SAMPLE QUESTION PAPER 2
Economics
Class XII

Time allowed: 3hrs **Maximum Marks: 100**

General Instructions:

i. All questions in both the sections are compulsory.
ii. Marks for questions are indicated against each question.
iii. Question No. 1 to 5 and 16 to 20 are multiple choice questions (MCQs) and very short answer questions carrying 1 mark each.
iv. Question No. 6 to 8 and 21 to 23 are short answer questions carrying 3 marks each. Answer to them should not normally exceed 60 words each.
v. Question No. 9 to 11 and 24 to 26 are also short answer questions carrying 4 marks each. Answers to them should not normally exceed 70 words each.
vi. Question No. 12 to 15 and 27 to 30 are long answer questions carrying 6 marks each. Answer to them should not normally exceed 100 words each.
vii. Answers should be brief and to the point and the above word limits should be adhered to as far as possible.

SECTION – A

1. What are monotonic preferences? (1)
2. What happens to AP, when MP is more than AP? (1)
   (a) AP rises (b) AP falls
   (c) AP remains constant (d) None of these
3. A consumer consumes only two goods. If price of one of the goods falls, the indifference curve (1)
   (a) Shifts upwards (b) Shifts downwards
   (c) Does not shift (d) Can shift both upwards and downwards
4. Which curve is not affected by fixed cost? (1)
   (a) MC curve (b) TC curve
   (c) AC curve (d) AFC curve
5. When total revenue is constant, what will be the effect on average revenue? (1)
   (a) AR will fall (b) AR will increase
   (c) AR will also be constant (d) No effect on AR
6. Why is a production possibilities curve concave? Explain. (3)
7. Explain the central problem of 'How to produce'. (3)

OR

What is likely to be the impact of "Make in India" appeal to the foreign investors by the Prime Minister of India, on the production possibilities frontier of India. Explain.

8. Explain the effect of rise in the input prices on the supply of a good. (3)
9. A consumer spends Rs 100 on a good priced at Rs 4 per unit. When its price falls by 25 percent, the consumer spends Rs 75 on the good. Calculate the price elasticity of demand by the Percentage method.
10. A consumer consumes only two goods X and Y. State and explain the conditions of consumer's equilibrium with the help of utility analysis. (4)
11. Define cost. State the relation between marginal cost and average cost. (4)

OR

Define revenue. State the relation between marginal revenue and average revenue.

12. Explain the conditions of a producer's equilibrium in terms of marginal cost and marginal revenue. Use diagram. (6)

OR

Explain the law of variable proportion with the help of total product and marginal product schedule.

13. Explain the concept of Marginal Rate of Substitution (MRS) by giving an example. What happens to MRS when consumer moves downwards along indifference curve. Give reason for your answer. (6)
14. Market for a good is in equilibrium. There is simultaneous 'increase' both in demand and supply of the good. Explain its effect on market price. (6)
15. Distinguish between collusive and non-collusive oligopoly. Explain how the oligopoly firms are interdependent in taking price and output decisions. (6)

SECTION – B

16. If factor cost is greater than market price, then it means that: (1)
    (a) Indirect taxes > Subsidies (b) Indirect taxes = Subsidies
    (c) Indirect taxes < Subsidies (d) Indirect taxes ≥ Subsidies
17. Expenditure method focuses on measurement of National Income at: (1)
    (a) Phase of production of goods and services
    (b) Phase of Income Distribution
    (c) Phase of Income Disposition
    (d) All of the above.
18. State the components of money supply. (1)
19. Bank create credit: (1)
    (a) Out of nothing (b) On the basis of deposits
    (c) On the basis of their total assets (d) On the basis of their securities
20. Autonomous transactions take place on (1)
    (a) Current account (b) Capital account

(c) Both (a) and (b) (d) Neither (a) and (b)

21. Explain how 'distribution of gross domestic product' is a limitation in taking GDP as an index of welfare.

OR

Distinguish between stocks and flows with the help of examples.

22. When price of a foreign currency rises, its demand falls. Explain why? (3)

23. What are autonomous and accommodating transactions in the Balance of Payments account? Give an example of each. (3)

24. Giving reasons classify the following into intermediate products and final products. (4)
    (i) Computers installed in an office.
    (ii) Television set purchased by a Television dealer.

25. Explain 'revenue deficit' in a Government budget? What does it indicate? (4)

26. Explain how the government can use the budgetary policy in reducing inequalities in income. (4)

OR

Distinguish between Revenue Expenditure and Capital Expenditure in a government budget. Give examples.

27. Explain the process of money creation by the commercial banks with the help of a numerical example.

28. Define and represent 'inflationary gap' on a diagram. Explain the role of the 'varying reserves requirement' in removing the gap. (6)

OR

How is 'saving and investment' approach derived from the 'aggregate demand and supply' approach of income determination? Explain, use diagram.

