

SAMPLE QUESTION PAPER 3
ECONOMICS
Class – XII

Time allowed: 3hrs

Maximum Marks: 100

General Instructions:

- a) All questions are compulsory.
- b) The question paper comprises of two sections, A and B. You are to attempt both the sections.
- c) Questions 1 to 5 in section A and 16 to 18 in section B are MCQ's of one mark each. Choose the correct option.
- d) Questions 6 to 8 in section A and 19 to 23 in section B are three marks questions. These are to be answered in about 30 words each.
- e) Questions 9 to 11 in section A and 24 to 25 in section B are four marks questions. These are to be answered in about 50 words each.
- f) Questions 12 to 15 in section A and 26 to 29 in section B are six marks questions. These are to be answered in about 70 words each.

Section A

1. Which of the following is not a central problem?
a) What to produce b) How to produce
c) Why to produce d) For whom to produce
2. If the demand for good Y increases as the price of good X rises, how are the two goods related?
a) Substitute goods b) complementary goods
c) giffen goods d) None of the above
3. The demand for a good falls with an increase in income of the consumer. What type of good is it?
a) Inferior good b) giffen good
c) Normal good d) Both a and b.
4. When the demand is perfectly elastic, the demand curve is:
a) parallel to X – axis b) parallel to Y-axis
c) downward sloping curve d) upward sloping curve
5. Which of the following is not a microeconomic study?
a) demand for a commodity b) price determination
c) general price level d) none of the above
6. Discuss the central problems of an economy.
7. What is the difference between ordinal and cardinal utility analysis?
8. Complete the table if AFC at one unit of production is Rs 60.

Output	1	2	3	4	5	6	7	8
TC	90	105	115	120	135	160	200	260
TVC								
TFC								
AVC								
AFC								
ATC								
MC								

9. Explain any three determinants of demand for a commodity.
10. Why is MC curve in the short-run U shaped?
11. Suppose a consumer wants to consume two goods which are available only in integer units. The two goods are equally priced at Rs 10 and the consumer income is Rs 40.
a) Write down all the bundles that are available to the consumer.
b) Among the bundles that are available, identify those which cost her exactly Rs. 40.
12. Distinguish between perfect competition and Oligopoly.
13. When will a) simultaneous increase and b) simultaneous decrease in both demand and supply not affect equilibrium price? Explain with the help of diagram.
14. Explain three causes of the leftwards shift of the supply curve.
15. Explain four factors affecting price elasticity of demand.

SECTION B

16. The Great Depression took place in?
a) 1925 b) 1926 c) 1929 d) 1939.
17. Which of the following does not take place in a three- sector economy?
a) Households b) Rest of the world
c) Firms d) government
18. What is the rationale for not taking into account the value of intermediate goods in the measure of Gross Domestic Product?
19. The difference between Export and import of goods is called?
a) Balance of payment b) Balance of trade
c) Balance of invisible trade d) None of the above.
20. What happens when the credit availability is restricted and credit made costlier?

21. In an economy, the actual level of income is Rs 500 crore whereas the full employment income is Rs. 800 crore. The MPC is 0.75. Calculate the increase in investment required to maintain the full employment level of income.
22. Does public debt impose a burden? Explain.
23. From the following data, calculate Net value added at factor cost by it: (Rs. In lakhs)
- Purchase of materials 30
 Depreciation 12
 Sales 200
 Excise duty 20
 Opening stock 15
 Intermediate consumption 48
 Closing stock 10
24. Briefly explain how a Central bank can control credit creation by commercial banks by changing the bank rate?
25. Define a government budget. State its three objectives.
26. Classify following items into Revenue Expenditure and capital expenditure. Give reason for your answer.
- Free Supply of Stationary to the students by the Govt.
 - Economic assistance given according to Ladli Scheme.
 - Expenditure on the construction of computer lab in school.
 - Expenditure on Mid Day Meal given to students by the Govt.
27. Differentiate between Central bank and commercial banks.
28. What is barter system? What are the drawbacks of the barter system?
29. Explain how foreign exchange rate is determined in the foreign exchange market. Use diagram.
30. Explain briefly the determination of equilibrium level of income. Use diagram.



