Exam Hanbook 2021

Economics-XII

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Exam Handbook

Economics-XII

Edition 2021

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Subhash Dey

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Unit 1 10 Marks

National Income and Related Aggregates

Revised CBSE Syllabus 2020-21 | **For CBSE Economics Examination 2021**

- **What is Macroeconomics?**
- **Basic concepts in macroeconomics: consumption goods, capital goods, final goods, intermediate goods; stocks and flows; gross investment and depreciation.**
- **Circular flow of income (two sector model); Methods of calculating National Income - Value Added or Product method, Expenditure method, Income method.**
- **Aggregates related to National Income: Gross National Product (GNP), Net National Product (NNP), Gross Domestic Product (GDP) and Net Domestic Product (NDP) - at market price, at factor cost; Real and Nominal GDP.**
- **GDP and Welfare**

1.1 Some Basic Concepts

Macroeconomics

In macroeconomics, we study the economic behaviour of the economy as a whole, e.g. aggregate demand, aggregate supply, levels of income, employment and price in the economy.

Final Goods and Intermediate Goods

Final goods are the goods which are used for final consumption (i.e., for satisfaction of wants) or for investment.

Examples: (i) Machine purchased by a firm for installation in factory, (ii) Milk or bread purchased by households, (iii) Printer purchased by a lawyer for office use, etc.

Intermediate goods *(or single use producer goods)* are the goods which are purchased during the year by a firm from another for the purpose of further production or resale.

Examples: (i) Raw materials such as steel sheets used for making automobiles and copper used for making utensils, (ii) Mobile sets purchased by a mobile dealer, (iii) Chalks, dusters, etc. purchased by a school, (iv) Paper purchased by a publisher, (v) Purchase of rice by a grocery shop, (vi) Fertilisers used by the farmers, etc.

Consumption Goods and Capital Goods

Consumption goods *(or consumer goods)* are that part of the final goods which are consumed (or used) for satisfaction of wants by the consumers, e.g., food, clothing, TV sets, refrigerators, etc.

Capital goods *(or investment goods or durable use producer goods)* are those final goods which help in further production of other goods and services, e.g. machinery.

Stocks and Flows

Stocks are economic variables which are measured at a given point of time, e.g. Capital, Wealth, Money supply, Inventories, Buildings and machines in a factory, Balance in a bank account, etc.

Flows are economic variables which are measured over a period of time, e.g, National income or GDP or Production or Output, Sales, Savings, Expenditure, Profits, Losses, Exports, Imports, Gross/Net capital formation or Gross/Net Investment, Depreciation, Interest, Change in inventories, Change in money supply or money creation, Value addition, etc.

Gross Investment and Depreciation

Gross investment *(or gross capital formation)* refers to the addition to the stock of physical capital and change in inventories in an economy during an accounting year.

Depreciation is an annual allowance for normal wear and tear and foreseen obsolescence of a fixed capital asset.

Depreciation is also called consumption of fixed capital or annual replacement cost of fixed capital assets.

Annual Depreciation is calculated as follows:

$$\frac{\text{Cost of fixed capital asset} - \text{Scrap value after its useful life}}{\text{Estimated useful life of the fixed capital asset (in years)}}$$

Unexpected/unforeseen obsolescence or sudden destruction of capital assets is not depreciation, but capital loss.

Concepts of Domestic Territory and Resident—their Implications

Domestic territory *(or Economic territory)* is the geographical territory administered by a government within which persons, goods and capital circulate freely. For example, (i) Branch of an American Bank in India, (ii) Embassies located abroad, e.g. Indian embassy in America, etc. are included in the domestic territory of India.

Resident is a person or an institution whose centre of economic interest lies in the domestic territory of the country in which he lives, for example, Indian officials working in the US Embassy in India, etc. are normal residents of India.

Implications: **Domestic product** includes production activity of the firms located in the domestic territory of the country irrespective of whether they are residents or non-residents, for example, (i) Profits earned by a foreign company or a foreign bank in India (ii) Compensation of employees to the residents of Japan working in Indian embassy in Japan are included in domestic product of India as it is a factor income earned in domestic territory of India.

National product includes production activity of residents only irrespective of whether performed within the domestic territory of the country or outside it, for example, (i) Salaries received by Indian residents working in Russian Embassy in India (ii) Dividend received by an Indian from his investment in shares of a foreign company are included in national product as it is a factor income earned by Indian residents from abroad.

