



## Board Paper of Class 12-Economics 2023

**Total Time: 180**

**Total Marks: 80.0**

### **Solution 1**

'Money is an asset which can be stored for use in future.'  
The function of money is 'a store of value'.

Hence, the correct answer is option (c).

### **Solution 2**

This represents the managed floating exchange rate system.

Hence, the correct answer is option (c).

### **Solution 3**

Statement 1 is true and statement 2 is false.

Hence, the correct answer is option (a).

### **Solution 4**

Deficit in Balance of Payment (BOP) refers to the excess of autonomous payments over autonomous receipts.

Hence, the correct answer is option (c).

### **Solution 5**

Correct pair is A - (i).

Hence, the correct answer is option (a).

**OR**

Correct answer is option B.

Hence, the correct answer is option (b).

### **Solution 6**

If increase in National Income is equal to increase in Savings, the value of Marginal propensity to Consume would be zero.

Hence, the correct answer is option (d).

**OR**

The relevant consumption function would be  $C = 30 + 0.75 Y$ .

As  $k = 1/s = 0.25$ . So,  $mpc = 1 - s = 0.75$ .

Hence, the correct answer is option (a).

### **Solution 7**

Both statements are false. M1 is defined as the sum total of currency held by the public, Net Demand Deposits held by the commercial banks and other deposits held by the RBI.

Hence, the correct answer is option (d).

### **Solution 8**

High inflation will result in a deficit in the trade balance of country X as their imports will be higher than exports due to high domestic prices.

Hence, the correct answer is option (b).

**OR**

This means that the value of Indian currency has depreciated.

Hence, the correct answer is option (b).

### **Solution 9**

Both Assertion and Reason are true and reason is the correct explanation of assertion.

Hence, the correct answer is option (a).

### **Solution 10**

If MPS is 0.25 then k must be 4 as  $k = 1/s$ .

Now, that  $k = 4$ , the increase in income will be ₹800 crores given a rise in investment by ₹200 crores.

Hence, the correct answer is option (d).

### **Solution 11**

Assuming the Base Year Price Index = 100.

We know, Q of 2018 is 100 units and that of 2019 is 110 units.

So, Real GDP of 2018 = Base Year Price Index × Quantity of 2018 =  $100 \times 100 = 10,000$

Real GDP of 2019 = Base Year Price Index × Quantity of 2019 =  $100 \times 110 = 11,000$

Percentage change in Real GDP =  $\frac{1000}{10,000} \times 100 = 10\%$

## Solution 12

1. False, Dividend received from investment abroad will be recorded in the credit side of the current account as it doesn't affect any asset or liability of the residents of a country or its government.
2. True, a depreciation of Indian currency will lead to a rise in its exports. This is because goods in the domestic country become cheaper hence increasing exports.

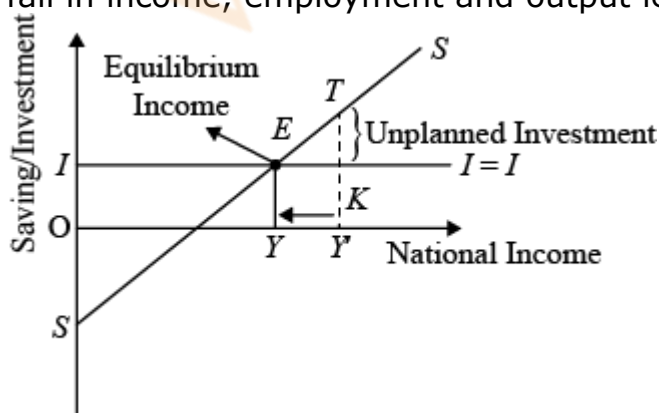
**OR**

Autonomous items refer to those international economic transactions that are undertaken with the sole motive of earning profit. Autonomous transactions are also called 'above the line items' in BOP. The BOP would show a deficit if the autonomous receipts are lesser than the autonomous payments. On the other hand, the BOP would show a surplus if the autonomous receipts are greater than the autonomous payments.