SAMPLE PAPER 2
SOLUTIONS

1. Option C. Why to produce
2. Option A. substitute goods.
3. Option A. Inferior goods.
4. Option A. Parallel to X-axis.
5. Option C. General price level.
6. The central problems of the economy are as follows:

- a) **What to produce:** An economy has millions of commodities to produce. It has to decide whether to produce luxury goods or wage goods or capital goods or consumer goods and so on.
- b) **How to produce:** The next choice is the choice of technique of production. Every economy faces the problem of as to how resources should be combined for the production of a given quantity. This is the problem of deciding whether to use capital intensive or labour intensive technique of production.
- c) **For whom to produce:** What good should be consumed and by whom depends upon how national income is distributed among people.

Cardinal utility approach	Ordinal utility approach
<ul style="list-style-type: none"> • Utility is a measurable and quantifiable concept and can be expressed numerically. • Unit of measurement is 'utils' 	<ul style="list-style-type: none"> • Utility is psychological phenomenon and is inherently immeasurable. • It cannot be measured in absolute terms but it is possible for a consumer to scale his preferences by giving them ranks.

8.

Output	1	2	3	4	5	6	7	8
TC	90	105	115	120	135	160	200	260
TVC	30	45	55	60	75	100	140	200
TFC	60	60	60	60	60	60	60	60
AVC	30	22.5	18.33	15	15	16.67	20	25
AFC	60	30	20	15	12	10	8.57	7.5
ATC	90	52.5	38.33	30	27	26.67	28.57	32.5
MC	-	15	10	5	15	25	40	60

9. Followings are the factors that affect demand for a commodity:
 - a) **Price of the commodity:** generally when the price of the commodity goes up, demand for it falls and when the price goes down, demand increases.
 - b) **Income of the consumers:** generally when the income of the consumer increases, demand for the commodity goes up and when the income falls, demand goes down.
 - c) **Price of related goods:** In case of complementary goods like car and petrol, the demand for a commodity rises with a fall in price of a complementary good. In case of substitute goods like tea and coffee, demand for a commodity falls with a fall in price of other substitute goods.
10. MC curve is U shaped in the short run due to the operations of the law of returns to factor (law of variable proportion). Initially production is subject to law of increasing returns (decreasing cost), then law of constant returns (constant cost) and ultimately to the law of diminishing returns (increasing cost). As output is increased, AC first falls, reaches its minimum and then rises. That is why MC is U shaped.

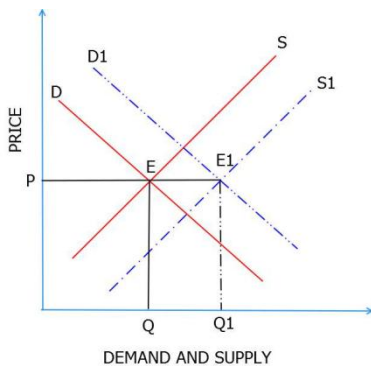
11. a) All the bundles that are available to the consumer are:
 (0,0) (0,1) (0,2) (0,3) (0,4)
 (1,0) (1,1) (1,2) (1,3)
 (2,0) (2,1) (2,2)
 (3,0) (3,1)
 (4,0)

- b) Following bundles cost exactly Rs 40
 (0,4) (1,3) (2,2) (3,1) (4,0)

12.

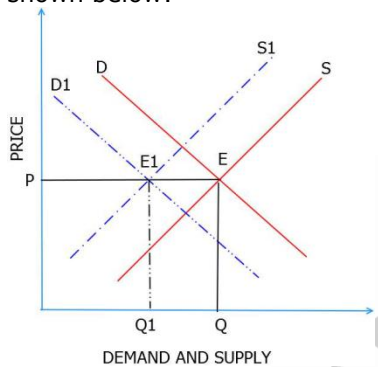
Basis	Perfect competition	Oligopoly
Number of buyers and sellers	Very large	Sellers are few but buyers are large
Nature of product	Homogenous	Homogenous or differentiated
Entry or exit of firms	Free entry and exit	Restricted entry and exit
Demand curve	Perfectly elastic	Intermediate/undefined
Knowledge of market conditions	Perfect knowledge	Imperfect knowledge
Price	Uniform	Undetermined

13. **Case 1:** When both demand and supply of the commodity increase. When both demand and supply increase in the same proportion, then there is no change in equilibrium price but equilibrium quantity increases. This is shown below:



In the diagram, supply increases from SS to S_1 S_1 and demand increases from DD to D_1D_1 . Both demand and supply increases in the same proportion, therefore equilibrium price remains unchanged at OP but equilibrium quantity increases from OQ to OQ_1 .