Net factor Income from Abroad (NFIA)

Net Factor Income from Abroad is the excess of factor incomes (rent, wages, interest, profit) earned from abroad over factor incomes (rent, wages, interest, profit) paid to abroad. (NFIA = Factor income from abroad – Factor income to abroad)

NFIA is negative when factor income from abroad is less than factor income paid to abroad.

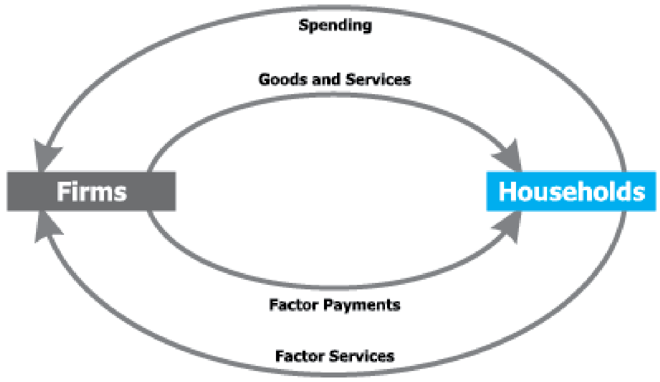
National product = Domestic Product + NFIA (Factor income from abroad – Factor income to abroad)

- Factor income received from abroad is added to domestic product to calculate national product because this factor income is earned by residents, though outside the domestic territory.
- Factor income paid to abroad is subtracted because this factor income is not earned by residents.\

Circular flow of income in a two sector economy

Two sector model consists of production units (firms) and households. Households are the owners of factors production and supply factor services (in the form of labour, capital, land and entrepreneurship) to the firms. Firms produce goods and services and make factor payments (in the form of wages and salaries, interest, rent and profit) to the households.Households spend the entire income on the purchase of goods and services produced by firms.

Thus, consumption expenditure flow from household to firms, completing the circular flow of income.



1.2 Estimation of National Income

Production Method (or Value Added Method)

Step 1: Estimation of value of output produced by each firm in all the sectors of the economy during the year.

Value of output is the estimated money value of all the goods and services, inclusive of change in stock and production for self consumption.

Value of output = Output produced (in units) × Market price

(a) If a firm had no initial unsold stock in the beginning of the year: ***Value of output = Sales + Value of unsold stock***

Sales = Output sold (in units) × Market price.
Or, Sales = Sale of goods and services to domestic buyers + Exports
* *Exports refers to the value of the goods and services sold by an economy to the rest of the world*

(b) If a firm had some unsold stock in the beginning of the year:

Value of output = Sales + Net change in inventories (stock)

Or, Value of output = Sales + Closing stock – Opening stock

- Inventory (Stock) is unsold goods, unused raw material or semi-finished goods which a firm carries from one year to the next.
- Unplanned inventories (Stock) refer to the unanticipated change in stock due to unexpected fall in sales.

Step 2: Calculation of Value Added (VA) and Gross Domestic Product at market price (GDPmp)

Value added/Value addition is the excess of value of output over the value of intermediate consumption.

Value added = Value of output – Intermediate consumption

Intermediate consumption refers to the value of goods and services used during the production process.
Intermediate consumption = Purchase of raw materials etc. + Imports of raw materials etc.

Example: Suppose that there are only two producers in the economy – farmer and baker. Farmer grows wheat worth ₹100 with no intermediate costs. He sells ₹50 worth of wheat to the baker, who produces ₹200 worth of bread.

Value added by farmer (GVAmp) = Value of wheat produced – Intermediate costs = 100 – 0 = ₹100.

Value added by baker (GVA) = Value of bread produced – Cost of wheat used = 200 – 50 = ₹150.

Note: Sum of Gross Value Added (GVA) of all firms in the economy is Gross Domestic Product (GDP).

GDP is the sum total of market value of all the final goods and services produced within the domestic territory of a country during a year. It is GDP at market price (GDPmp).

