

CLASS-XII (CBSE)
MOCK TEST-01
SUBJECT: ECONOMICS

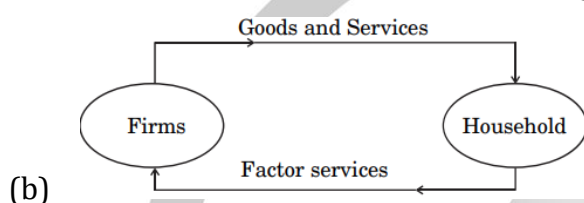
ANSWER KEYS

SECTION-A (MACRO ECONOMIC)

1. (c) Both Statements 1 and 2 are true

2. (a) Net indirect taxes

OR



3. (b) Bank rate

4. (c) Both Statements 1 and 2 are true

5. (d) Banker's Bank

6. (a) $S = (-) 60 + 0.25 Y$

OR

(b) 10.0

7. (b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

8. (c) 12,500

OR

(d) Debit, current

9. (b) $MPC + MPS = 1$

10. (c) Voluntary unemployment

11. Value Addition refers to the excess of 'Value of Output' over the 'Value of Intermediate Consumption'.

$$\text{Value Addition} = \text{Value of Output} - \text{Value of Intermediate Consumption}$$

Whereas.

Final Value of output refers to the total money value of goods and services produced during a given period of time.

$$\text{Final Value of output} = (\text{Number of units produced}) \times (\text{Price per unit})$$

OR

Value added = Value of output - Intermediate consumption Value added by firm

$$A = (\text{iii}) - (\text{v}) - (\text{ii} + \text{iv})$$

$$= 10 - 3 - (2 + 50)$$

(No marks to be deducted for negative value in the answer)

12. **Yes.** When foreign exchange rate rises, the goods in domestic market become relatively cheaper for the buyers of the rest of the world. Thereby increasing the international competitiveness of Indian exports. This raises demand for exports, which in turn may lead to increase in supply of foreign exchange and vice-versa.

(Any other valid reason to be allotted marks)

13. If ex-ante savings are less than ex-ante investments, it means that the buyers are intending to buy more than what the producers are intending to produce. Thus, the inventories will fall below the desired level. To restore the desired level of inventories, producers may intend to increase output and employment in the economy. This mechanism will continue till the equilibrium is reinstated.

(To be marked as a whole)

14. Inflation in the economy may be the cause behind the rise in the benchmark lending rate by the Central bank. This step may force the commercial banks to increase the cost of borrowing for the general public. It may discourage the general public from taking loans. As a result, it may lead to fall in Aggregate Demand and subsequent fall in inflation.

(Any other valid explanation to be allotted marks)

15. The central bank acts as a banker to the Government. It maintains the banking accounts of the government for the purpose of receiving/making payments on its behalf. It provides loans to the government, as per its requirements. The central bank also purchases/ sells government securities in the open market on behalf of the government.

(To be marked as a whole)

OR

Reserve ratio (RR) is the minimum reserves that a commercial bank must maintain as per the directions of the central bank. Credit creation is inversely related to the reserve ratio.

Example: Suppose the initial deposit is ₹1000

Case	Reserve Ratio (RR)	Credit Multiplier $\left(\frac{1}{RR}\right)$	Credit Creation (Initial Deposit x Credit Multiplier)
I	0.2	$\frac{1}{0.2} = 5$	$1,000 \times 5 = ₹ 5,000$

II	0.5	$\frac{1}{0.5} = 2$	$1000 \times 2 = ₹ 2,000$
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The above example depicts the effect of rise in Reserve Ratio on credit creation by the commercial banks.

(To be marked as a whole)

(Any other valid example/explanation to be allotted marks)

16. (a) No. Net factor income from abroad (NFIA) is the component which depicts the difference between National income (NNP_{FC}) and Domestic income (NDP_{FC}). National income can be less than the domestic income in case of negative NFIA i.e. when, Factor Income from abroad < Factor Income to abroad. (To be marked as a whole)

- (b) No. This is because Gross Domestic Product (GDP) by expenditure method takes into account the aggregate spending on all the final goods and services in the domestic territory, whether incurred by the residents or non-residents during a given period of time.

(To be marked as a whole)

17. (i) Revenue receipts: Corporation tax, Customs, Income tax, non-tax revenue, GST and other taxes, Excise duties. Reason: Revenue receipts neither leads to decrease in assets nor increase in liabilities. Capital receipts: Borrowing and other liabilities, Recovery of loan. Reason: Capital receipts either leads to decrease in assets or increase in liabilities.

(To be marked as a whole)

- (ii) The revenue deficit refers to the excess of estimated revenue expenditure over the estimated revenue receipts of the government, during a fiscal year.

Whereas;

Fiscal deficit is the excess of the total estimated expenditure over its total estimated receipts excluding borrowings of the government, during a fiscal year.