Case 2: When both demand and supply of the commodity decreases. When both demand and supply decreases in the same proportion, then there is no change in equilibrium price but equilibrium quantity will decrease. This is shown below:



In the diagram, supply decreases from SS to S_1 S_1 and demand decreases from DD to D_1D_1 . Both decreases in equal proportion, therefore, the equilibrium price remains constant but equilibrium quantity decreases from OQ to OQ_1 .

14. Main causes of the leftwards shift of the supply curve are:

- Use of less productive technology:** If the firm is using less productive technology, the unit cost of production will rise. With higher cost of production, the firm produces less and would supply less than before at the given price and therefore the supply curve will shift to the left.
- A rise in price of inputs:** A rise in price of inputs like wages, raw materials etc, increases the unit cost of production and therefore firms would supply less than before at the given price. As a result, supply curve shift to the left.
- A rise in price of other goods:** Suppose wheat and sunflower are the two goods that a farmer can produce. If the price of sunflower rises, then it would be more profitable for the farmer to produce and sell more sunflower. Therefore, the supply of wheat would decrease even though the price of wheat remained the same. Thus, the supply curve for wheat would shift to the left.

15. Following are the factors affecting price elasticity of demand:

- Availability of close substitutes for the commodity:** a commodity will have elastic demand if there are close substitutes available, e.g., Pepsi, Coca-cola etc. A commodity having no close substitutes, e.g., salt will have inelastic demand.
- Nature of good:** generally, the demand for necessities is inelastic and that for luxuries is elastic. This is because certain goods which are essential to life will be demanded at any price, whereas goods that are meant for luxuries can be dispersed easily if they appear to be costly.
- Uses of the commodity:** if a commodity has only few uses e.g., butter, its demand is likely to be inelastic. If on the other hand, a commodity has many uses, its demand is likely to be elastic, e.g., milk, electricity.
- Tastes and preferences:** if the consumers are habitual of some commodities, the demand for such commodities will be usually inelastic because they will use them even if their price goes up. A smoker generally does not smoke less when the price of cigarette does up.

SECTION B

16. Option C. 1929

17. Option B. Rest of the world.

18. To avoid the problem of double counting.

19. Option B. Balance of trade.

20. Limited and costly credit leads to contraction of credit and it has a deflationary impact on the economy.

21. Change in Y required to achieve full employment = $800 - 500 = 300$ crores

$MPC = 0.75$

Change in $Y = \{1/1 - MPC\} * \text{change in } I$

$300 = \{1/1 - 0.75\} * \text{change in } I$

$300 = \{1/0.25\} * \text{change in } I$

Therefore, change in $I = 300/4 = 75$ crores.

22. Yes, mostly public debt prove to be a burden on the economy because:

- (i) It proves to be a burden on common man if loans are taken for war and weapons
- (ii) If hampers economic development of a country, and
- (iii) It leads to unplanned spending.

23. $NVA_{FC} = \text{Sales} + \text{closing stock} - \text{opening stock} - \text{intermediate consumption} - \text{depreciation} - \text{NIT}$
 $= 200 + 10 - 15 - 48 - 12 - 20 = 115 \text{ lakhs.}$

24. Bank rate is the rate at which the Central bank gives credit/loans to the commercial banks. A rise in bank rate causes an increase in the rate of interest i.e. the cost of borrowings goes up. Higher cost of borrowing discourages borrowers from demanding loans. Thus, there would be contraction of credit. When the Central bank reduces the bank rate, the rate of interest or cost of borrowing goes down. Lower cost of borrowings encourages customers to demand more loans. Thus, there would be expansion of credit. Thus, the Central bank can control credit creation by the commercial banks by changing the bank rate.

25. A government budget is a detailed statement of the estimates of government receipts and government expenditure during a financial year.