> **Why GDPmp is called 'Gross' and 'at market price'?** GDPmp is what buyers pay, not what production units actually receive. Out of GDPmp production units have to make provision for depreciation and payment of indirect taxes (e.g. GST) and receive subsidy from government.
>
> - GDPmp is called 'gross', because no provision has been made for depreciation yet.
> - GDPmp is called 'at market price' because it includes net indirect taxes *(indirect taxes – subsidies).*
>
> What production units actually receive is not the 'market-price' but "market price – indirect taxes + subsidies = Factor costs".

Step 3: Calculation of Net Domestic Product at factor cost (NDPfc)

NDPfc (domestic factor income)

= GDPmp – Depreciation – Indirect taxes + Subsidies

NDPfc is what production units actually receive and hence, distributed as wages and salaries, interest, rent, profits, etc.

Step 4: Calculation of National Income (NNPfc)

National income (NNPfc) = NDPfc + NFIA

Precautions in calculating national income by production method (or value added method)

1. Avoid double counting. Problem of double counting in the estimation of National Income arises due to counting the value of commodities more than once. This leads to overestimation of the value of goods and services produced in the economy.

   Two approaches to correct the problem of double counting are:

   (i) *Final output Method* : According to this method, value of only the final goods and services should be added to determine the national income.

   (ii) *Value Added Method:* According to this method, sum total of the value added by each producing unit should only be taken in consideration. It means the value of intermediate consumption should not be considered.
2. Do not include sale of second hand goods. Value of second hand goods being sold should not be included in national income as their value was accounted for at the time of first production. However, any brokerage or commission paid to sell the second hand goods is a fresh production activity, so brokerage or commission is included.
3. Self-consumed output must be included. Output produced but retained for self-consumption should be included since output has been produced during the year, e.g. farmer consuming his own produce.

Income Distribution Method

Step 1: Estimate the factor payments by each firm in the economy. The sum of factor payments equals Net Value Added at Factor Cost (NVAfc) of a firm.

Step 2: Take the sum total of NVAfc by all firms to arrive at NDPfc.

NDPfc = Compensation of employees

+ Operating surplus + Mixed income

1. Compensation of employees: It includes (a) Wages and salaries in cash and in kind, e.g. bonus, free medical facilities, free meals, house rent allowance, etc. (b) Social security contributions by the employers, e.g., provident fund or insurance premium paid by employers.
2. Operating surplus/ Income from property and entrepreneurship: It is the income which arises from ownership of physical/financial/intellectual property and reward to the entrepreneur for his contribution to the production of goods and services in the form (i) Rent/Royalties (ii) Interest (iii) Profit.

> Profit = Corporation tax + Dividend + Retained earnings/ undistributed profits.
>
> OR, Profit = Corporation tax + After tax profit

3. Mixed income of self-employed: The income of self employed people like doctors etc. has two or more factor incomes; total income is estimable, but not its different components. So, mixed income is another factor payment.

Step 3: National income (NNPfc) = NDPfc + NFIA

> Components of National income by income method:
>
> 1. Compensation of employees
> 2. Operating surplus
> 3. Mixed income of self employed
> 4. Net Factor Income from Abroad (NFIA)

Precautions in making estimates of national income by income method

1. Avoid transfers. National income includes only factor payments, i.e. payment for the services rendered to the production units by the owners of factors of production. Any payment for which no service is rendered is called a transfer, e.g. gifts, donations, charity, etc. Since transfers are not a production activity it must not be included in national income.
2. Avoid capital gain. Capital gain refers to the income from the sale of second hand goods and financial assets. So, income from sale of old cars, old house, etc. is not included since these are not production transactions. Similarly, income from sale of financial assets, e.g., shares, bonds, debentures, etc. are not included since

financial assets are neither goods nor services, hence not a production activity.

3. Include income from self-consumed output, e.g. when a house owner lives in that house, he does not pay any rent. But in fact he pays rent to himself. So, imputed rent should be included in national income since the house provides housing services. Rent is a factor payment.
4. Include free services provided by the owners of the production units. For example, owners work in their own units but do not charge salary. Owners provide finance but do not charge any interest. Owners do production in their own buildings but do not charge rent. Although they do not charge, yet the services have been performed. The imputed value of these must be included in national income.