Accommodating items refers to those international economic transactions that are not undertaken with the motive of earning profit such as government financing, injection or withdrawal from the official reserves. Such transactions are undertaken as a consequence of the autonomous transactions. For example, if the autonomous receipts are lesser than the autonomous payments, then in the form of accommodating transactions the government might run down its official reserves in order to cover the deficit in the autonomous transactions. Accommodating items are also called 'below the line items' in BOP.

## Solution 13

The situation when  $S$  exceeds  $I$  i.e. when withdrawal from the income is greater than injections into the circular flow of income, then it implies that total consumption expenditure is less than what is required to purchase the available supply of goods and services. In other words, we can understand this as high saving implies low consumption, which means that the required output is less than the planned output. Thus, a portion of the supply remains unsold, which leads to unplanned inventory accumulation. In response to this situation, for clearing this unsold stock, the producers plan a cut in the production in the next period. Therefore reduce the employment of labourers. The reduced employment leads to fall in aggregate income in the economy, consequently, lesser aggregate saving. So, when savings exceed investments, it results in a fall in income, employment and output levels.



In the figure,  $S$  and  $I$  represent the Saving and Investment curves. Let us suppose that the equilibrium is facing a situation, where saving ( $TY'$ ) exceeds

investment ( $KY'$ ). Consequently, the aggregate consumption expenditure is lower than what is required to buy all the goods and services. Therefore, there exists unplanned inventory accumulation of unsold stock equal to  $TK$  (i.e.  $TY' - KY'$ ) and the producers respond by reducing the production by reducing employment. Due to reduced employment, the income of the factors of production (of the people) falls. Subsequently, the saving will fall due to reduced income. Hence, the saving will continue to fall, until, saving equates investment at point  $E$ . The economy achieves equilibrium at point  $E$ , with saving equal to investment and  $OY$  level of national income (or output).

### **Solution 14**

Repo rate refers to the rate at which the central bank lends money to the commercial banks. It is a tool used by the RBI to control the money supply in the economy. An increase in the repo rate increases the cost of borrowing for the commercial banks from the central bank. The commercial banks in turn, increase the lending rate for their customers. However, this increase in the lending rate reduces the borrowing capacity of the public, thereby, discouraging loans and credit. This depresses the multiplier process and thus, decreases the value of money multiplier. Hence, if RBI decides to increase the repo rate, then it will reduce the money supply in the economy.

### **Solution 15**

Reverse Repo rate refers to the rate at which the central bank borrows money from the commercial banks. It is a tool used by the RBI to control the money supply in the economy. An increase in the reverse repo rate makes lending to RBI a more attractive option for commercial banks. As a result the commercial banks increase the lending to RBI. This reduces the lending capacity of the commercial banks to the public. This depresses the multiplier process and thus, decreasing the value of money multiplier, thereby restricting the credit creation process. Hence, an increase in reverse repo rate, will reduce the money supply in the economy, whereas a decrease in reverse repo rate will increase the money supply in the economy.

**OR**

Central bank acts as a banker, agent and financial advisor to the government. As a banker to the government, it performs the following functions.

1. It manages the account of the government.
2. It accepts receipts from the government and makes payment on behalf of it.
3. It grants short-term loans and credit to the government.
4. It performs the task of managing the public debt.
5. The central bank advises the government on all the banking and financial related matters.

### **Solution 16**

(I) According to the Expenditure method, National Income is measured in terms of total expenditure on final goods and services produced in an economy during an accounting year.

The expenditure on final goods and services can be broadly classified into the following four categories.

**1. Private Final Consumption Expenditure:** It refers to the expenditure

incurred by all the individuals/households/other non-profit organisations on the final goods (both durable and non-durable) and services. It also includes the purchases of resident households made abroad. However, it should be noted that the **purchases of non-resident households** in the domestic market are **not included in the national income**.

**2. Government Final Consumption Expenditure:** It refers to the expenditure incurred by the government on the final goods and services.

**3. Investment Expenditure:** Every producer purchases final goods and services for themselves to use them further in the production process (such as the purchase of machinery). Such purchases (expenditure) by the producer are called the investment expenditure.

**4. Net Exports:** Net exports refers to the difference between the total exports and total imports of a country during an accounting year.