29. Complete the following table: (6)

Income (Rs)	**Consumption/Expenditure (Rs)**	**MPS**	**APS**
0	80	__	__
100	140	0.4	__
200	__	__	0
__	240	__	0.20
__	260	0.8	0.35

30. Find out: (4+2)
    (a) Gross National Product at Market Price and
    (b) Net Current Transfer from Abroad

		(Rs in crores)
(i)	Net indirect tax	35
(ii)	Private final consumption expenditure	500
(iii)	Net National Disposable income	750
(iv)	Closing stock	10
(iv)	Govt. final consumption expenditure	150
(v)	Net domestic fixed capital formation	100
(vi)	Net factor income to abroad	(-)15
(vii)	Net imports	20
(ix)	Opening stock	10
(x)	Factor income from abroad	10
(xi)	Consumption of fixed capital	50

SAMPLE PAPER 1
SOLUTIONS

SECTION – A

1. Monotonic preferences mean that as consumption increases total utility also increases alongwith. (1)
2. (a) (1)
3. (c) (1)
4. (a) (1)
5. (a) (1)
6. The production possibilities curve being concave means that MRT increases as we move downward along the curve. MRT increases because it is assumed that no resource is equally efficient in production of all goods. As resources are transferred from one good to another, less and less efficient resources have to be employed. This raises cost and raises MRT. (3)
7. This problem refers to selection of technique to be used for production of goods and services. Capital intensive technique uses more of capital and less of labour while labour intensive technique uses more of labour and less of capital. Efficient technique of production is that which uses minimum possible inputs for maximum amount of output. (3)

OR

'Make in India' appeal signifies invitation to foreign producers to produce in India. This will lead to increase in resources thus raising production potential of the country. As a result production possibility curve will shift upwards. (3)

8. Rise in input price increases the cost of production and reduces the profit margin. As a result, supply curve will shift leftward.
9.

Price	**Expenditure**	**Demand**
4	100	25
3	75	25

(1½)

$$Ed = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$$

(1)

$$= \frac{0}{-1} \times \frac{4}{25}$$

(1)

$$Ed = 0$$

(½)

10. The two conditions are

(1) $\frac{mu_x}{P_x} = \frac{mu_y}{P_y}$

OR

$$\frac{mu_x}{mu_y} = \frac{p_x}{P_y}$$

(1)

Explanation:

If $\frac{mu_x}{P_x} > \frac{mu_y}{P_y}$ the consumer is not in equilibrium because he can raise his total utility by buying less of Y and

Similarly if $\frac{mu_x}{P_x} < \frac{mu_y}{P_y}$ the consumer is not in equilibrium as he can raise his total utility by buying less of X a

(2) MU falls as consumption increases
If MU does not fall as consumption increases the consumer will end up buying only one good which is unrealistic or consumer will never reach the equilibrium position. (1)

11. Cost in Economics refers to the sum of actual money expenditure on inputs and the imputed expenditure in the form of inputs services supplied by the owners including normal profit. (1)
If MC < AC, then AC falls
If MC = AC, then AC is constant
If MC > AC, then AC rises.

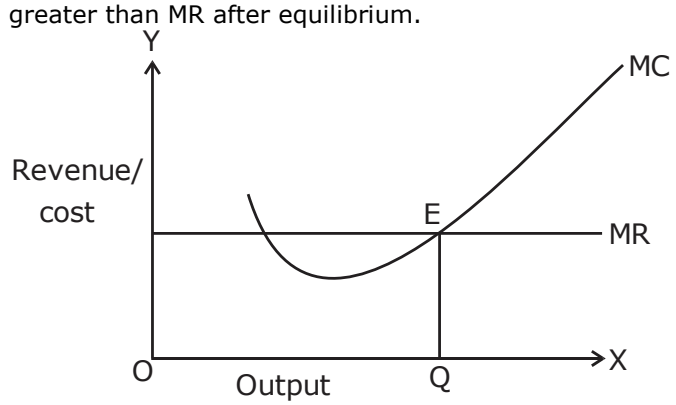
OR

Revenue in Economics refers to the market value of output produced or receipts from sale of output produced. (1)
If MR > AR, AR rises
If MR = AR, AR is constant
If MR < AR, AR falls (3)

12. There are two conditions of producer's equilibrium

(i) MC = MR (1)

(ii) MC is greater than MR after equilibrium. (1)



(½)

The conditions are fulfilled at point E in the diagram. (½)

Explanation:

(i) So long as MC is less than MR, it is profitable for the producer to go on producing more because it adds to its profits. He stops producing more when MC becomes equal to MR. (1)

(ii) When MC is greater than MR after equilibrium it means producing more will lead to decline in profits. (1)

OR

Variable Inputs (Units)	TP (Units)	MP (Units)	
1	6	6	I stage Increasing Returns
2	20	14	
3	32	12	II stage Diminishing Returns
4	40	8	
5	40	0	
6	32	-3	III stage Negative Returns any relevant schedule

(1½)

Phases:

I : TP increases at increasing rate and MP rises upto 2 units.