OBJECTIVES

a) **Promoting economic growth:** The government can promote economic growth by setting up basic and heavy industries like steel, furniture, building etc. These industries are not normally taken up by the private sector because these involves huge amount of expenditure and their margin of profits is very low.

b) **Reducing inequalities of Income:** The government can reduce inequality of income by taxing the rich people more in the budget and spending more on the poor.

c) **Ensuring stability in prices:** The government ensures price stability particularly of essential commodities and services by opening fair price shops, keeping sufficient stock of food grains, etc.

26. 1,2& 4- are revenue expenditure because it neither create assets nor cause reduction in assets.
 3- is capital expenditure because it increase assets of the Govt.

Value – Analytic

27.

Central bank	Commercial banks
It is the apex monetary institution which controls the entire money and banking system in the economy.	It is a constituent unit of the banking system
The central bank does not operate with profit motive. Its aim is to maximize public welfare through monetary measures	They have profit motive as the main objective
The central bank is a state owned system.	It does not deal directly with public.
They are either state owned or private owned institutions.	Commercial banks have direct dealing with the public.

28. The direct exchange of goods and services without the exchange of money is called barter system.

The major drawbacks of the barter system are:

a) **Lack of double coincidence of wants:** It is very rare when owner of some good or service could find someone who wanted his goods or services and possessed that good or service that the first person wanted. No exchange is possible if the double coincidence of want is not there.

b) **Lack of common measure of value:** the second drawback is that there is the absence of a common unit of measurement in which the value of goods and services can be measured. In the absence of common unit, proper accounting is not possible.

c) **Lack of standard for deferred payment:** it lacks satisfactory unit to engage in contracts involving future payments. In a barter economy, future payments would have to be stated in specific goods or services which may involve disagreement over the quality of goods or even on the commodity used for repayment.

d) **Lack of store of value:** the barter system does not provide any method of storing purchasing power for future use. It can be stored only in terms of commodities which is subject to storage cost, durability, or increase or decrease in the value of good and the difficulty in disposing of the commodity without loss.

29. The flexible exchange rate is determined by the forces of demand and supply in the foreign exchange market.

Demand for foreign exchange: demand for foreign exchange is made to

- a) purchase goods and services
- b) send gifts and grants
- c) invest and purchase of financial assets in some other country and
- d) speculate on the value of foreign currencies.

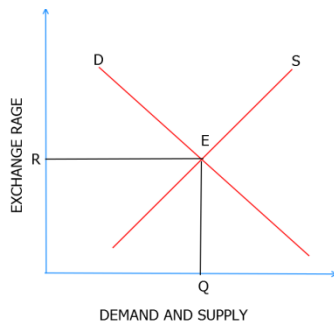
As the exchange rate rises, less foreign exchange is demanded and vice-versa. The demand for foreign exchange is downward sloping.

Supply of foreign exchange: the supply of foreign exchange in a particular country comes from

- a) foreigners purchasing home countries goods and services through exports
- b) foreigners investment in home country and
- c) flow of foreign exchange through speculation.

The supply curve of foreign exchange (say dollars) varies directly with the exchange rate. As the exchange rate rises, the supply of foreign exchanges increase and vice-versa.

Determination : The flexible exchange rate is determined at a point where the demand for and supply of foreign exchange are equal. i.e. demand for foreign exchange = supply of foreign exchange. The diagram illustrates determination of equilibrium exchange rate.



The diagram shows that demand for dollars and supply of dollars curves intersect each other at point E. the equilibrium exchange rate is OR and the equilibrium quantity is OQ.

30. Equilibrium level of income is determined at a point where aggregate demand is equal to aggregate supply.
 (i) Aggregate demand :it represents the total expenditure on goods and services in an economy. Aggregate demand consists of (a) consumption expenditure (b) investment expenditure. Thus $AD = C+I$.
 (ii) Aggregate supply: It refers to the total production of goods and services in the economy. It refers to country's national income. Thus, $AS = Y$

Determination of equilibrium income : the equilibrium income is determined at a point where $AD = AS$. This is shown below:

Y	C	I	AD = C+I	AS= Y
0	50	100	150	0
100	100	100	200	100
200	150	100	250	200
300	200	100	300	300
400	250	100	350	400
500	300	100	400	500

The above table and diagram shows that the equilibrium level of income is Rs. 300 crores because at this level of income $AD (300) = AS (300)$.