(II) Domestic Income ( $NDP_{fc}$ ) = Wages and salaries + Rent and Royalties + Corporate tax + dividends + retained earnings + mixed incomes of self employed

$$= ₹1700 + ₹1300 + ₹400 + ₹400 + ₹300 + ₹1400$$

$$= ₹5500 \text{ crore}$$

**OR**

(I) (i) Profit earned by branches of foreign banks in India will be excluded from national income as it is a part of factor income to abroad

(ii) Expenditure on upgradation of fixed capital asset will be excluded from national income as it is a part of intermediate expenditure.

(II)  $GDP_{mp} = ₹1100$  crore

Net factor income from abroad = ₹100 crore

Net Indirect Taxes = ₹150 crore

National income ( $NNP_{fc}$ ) = ₹850 crore

**National Income ( $NNP_{FC}$ ) = Gross Value Added at Market Prices ( $GDP_{MP}$ ) – Depreciation – Net Indirect Taxes + NFIA**

**So, Depreciation = Gross Value Added at Market Prices ( $GDP_{MP}$ ) – National Income ( $NNP_{FC}$ ) – Net Indirect Taxes + NFIA**

$$= ₹1100 - ₹850 - ₹150 + ₹100$$

$$= ₹200 \text{ crores}$$

### **Solution 17**

(a) Tax receipts include corporate income tax, individual income tax, property tax and sales and gross receipt tax.

Non-tax receipts include fees and motor vehicle license fees.

(b) The government through its budgetary policy attempts to promote fair and right distribution of income in an economy and reduce income inequalities. This is done through taxation and expenditure policy. On one hand, through its taxation policy, the government taxes the higher income group and on the other hand, through the expenditure policy (subsidies, transfer payments, etc.), it transfers the purchasing power in the hands of the poor sections of society.

So, if the government is spending more on providing free services like education and health to the poor then the government is trying to attain a fair

distribution of income in the society through such measures.

**Solution 18**

During the British rule, Indian agriculture output witnessed stagnation due to the land settlement system.

Hence, the correct answer is option (c).

**Solution 19**

P.C. Mahalanobis was the architect of planning in India.

Hence, the correct answer is option (b).

**OR**

In the first phase of Green Revolution, output was restricted mainly to Wheat and Rice.

Hence, the correct answer is option (b).

**Solution 20**

Statement 1 is false but statement 2 is true.

Hence, the correct answer is option (b).

**OR**

One Child norm policy was not adopted by Pakistan. It was adopted by China.

Hence, the correct answer is option (c).

**Solution 21**

NABARD

Hence, the correct answer is option (d).

**Solution 22**

Both Assertion and Reason are true but reason is not the correct explanation of assertion.

Hence, the correct answer is option (b).

**Solution 23**

(i), (ii) and (iii) are problems in human capital formation.

Hence, the correct answer is option (c).

**Solution 24**

Statement 1 is true but statement 2 is false. China undertook reforms in 1978.

Hence, the correct answer is option (a).

**Solution 25**

Land degradation is not a function of the environment.

Hence, the correct answer is option (c).

### **Solution 26**

It is  $\frac{\text{Total Workers}}{\text{Total Population}} \times 100$

Hence, the correct answer is option (b).

### **Solution 27**

Both statements are false.

Hence, the correct answer is option (d).

### **Solution 28**

The picture depicts the scenario of global warming in the world. Global warming refers to the increase in global temperature due to the significant rise in the percentage of greenhouse gases (particularly carbon dioxide) in the atmosphere. The increase in the level of carbon dioxide in the atmosphere raises the temperature of Earth's surface. This rise in temperature accelerates the melting of polar ice and this, in turn, leads to the rise in sea level. This disturbing of ecological balance increases the incidence of natural calamities and, thereby, poses a threat to human life. Increased industrialisation and deforestation are the two main causes of global warming. Global warming has emerged as a major concern for the world. Various steps are being taken to control global warming. For example, in 1997, at a UN conference in Japan, an international agreement was formulated for the reduction in the emission of greenhouse gases.

### **Solution 29**

In rural areas of India more family members are engaged in work yet the gross income is low. The type of unemployment explained here is disguised unemployment. This is because even if some of the family members were to be removed from the farm, the agricultural output would not be affected. This suggests that the number of workers engaged in farming is more than what is actually required. For example, let us say that a piece of land can be cultivated by five people efficiently. However, eight people are engaged in cultivation. Now, if we were to remove three of these people, then there would be no change in the farm produce. In this case, we can say that three of the eight people are in disguised unemployment. Thus, disguised unemployment leads to a situation where more number of persons are engaged in a work but the gross income is comparatively low.

