change in investment</td> </tr> <tr> <td>d. consumption function</td> <td>iv. relationship between consumption and saving</td> </tr> </tbody> </table> a. a-i b. b-ii c. c-iii d. d-iv	Column 1	Column 2	a. At break even point	i. $C=Y$	b. value of aggregate supply	ii. equals to domestic income	c. marginal propensity to save	iii. ratio of change in savings to change in investment	d. consumption function	iv. relationship between consumption and saving	(1)
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5	<p>Which of the following transactions is <u>not included</u> in national income?</p> <ol style="list-style-type: none"> Brokerage paid to broker for facilitating sale of second hand goods Payment of corporation tax by firms to the government Interest paid by production units to households Interest paid by banks on deposits by individuals 	(1)
6	<p>Assertion (A) : Aggregate demand means demand of an economy Reason (R) : Exports is one of the components of aggregate demand</p> <p>Select the correct alternative from the following:</p> <ol style="list-style-type: none"> 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 correct explanation of Assertion (A). Assertion (A) is true but Reason (R) is false. Assertion (A) is false but Reason (R) is true. 	(1)
7	<p>A situation when the workers are able and willing to work under any conditions and at the given wage rate but they fail to get employment it is called:</p> <ol style="list-style-type: none"> Voluntary unemployment Involuntary unemployment Disguised unemployment Full employment 	(1)
8	<p>Read the following statements carefully and choose the correct alternative:</p> <p>Statement 1: The significance of money as a medium of exchange is that money can be stored for use in future</p> <p>Statement 2: The 'unit of account' function of money means that monetary unit is treated as the standard unit for quoting prices or borrowing and lending activities etc.</p> <p>Alternatives:</p> <ol style="list-style-type: none"> Both the statements are true. Both the statements are false. Statement 1 is true and Statement 2 is false Statement 2 is true and Statement 1 is false 	(1)
9	<p>In family, two children needed money to go abroad to two different countries. One wanted to go to USA and the other wanted to go to Spain. Their father asks them to check the exchange rate and identify which is a better place to go.</p> <p>The exchange rate is as follows on two different dates:</p> <p style="text-align: center;">€1 = ₹80 (1.1.2023), €1 = ₹82 (15.1.2023) \$1 = ₹75(1.1.2023), \$1 = ₹70 (15.1.2023)</p> <ol style="list-style-type: none"> Spain is a better place to go to as Indian currency has depreciated. Spain is a better place to go to as Indian currency has appreciated. USA is a better place to go to as Indian currency has appreciated. USA is a better place to go to as Indian currency has depreciated. 	(1)
10	<p>Out of the following which value can be greater than one:</p> <ol style="list-style-type: none"> APC MPC 	(1)

- c. APS
- d. MPS

✓ 11

Identify which of the following is not an example of 'invisible item' under current account of the balance of payment transactions:

- a. Air and sea transport
- b. Postal and courier services
- c. Education related travel
- d. Export of Merchandise.

(1)

✓ 12

Assertion (A): The sum of APC and APS is equal to one.

Reason (R): Income of an economy is either saved or consumed.

Select the correct alternative from the following

- a. Assertion (A) and reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- b. Both Assertion (A) and reason (R) are true but Reason (R) is not correct explanation of Assertion (A).
- c. Assertion (A) is true but Reason (R) is false.
- d. Assertion (A) is false but Reason (R) is true.

(1)

✓ 13

Read the following statements carefully and choose the correct alternative:

Statement 1: Consumption function and saving function curves are always parallel to each other

Statement 2: Ex-post investment represent planned investments, Ex-ante investments represent actual level of investments

Alternatives:

- a. Both the statements are true.
- b. Both the statements are false.
- c. Statement 1 is true and Statement 2 is false
- d. Statement 2 is true and Statement 1 is false

(1)

✓ 14

Identify the correct pair from the following:

Column 1	Column 2
a. Export of software to France	i. Debit side of current account
b. Import of machinery from China	ii. Capital account of balance of payments
c. Remittances to relative staying abroad	iii. Debit side of current account of balance of payments
d. Investment by apple phones in India	iv. Credit side of current account of balance of payments

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

(1)

15 Which of the following items is not included in money supply of a country? (1)

- a. Time deposits
- b. Coins and currency
- c. Demand deposits
- d. None of these

16 The following information is given for an imaginary country: (1)

S. No.	items	amount (in ₹ crore)
i.	Balance of Trade(BOT)	(-)800
ii.	Export of goods	500

Which of the given statements is true with regards to value of import of goods?