II : TP increases at diminishing rate and MP falls but remain positive from 3 to 5 units.

III : TP falls and MP becomes negative from 6 units onwards. (3)

13. MRS is the ratio of the units of one good sacrificed and the units of the other good obtained. (1)

Combination	Good X	Good Y	MRS
A	1	15	—
B	2	10	5Y : 1X
C	3	6	4Y : 1X
D	4	3	3Y : 1X
E	5	1	2Y : 1X

(2)

Let the two goods be X and Y, given a certain consumption of X and Y, suppose consumer wants one more unit of X. Having one more unit of X reduces marginal utility of X, therefore the consumer is willing to sacrifice less units of Y. As he goes on obtaining more and more of X, marginal utility of X goes on falling and thus consumer is willing to sacrifice less and less of Y.

(3)

14. There are three possibilities:

(1) If the relative (percentage) increase in demand is greater than the increase in supply, price will rise. The price

(2) If the relative (percentage) increase in demand is less than the increase in supply, price will fall. The price will fall because of excess supply in the market. (1)

(3) If the relative (percentage) increase in demand is equal to the increase in supply, price will remain unchanged. (1)

The price will remain unchanged because there is neither excess demand nor excess supply in the market.

15. Collusive oligopoly is one in which the firms cooperate with each other in deciding price and output whereas, non-collusive oligopoly is one in which the firms compete with each other. (2)

The firms are interdependent because each firm takes in to consideration the likely reactions of its rival firms when deciding its output and price policy.

It makes a firm dependent on other firms. The firm may have to reconsider the change in the light of the likely reactions. (4)

SECTION – B

16. (c) (1)
17. (c) (1)
18. (i) Currency and coins with public. (½)
    (ii) Demand deposits of public with commercial banks. (½)
19. (b) (1)
20. (c) (1)
21. It is possible that with rise in GDP inequalities in the distribution of income may also increase. It means gap between rich and poor increases. So, the welfare of the people may not rise as much as the rise in GDP. (3)

OR

Stocks: Variables whose magnitude is measured at a particular point of time are called stock variables. Example: Capital (1)
Flows: Variables whose magnitude is measured over a period of time are called flow variables. Example: Investment (½)

22. When price of foreign currency rises it makes imports costlier. This leads to fall in demand for imports. As a result demand for foreign exchange falls. (3)
23. Autonomous transactions are called autonomous because these are made independently of the state of the balance of payments, i.e., deficit or surplus in the balance of payments. They are undertaken for their own sake. (1)
    Example: Exports, imports etc. (any one) (½)
    Accommodating transactions are undertaken to cover up the deficit/surplus in the balance of payments.
    Example: Official reserves, IMF etc. (any one) (½)
24. (i) These are final products because these are purchased for investment. (2)
    (ii) These are intermediate products because these are purchased for resale. (2)
25. Revenue deficit is the excess of total revenue expenditure over total revenue receipts. (1)
    Implications of Revenue Deficit are:
    (i) It leads to repayment burden in future without investment.
    (ii) It shows wasteful expenditures of Govt. on administration.
    (iii) It increases the burden of taxes. (3)
26. Government can reduce inequalities through its tax and expenditure policy. Government can charge higher rate of tax from higher income groups by imposing higher rate of income tax and higher rate of tax on goods and services purchased by the rich. The money so collected can be spent on the poor in the form of free education, free medical facilities, cheaper housing etc. in order to raise their disposable income. (4)

OR

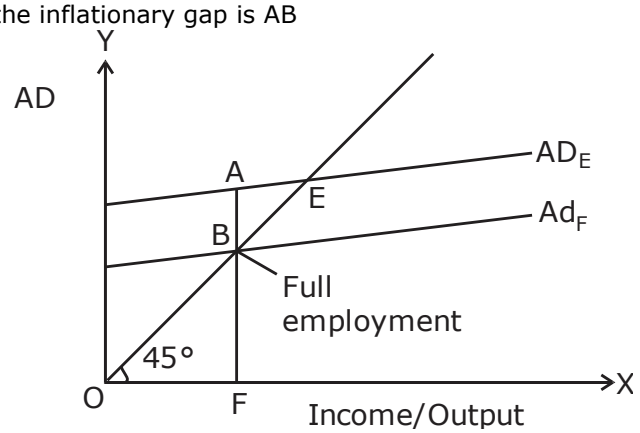
Revenue expenditure is the expenditure that neither creates any assets nor reduce any liability of the Government. (1½)
Example: Salary, interest payment (any one) (½)
Capital expenditure is the expenditure that either creates an assets or reduces a liability of the Government. (1½
Example: Repayment of loan, expenditure on metro (any one) (1)