**OR**

Microcredit refers to the credit and other financial services provided to the poor through self- help groups (SHGs) and non-governmental organisations (NGOs).



SHGs play a crucial role in meeting the credit requirements of the rural poor by inculcating in them the habit of saving. The individual savings of many farmers are pooled together to meet the financial requirements of the needy members of SHGs. The members of these groups are linked with the rural banks. A poor individual, thus, become financially strengthened by being part of an SHG. Further, the financing made through SHGs reduces transaction costs for both lenders and borrowers. Presently, more than 7 lakh SHGs are operating in different rural areas. SHGs are becoming popular among the small and marginal borrowers owing to their informal credit delivery mechanism and minimal legal formalities.

### **Solution 30**

From the given information we can understand that:

- a. The annual growth of gross domestic product in India was 5.7 in the year 1980-90. It increased to 7.3 in the year 2015-17.
- b. The annual growth of gross domestic product in China was 10.3 in the year 1980-90. It decreased to 6.8 in the year 2015-17.
- c. We can see that in 1980-90 China's growth of GDP was much better than India.
- d. In 2015-17, India's growth of GDP increased and was better than that of China.

### **Solution 31**

(i) Privatisation refers to the process of increasing the involvement of private sector in the ownership or operation of a state owned enterprise. In other words, privatisation refers to the gradual transfer of ownership or management of state owned enterprises from the public sector to the private sector enterprises. It implies assigning a greater role to the private sector undertakings in the growth and development process.

(ii) The economic reforms of 1991 did not benefit the agricultural sector significantly. The primary focus of the LPG reforms was on the industrial sector, while the agricultural sector was neglected. The following are the reasons that explain the poor performance of the agriculture sector in the post-reform period.

**1. Reduction of public investment:** There was a drastic decrease in the volume of public investment in the agricultural sector. An acute cutback from the Indian Government in providing sufficient irrigation facilities, electricity, information system, market linkages and roads made the situation of agricultural sector even worse. Moreover, investment in agricultural research and development was not as extensive as it was during the Green Revolution phase.

**2. Removal of subsidies:** Removal of subsidies, particularly fertiliser subsidies pushed up the cost of production in agriculture. Consequently, this made farming more expensive. This in turn adversely affected the poor and marginal farmers. Also, due to this there standard of living declined drastically.

**3. Liberalisation and reduction in import duties on agricultural products:** Due to adherence to the WTO commitments, Indian Government reduced import duties and other quantitative restrictions on agricultural



products. This opened the gates for foreign competition. The poor and marginal farmers were forced to compete with their foreign counterparts. This stiff competition in the international market along with traditional techniques of farming badly affected the poor farmers.

**4. Shift towards cash crops and lack of food grains:** The export oriented production strategies led to the shift of agricultural production from food grains to the production of cash crops such as cotton, jute, etc. This led to the reduced availability of food grains and consequently lower nutritional values in the country.

**OR**

One cannot deny the fact that under the British rule, there was significant infrastructure development in the country. However, the bonafide motive of the British behind the infrastructure development was only to serve their own colonial interest and boost up their industrialisation process using Indian raw materials. Also, they wanted to widen their consumer market in India. The following points highlight the development of infrastructure in India during the British rule.

**1. Development of roads to widen consumer market:** The British initiated the construction of roads in India. The roads served the purpose of facilitating transportation of raw materials from different parts of the country to the ports. However, the roads were developed only on those routes that served the economic interest of the British. On the other hand, the majority of the regions suffered due to lack of connectivity, particularly at the time of natural calamity, war, etc. Besides, there was lack of all-weather roads.

**2. Development of railways for transporting raw materials and final goods:** The Colonial government introduced railways in the country. The first railway train started in India in the year 1853. Railways were developed mainly for two purposes, firstly, for the transportation of finished goods of British industries to the interiors of India and secondly, for the transportation of raw materials from different regions of India to the ports. In this way, the railways helped in the expansion of markets for the finished products of British industries. Further, the railways facilitated the commercialisation of agriculture. For instance, cash crops such as indigo that were required by the British industries could now be easily transported. This commercialisation of agriculture helped in increasing the exports for the country. However, India could not benefit from the increased exports, rather the self-sufficiency of the farmers in food grains got hampered.