- a. The value of imports will be ₹1300 crores
- b. The value of imports will be ₹1500 crores
- c. The value of imports will be ₹300 crores
- d. The value of imports will be ₹1200 crores

17 Suppose in a hypothetical economy, the income rises from ₹5000 crores to ₹6000 crores. As a result, the consumption expenditure rises from ₹4000 crores to ₹4600 crores. Marginal propensity to consume in such a case would be _____: (1)

- a. 0.8
- b. 0.4
- c. 0.2
- d. 0.6

18 Two friends Ira and Sana were discussing the exchange rate systems: (1)

Ira: Under _____ system the exchange rate is officially fixed by the government.

Sana: Under _____ system the exchange rate is determined by the market forces of demand and supply. However, deliberate efforts are made by the Monetary Authority to keep the exchange rates within a specific range.

Identify the type of exchange rate system they are talking about:

- a. Fixed exchange rate, Flexible exchange rate
- b. Fixed exchange rate, Managed floating exchange rate
- c. Managed floating exchange rate, Flexible exchange rate
- d. Flexible exchange rate, Dirty floating exchange rate

19 Value of _____ can never be zero and _____ can never be 1: (1)

- a. APS, APC
- b. MPC, APC
- c. MPS, MPC
- d. APC, APS

20 Read the following statements carefully and choose the correct alternative: (1)

Statement 1: A bank is a financial institution whose demand deposits are widely accepted as money for making payments and has the power to create money.

Statement 2: Central bank is a financial institution which accepts deposits from the public and advances loans to others.

Alternatives:

- a. Both the statements are true.
- b. Both the statements are false.
- c. Statement 1 is true and Statement 2 is false
- d. Statement 2 is true and Statement 1 is false

21

State any 3 precautions that need to be kept in mind while using the value added method for calculating national income.

(3)

OR

State with valid reasons, whether the following statements are true or false:

- a. Goods produced for self consumption will be included in national income.
- b. Value added is a flow variable.
- c. In economics, 'inventory' includes the stock of unsold finished goods only.

22

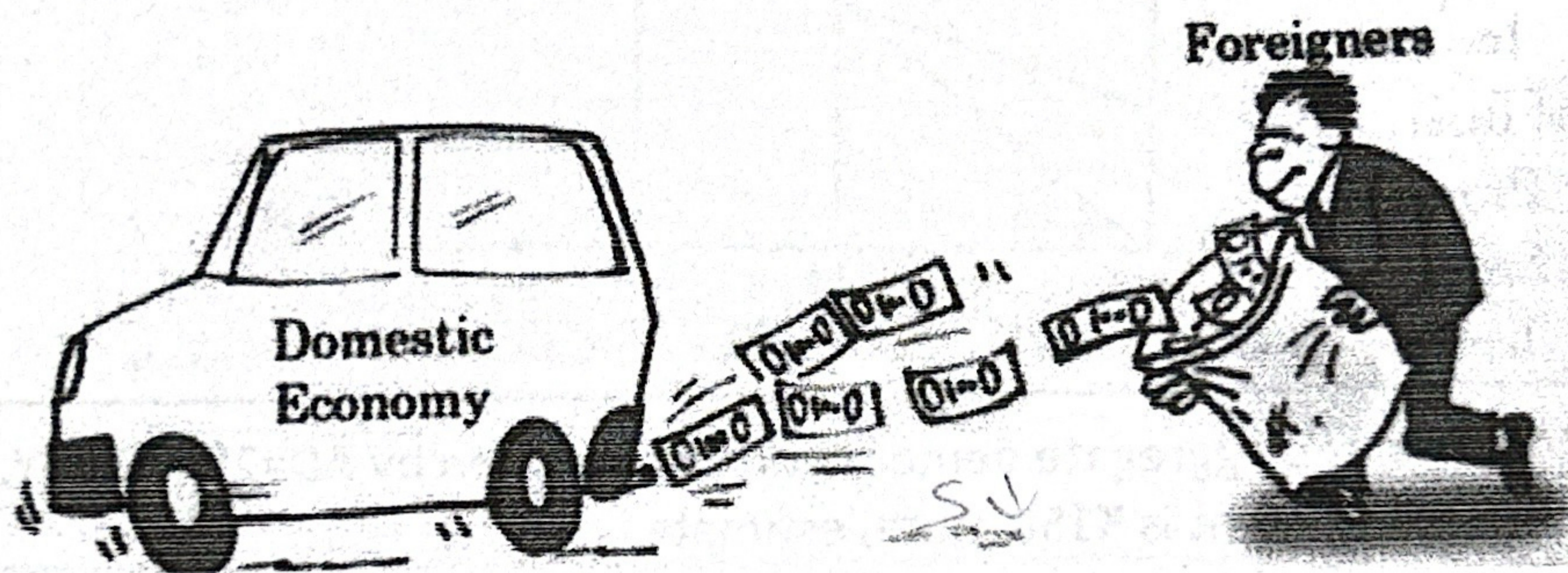
Distinguish between Current account and Capital Account of Balance of Payments.