OR

- (i) Primary deficit = $\{(i) + (iv) - (ii)\} - (v)$
 $= \{40 + 220 - 190\} - 20 = ₹ 50 \text{ crore.}$

- (ii) The government may need to correct the fluctuations (income, employment and prices) in the economy. These may depend upon the level of Aggregate Demand, which in turn depends upon the spending decision of households and firms. To stabilize the economy, under the state of inflation/deflation, Government may alter taxes/ expenditure, accordingly.

(To be marked as a whole)

SECTION-A (INDIAN ECONOMIC DEVELOPMENT)

18. (c) Both Statements 1 and 2 are true

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OR

- (c) Russian economic model was the base for the Indian economic system.

20. (a) (i), (ii) and (iii)

21. (a) Widespread industrialisation

OR

(a) European Union

22. (d) Inadequate spread of vocational education

23. (d) Great Proletarian Cultural Revolution

24. (c) Both Statements 1 and 2 are true.

25. (c) regular

OR

(d) Growth is due to technological development.

26. (a) diversification of crops

27. (c) Both Statements 1 and 2 are true.

28. Deforestation is defined as large scale cutting down of trees for executing developmental projects. It is a serious environmental concern, since it can result in the loss of biodiversity, damage of natural habitats, disturbances in the water cycle, soil erosion etc. Deforestation is also the main contributor to the environmental problems like climate change and global warming.

(To be marked as a whole)

(Any other valid explanation to be allotted marks)

29. Rapid expansion of the banking system had positive effect on rural farm and non-farm output, income and employment. However, following problems have been faced in the rural banking.

- The volume of rural credit in the country is still insufficient in comparison to its demand and institutional sources have failed to cover the nation.
- Less attention has been given on the credit requirements of small and marginal farmers and the problems of overdues in agricultural credit.

(To be marked as a whole)

(Any other valid argument to be allotted marks)

OR

The expenditure incurred by Dr. Khurana on shifting his clinic from economically backward area to the city comes under the category of "Expenditure on migration".

Expenditure on migration is the source of human capital formation. People migrate in search of jobs that fetch them higher salaries. Technically qualified persons like engineers and doctors, migrate to other areas because of higher incomes and better opportunities.

30. The reasons for the slow growth and re-emergence of poverty in Pakistan are:

- Agricultural growth and food supply situation were not based on institutional process of technical change but on good harvest. Hence, Pakistan faced a volatile performance in the agriculture sector.
- Overdependence on remittances and foreign aid on the one hand and increasing difficulty in paying back the loans on the other.

(To be marked as a whole)

(Any other valid argument to be allotted marks)

31. (a) The aim of License Raj under the Industrial Policy Resolution 1956 was to keep the private sector under control. No new industry was allowed unless a license was obtained from the Government. This policy was used for ensuring regional equality.

(b) Multilateral trade refers to exchange of goods and services between more than two nations.

32. False. As in the recent years, India has witnessed an unprecedented shift of the workforce from the formal sector to informal sector. This may be primarily due to decline in job opportunities in formal (both public and private) sector.

(To be marked as a whole)

(Any other valid argument with suitable explanation)

OR

Two measures to ensure more productive employment for the self-employed are:

- I. Skill development - Skill development and training will provide people with the required expertise and skills to undertake new ventures.
- II. Financial and technical support by Government - Financial and technical support by government agencies, along with fulfilling the capital requirements will also enhance the productivity of the new production units.

33. (i) Less women are found in regular salaried employment in India as such jobs require skills and a higher level of literacy. Moreover, due to a lot of social constraints, mobility of women is generally restricted.

(To be marked as a whole)

(Any other valid argument to be allotted marks)

(ii) Human capital refers to the stock of knowledge, skill and ability imbibed in the owner of the same, i.e., human capital is inseparable from its owner. It cannot be sold in the market, only its services can be sold in the market. Whereas; Physical capital are the assets (plant and machinery, building etc.), which are tangible in nature. It is separable from its owner. It can be transacted in the market.

OR

- (i) Mini-hydel Plants- In mountainous regions, streams can be found almost everywhere. A large percentage of such streams are perennial. Mini-hydel plants use the energy of such streams to move small turbines. The turbines generate electricity which can be used locally. Such power plants are more or less environment friendly as they do not change the land use pattern. (any other valid strategy of sustainable development)
- (ii) Micro-credit programmes have emerged to fill the gap in the formal credit system. The formal credit delivery mechanism has not been fully integrated into the rural social structure. Since, some collateral is required, vast proportion of poor rural households go out of the credit network. Micro-credit system has brought these poor households in the ambit of formal credit system by providing them loans at the concessional rate of interest.

(To be marked as whole)

34. (a) Planning Commission has been replaced by NITI Aayog. Prime minister is the ex-officio Chairman of NITI Aayog.
- (b) Two main advantages of digital banking are:
- (i) Cashless Society: By promoting a cashless society, digital banking restricts the circulation of black money. Since all transactions are routed through banks, it eliminates the use of unaccounted money.
 - (ii) Convenience: It enable users to set up automatic payments for regular utility bills. Thus, it provides a convenient method for customers to settle payments.