### **Solution 32**

(a) False, a rapid increase in population becomes a hindrance in the way of quality of human capital formation. Population explosion exerts pressure on the available limited resources. Rising population reduces the per capita availability of facilities such as housing, water, drainage, etc provided to people. Thus, the standard of living remains low.

(b) True, skilled workers are better able to utilise the machines, production plants, tools and equipments. They handle the productive assets in such a manner that these not only enhance their productivity, but also lead to an

efficient utilisation of the physical capital. When the productivity increases, the pace of growth is automatically accelerated. Hence, investment in human capital leads to increased productivity and production.

### **Solution 33**

The poor female literacy rate has lowered the socio-economic status of the women in India. The role of a literate mother cannot be neglected in the process of economic growth. A literate mother is more aware and can well take care of education and health issues of her children. The need for promoting female education in India is important because:

- a. Women's education is important as it gives them an economic independence and empowers them. It further saves them from exploitation.
- b. To raise the socio-economic status of women, their education is important which will further increase their standard of living.
- c. Women education is also important to increase the literacy rate of the country as a mother who is educated will teach her child as well and so on the literacy rates can improve in the country thereby increasing the social and economic status of its people.

(ii) Absorptive capacity of the environment means the ability of the environment to absorb degradation. For example, if we use petrol then its regeneration will take millions of years. Similarly, if we cut trees, it will again take years to grow them back. So, if we exploit resources and use them beyond their rate of regeneration, then we will be damaging the environment. Thus, it is important to use resources wisely and within its absorptive capacity.

### **OR**

(i) Agricultural diversification is one of the essential components of economic growth. It is the stage where traditional agriculture is transformed into a dynamic and commercial sector by shifting the traditional agricultural product mix to high standard products, which has a high potential in stimulating production rate. Here, agricultural diversification is supported by a change in technology or consumer demand, trade or government policy, and by transportation, irrigation, and other developments of infrastructure.

(ii) **Organic farming is a system of farming that employs organic inputs for the cultivation of crops.** Unlike conventional farming, organic farming does not make use of chemical fertilisers and toxic pesticides for crop growth. Instead, it employs organic inputs such as animal manure and compost. This type of farming is practised to produce non-poisonous and chemical-free food for consumers. At the same time, organic farming ensures that the fertility of soil is maintained.

Sustainable development is the process of development that aims at meeting the needs of the present generation without compromising the ability of the future generations to meet their own needs. Traditional farming techniques such as the use of chemical fertilisers and toxic pesticides harm the ecosystem. The harmful chemicals present in fertilisers and pesticides dissolve in water and penetrate the soil, thereby reducing its fertility. These chemicals also harm livestock. Moreover, the crops grown with the aid of chemical fertilisers and pesticides pose serious health hazards. In contrast, organic farming relies on the use of organic inputs for crop cultivation. This type of farming practice

produces toxic-free food for consumers while simultaneously maintaining the fertility of soil. In this way, it helps maintain the ecological balance. In other words, organic farming enables eco-friendly sustainable economic development.

### **Solution 34**

(i) World Trade Organisation (WTO) was formed in the year 1995 to promote the access of free trade across all the member nations. The basic objective of WTO is to promote good trade relations among different countries of the world. WTO also helps in establishing interlinkages among the different countries of the world. Moreover, this organisation also helps in establishing a framework for negotiating and formalising the trade agreements among the different countries of the world.

(ii) The two steps take by India to strengthen food security include:

a. National Food Security Act- Under this scheme, the government aims at strengthening the food security by offering subsidized food grains to the different sections of the Indian society. The One nation one ration card is a part of this Act.

b. Public Distribution System and ICDS- PDS was launched to increase the access of poor on the essential commodities such as rice, edible oils and wheat etc. To ensure food security to the people, programmes such as Integrated Child Development Scheme (ICDS) and Mid-Day Meals at school were also started by the Government of India.