(3)

23

Study the picture given below and interpret the same:

(3)



24

'Many large multinational corporations (MNCs) have recently shifted their investment from China and have started their production in India, thereby boosting the Make In India plans of the government.' Presuming other factors being constant, discuss the impact of the given statement on demand/supply of foreign exchange (USD) and its rate with reference to the Indian economy. Use diagram.

(3)

25

Read the following text carefully. Answer the given questions on the basis of the same and common understanding:

On 30th September 2022, the Reserve Bank of India (RBI) raised Repo Rate for the fourth time in a row. The Monetary Policy Committee (MPC) decided to raise the policy rate by 50 basis points. (1 basis point = 1/100th of a percent). After this announcement, the new repo rate stands at 5.9%, while the reverse repo rate continues to stand at 3.35%.

Commercial banks borrow money from the Central Bank, when there is a shortage of funds. With the surge in the repo borrowings by general public will become costlier. This is because, as RBI hikes its repo rate, it becomes costly for the bank to borrow short term funds from the Central Bank. As a result, the banks hike the rates at which customers borrow money from them to compensate for the hike in the repo rate. This happens because banks offer loans to retail consumers at an interest rate which is, generally, directly proportional to the repo rate.

The increase of 0.50 percent in repo rate will lead to a higher interest rate on loans for borrowers, implying that the Equated Monthly Instalments (EMIs) for repaying the existing loans will also increase.

- a. State the meaning of repo rate and reverse repo rate.

b. "Increase in repo rate is an important tool used by Monetary Policy Committee to combat the situation of inflation in the Economy." Justify the given statement.

(4)

26 Explain with the help of saving and investment curves, the determination of equilibrium level of income.

(4)