Expenditure Method

Step 1: We take the sum of final expenditures on consumption and investment in the economy. This equals GDPmp. Components of GDPmp by expenditure method:

1. Private final consumption expenditure, e.g. purchase of a car by a household, expenditure on education of children by a family, etc.
2. Government final consumption expenditure, e.g. free services provided on education, heath, police service, defense services, etc.
3. Gross domestic capital formation *(= Gross domestic fixed capital formation + Net change in stock)*
4. Net exports: It refers to the excess of the value of exports over the value of imports of a country in an accounting year *(= Exports – Imports)*.
   - Exports, though purchased by non-residents, are produced within domestic territory, hence included in GDPmp.
   - Imports are deducted because imports are not produced within the domestic territory of the country.

GDPmp = Private final consumption expenditure + Government final consumption expenditure + Gross domestic capital formation + Net exports (or – Net imports)

Step 2: NDPfc = GDPmp – Depreciation – Net indirect taxes

Step 3: National income (NNPfc) = NDPfc + NFIA

Precautions in making estimates of national income by expenditure method

1. Avoid intermediate expenditure. Only final expenditures, i.e. expenditure on consumption and investment are included in national income. Intermediate expenditure like that on raw materials, etc. is not included.

Final expenditure refers to the expenditure on goods and services meant for final consumption and investment, for example, (i) Expenditure on purchase of car/furniture/sewing machine/refrigerator by a household is a final expenditure on consumption. (ii) Expenditure on purchase of a car/furniture/machine/refrigerator for use by a firm is a final investment expenditure.

Intermediate expenditure refers to the expenditure incurred by a firm on purchasing those goods and services during the year by a firm from another for the purpose of further production or resale, for example, (i) Payment of electricity bill by a school, (ii) Payment of fees to a Chartered Accountant/a Mechanic by a firm, (iii) Purchase of uniforms for nurses by a hospital, (iv) Expenditure on engine oil by a car service station, etc.

2. Do not include expenditure on second hand goods and financial assets. Buying second hand goods is not a fresh production activity. Buying financial assets is not a production activity because financial assets are neither goods nor services. Therefore they should not be included in estimates of national income.
3. Avoid transfer expenditures. A transfer payment is a payment against which no services are rendered, e.g. Charities, donations, gifts, scholarships, etc. Since no production takes place it is not included in national income.
4. Include the self use of own produced final products. For example, a house owner using the house for self. Although explicitly he does not incur any expenditure, implicitly he is making payment of rent to himself. Since the house is producing a service, the imputed value of this service must be included in national income.

Giving reason state how the following are treated in estimation of national income:

1. Payment of indirect taxes by a firm

Ans. No, it is not included in national income because an indirect tax paid to the government is a transfer payment as no good or service is provided in return.

2. Payment of corporate tax by a firm

Ans. No, it is not included as it is a transfer payment. Corporate tax accrues to the government. It is not received by the owners of factors of production. Hence, it is not a factor income.

3. Payment of interest on a loan taken by an employee from the employer/Payment of interest by an individual to a bank on a loan to buy a car/Interest received on loans given to a friend for purchasing a car.

Ans. No, it is not included in national income because the individual is a consumer, and the loan is taken to meet consumption expenditure. There is no contribution to production of goods and services. Therefore, it is not a factor payment.

4. Payment of interest by banks to its depositors/Payment of interest by a firm to households.

Ans. Yes, it is included in national income because it is a factor income paid by a production unit (bank or firm). Banks borrow for carrying out banking services/The firms borrow money for carrying out production.

5. Payment of interest by a firm (government firm or a private firm) to a bank

Ans. Yes, it is included in national income because it is a factor payment by the firm. The firm borrows money for carrying out production of goods and services.

6. Interest received on loan given to a foreign company in India.

Ans. Yes, it will be included in the national income as it is a part of factor income from abroad.

7. **Interest received on debentures.**

Ans. Yes, it will be included in the national income because interest received on debentures is a factor income because debenture is a sort of loan taken by a production unit, which uses the money in producing goods and services.

8. **Money received by a family in India from relatives working abroad, i.e., remittances from abroad/Scholarship given to Indian students studying in India by a foreign company/Free meals to beggars/Financial help received by flood victims/ Expenditure on old age pensions by government/Gift received from employer, e.g. festival gift, gifts on independence day, etc.**

Ans. No, it will not be included in the national income as it is a transfer income or transfer payment, which is received or paid without any contribution to production of goods and services. It is not a factor income.