27. The money (or deposit or credit) creation by the commercial banks is determined by the amount of initial deposit and the legal reserve ratio (LRR). Suppose the amount of initial deposit is Rs 10,000 and LRR = 0.2(20%). The bank will keep 20% i.e., Rs 2000 as reserve and lend the remaining Rs 8000. Those who borrow spend this money. It is assumed that Rs 8000 comes back to the banks. This raises total deposits to Rs 18,000. Banks again keep 20% of Rs 8000 i.e., Rs 1600 as reserve and lend Rs 6400. This further raises the amount of deposits with the banks. In this way deposits go on increasing @ 80% of the last deposit. How many times will these deposits be is determined by the deposit multiplier:

    Money multiplier = $\frac{1}{LRR} = \frac{1}{0.2} = 5$ (1)

    The total deposits will be
    Total money creation = Initial deposit × Money multiplier = 10000 × 5
    = Rs 50,000 (1)

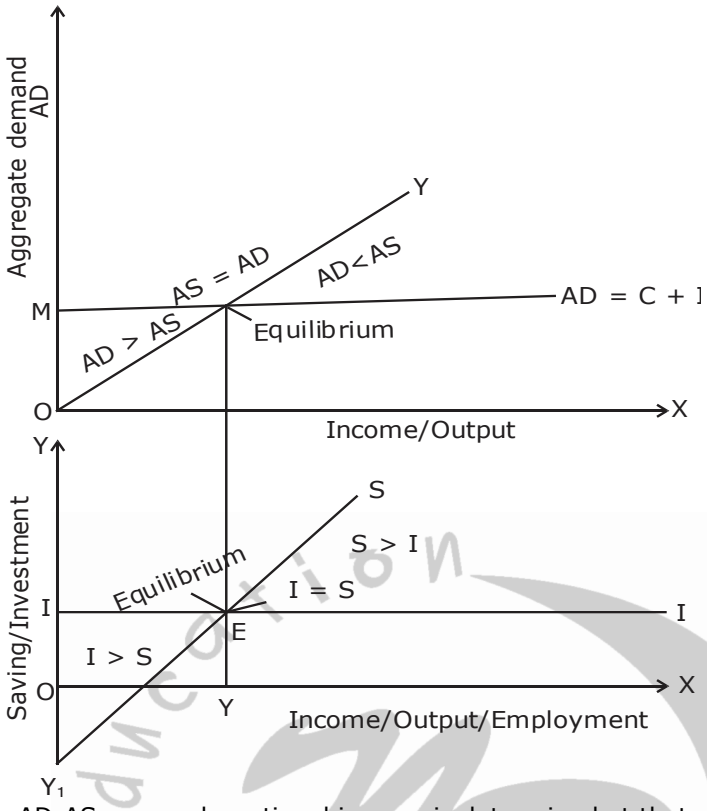
28. Inflationary gap refers to the excess of aggregate demand over the aggregate supply at the full employment level. (1)
    In the diagram, the inflationary gap is AB



(2)

'Reserve requirement' refers to the minimum percentage of bank deposits which banks are required to deep as cash. This determined the lending capacity of the banks. It is called the legal reserve ratio and is determined by the central bank. The central bank can remove the inflationary gap by raising the ratio. It will reduce the lending capacity of the banks and investment in the economy. It will reduce Aggregate demand and thus remove the gap.

OR



(3)

According to AD-AS approach, national income is determined at that output level at which

AD = AS

C + I = C + S

So, I = S when AD = AS

National Income is determined at the intersection of the saving curve(S) and investment curve (I) i.e., at point E. The equilibrium national income is OY. (2)

29. Income = 300, 400 (2)

Consumption Expenditure = 200 (1)

MPS = 0.4, 0.6 (2)

APS = – 0.4 (1)

30. GNP_{MP} = ii + v + (vi + iv – ix + x) – viii – vii (2)

= 500 + 150 + (100 + 10 – 10 + 50) – 20 – (–15) (1)

= 650 + 150 – 20 + 15 (½)

= Rs 795 crore (½)

(ii) NCTFA = iii – (GNP_{MP} - x) (1)

= 750 – (795 – 50) (½)

= 750 – 795 + 50 (½)

= Rs 5 crore