27 Explain the process of credit creation by commercial banks. Use a suitable numerical example.

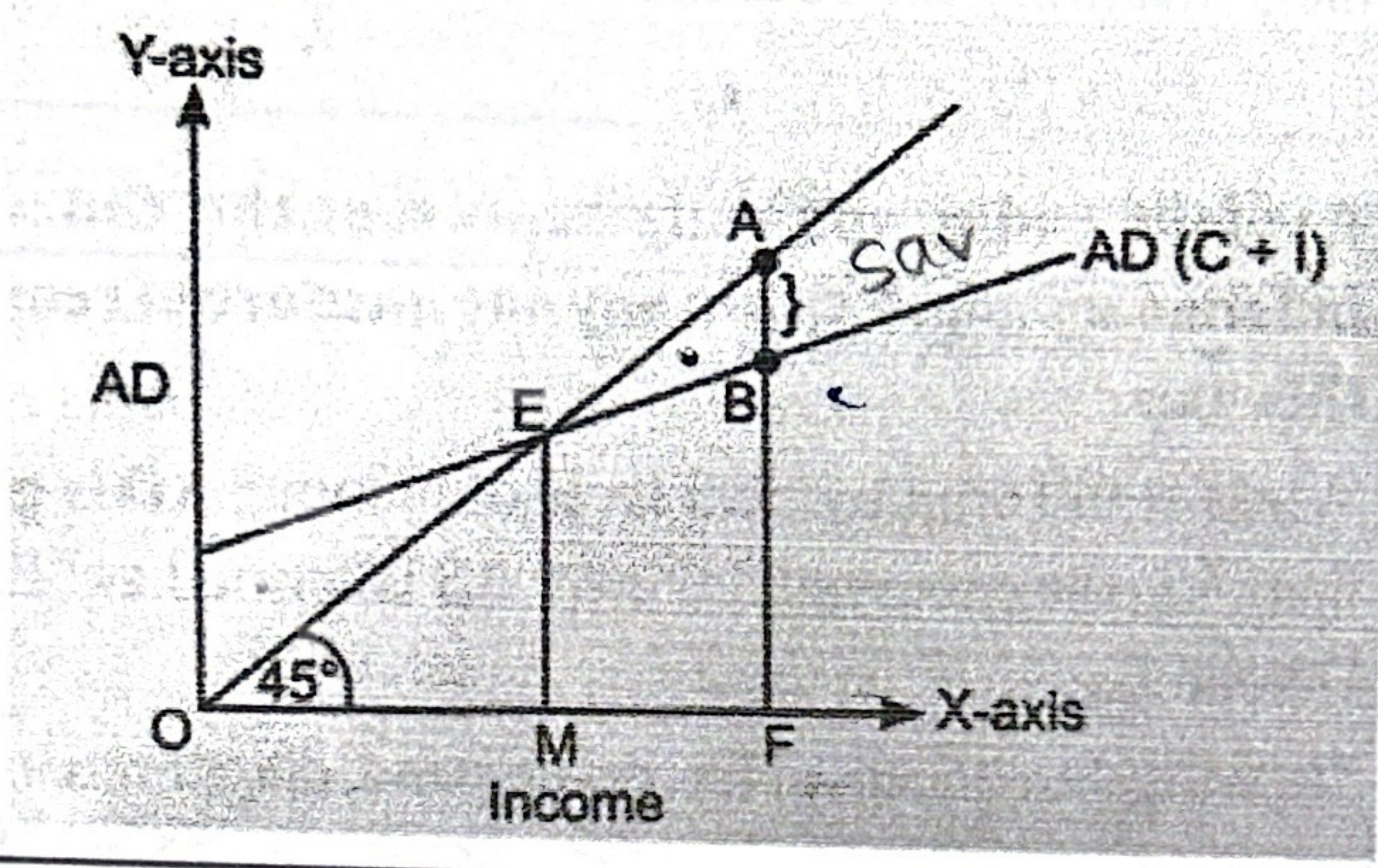
(4)

OR

What is money multiplier? How does the Legal reserve ratio influence the process of credit creation? Explain with the help of a numerical example.

28 In the given figure, what does the gap 'AB' represent? Discuss anyone fiscal policy and one monetary policy measure to correct the situation.

(4)



29 Indian economy, the aggregate demand function is given by $AD=250+0.75Y$, and autonomous investment is ₹150 crore, estimate
 (i) Consumption and saving at equilibrium level of income
 (ii) Subsistence level of consumption in the economy
 (iii) Investment multiplier

(4)

30 Define investment multiplier. What is the relationship between marginal propensity to save and investment multiplier. In this context, explain why economists are concerned about a rising MPS.

(4)

31 a. Distinguish between final good and intermediate good.
 b. Calculate net national product at market price :

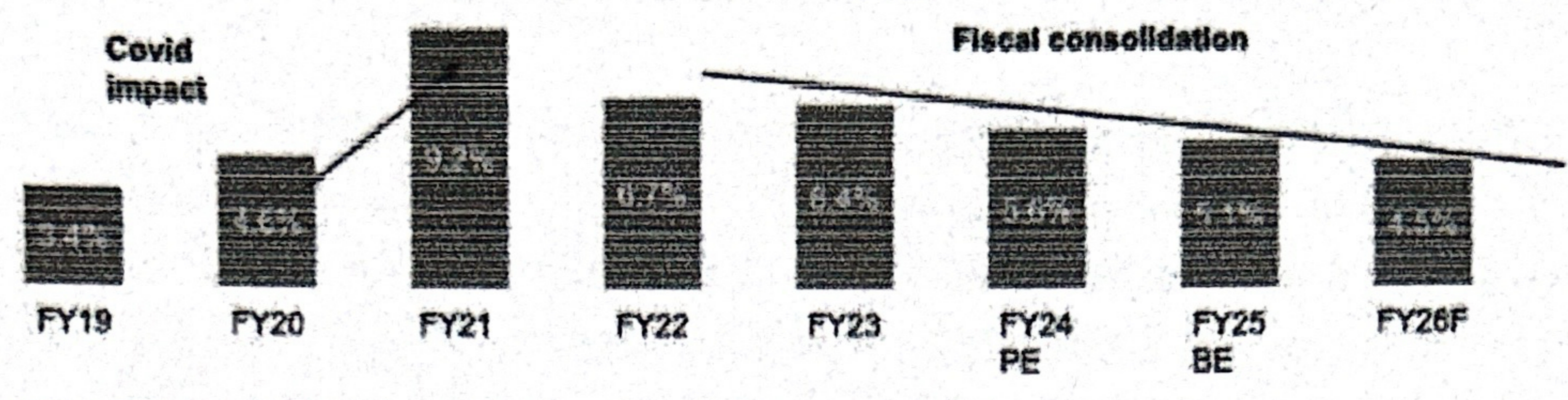
(3)
(3)

Particulars	Amount (in ₹crores)
a) gross domestic fixed capital formation	350
b) private final consumption expenditure	8000
c) government final consumption expenditure	3000
d) value of output produced in the economy	150
e) consumption of fixed capital	40
f) net exports	(-) 60
g) net factor income from abroad	80
h) sales by all firms in the economy	100

a. The union government will target a fiscal deficit of 4.9% of the gross domestic product for FY25, compared to a target of 5.1% set in the interim budget, Finance Minister Nirmala Sitharaman announced in her budget speech. For FY24 too, the fiscal deficit has been revised to 5.6% of the GDP.

(3)

Chart 5: Fiscal Deficit (% of GDP)



Source: Budget Documents, Note: PE - Provisional Estimate, BE - Interim Budget Estimate, F - Forecast

Explain the concept of 'fiscal deficit' in a government budget. Discuss the steps which can be taken to reduce fiscal deficit.

b. From the following data about a government budget, find revenue deficit, fiscal deficit and primary deficit:

(3)

	(₹ crore)
Tax revenue	40
Capital receipts	35
Non tax revenue	10
Borrowings	30
Revenue expenditure	75
Interest payments	15

33 a. Supposing only one product X is produced in the country. Its output during the year 2020 and 2021 was 200 units and 220 units respectively. The market price of Product X during 2020 and 2021 was ₹500 and ₹550 per unit prospectively. Calculate the percentage change in real GDP and nominal GDP in the year 2021 using 2020 as the base year.

(3)

b. Define 'non monetary exchanges'. Explain how they are a limitation of GDP as an indicator of welfare.

(3)

OR

a. "IMF raises India's GDP growth forecast by 30 bps to 6.8% for FY25"
-IMF, August 2024

Does the given statement mean that welfare of people of India will increase at the same rate? Comment with reason.

(3)

b. Discuss the problem of double counting in the estimation of National Income. State any two approaches to correct the problem of double counting?

(3)

34 a. "Through its budgetary policy, the government allocates resources as per the requirements of the country." Do you agree with the given statement? Support your answer with the valid reasons.

(3)

b. Discuss the nature of the following items in the budget of the government? Give reasons.

- i. Loans received from foreign government *Cap*
- ii. Sale of 40% shares of a public sector undertaking to a private sector
- iii. Payment of pensions to the government employees.

(3)