9. **Free medical facilities or free meals or house rent allowance or leave travel allowance paid by the employer/Rent-free house given to an employee by an employer/Expenditure on medical treatment of employee's family/Payment of bonus by a firm to its employees/ Contribution to provident fund by employer**

Ans. Yes, it will be included in the national income as it is a part of the compensation of employees.

10. **Contribution to provident fund or insurance premium paid by employees**

Ans. No, it is not included in national income because it is paid out of compensation of employees, which is already included.

11. **Compensation given by insurance company to an injured worker.**

Ans. No, as compensation is given by insurance company to the employee and not by employer.

12. **Prize won in a lottery.**

Ans. No, because it is a windfall gain, not a factor income.

13. **Receipts from sale of land.**

Ans. No, it will not be included as land is a free gift of nature and cannot be produced.

14. **Dividend received by shareholders.**

Ans. Yes, it will be included in the national income as it is a part of the profits of production units, which is distributed to the owners. Hence, it is a factor income.

15. **Rent received by Indian residents on their buildings rented out to foreigners in India.**

Ans. Yes, it will be included in the national income as it is a factor income earned by the residents.

16. **Royalty**

Ans. Yes, it will be included in the national income as royalty is a productive income.

17. **Fees received from students**

Ans. Yes, it will be included in the national income as it is a part of the private final consumption expenditure.

18. **Purchase of goods by foreign tourists**

Ans. Yes, it is included in national income as these are exports produced in the domestic territory, an item of final expenditure.

19. **Expenditure on maintenance of factory building by a firm**

Ans. No, it will not be included in the national income as it is an intermediate expenditure of the firm.

20. **Transport expenses by a firm/ Expenditure on advertisement and scientific research by a firm**

Ans. No, it will not be included in the national income as it is an intermediate expenditure.

1.3 Real and Nominal GDP; GDP and Welfare

Nominal and Real GDP

Nominal GDP: It is the market value of all final goods and services, produced in a year, measured at the prices of current year. *In other words,* Nominal GDP is measured as the product of current year's output (Q_1) of final goods and services and their current year's price (P_1).

Nominal GDP may increase even if there is no increase in the output of goods and services produced in the economy, due to rise in general price level during the current year.

Real GDP: It is defined as the market value of all final goods and services produced in a year, measured at the prices of a given base year. *In other words,* Real GDP is measured as product of current year output (Q_1) and their base year's price (P_0).

Real GDP will increase only if the output of goods and services produced in the economy is increasing. Thus, Real GDP is a better indicator of economic growth and welfare of people of the country than Nominal GDP as it is not affected by changes in general price level.

Given Nominal GDP, we can find Real GDP by eliminating the effect of change in prices between the base year and the current year in the following way:

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

Suppose Nominal GDP = ₹288 and Price index = 120.

Thus, Real GDP = Nominal GDP/ Price Index × 100 = 288/120 × 100 = ₹240

GDP Deflator: The ratio of Nominal GDP to Real GDP of current year is a well known price index, called GDP Deflator. It gives the change in price level between the base year and current year.

$$\text{GDP Deflator/Price Index} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

Numerical Example:

Goods	Price of Current Year (P_1) (in ₹)	Price of Base Year (P_0) (in ₹)	Quantity of Current Year (Q_1) (in units)	Nominal GDP (P_1Q_1)	Real GDP (P_0Q_1)
A	20	10	100	2,000	1,000
B	10	5	200	2,000	1,000
C	30	20	50	1,500	1,000
				ΣP_1Q_1 = 5,500	ΣP_0Q_1 = 3,000

In the above example, the Nominal GDP = ΣP_1Q_1 = ₹5,500 and Real GDP = ΣP_0Q_1 = ₹3,000

The difference between Nominal GDP and Real GDP is 5,500 – 3,000 = ₹2,500. This is only the monetary difference (due to the change in the prices in the economy) as the quantity sold in the market remains unchanged.

$$\text{GDP Deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100 = \frac{5{,}500}{3{,}000} \times 100 = 183.33\%$$

This implies that the prices have risen by 83.33% between the base year and the current year.

Nominal and Real Income

When national income (product) of the current year is estimated on the basis of prices of current year, it is called **nominal national income** *(or national income at current prices)* whereas when national income (product) of the current year is estimated on the basis of prices prevailing in the base year, it is called **real national income** *(or national income at constant prices)*.

Nominal national income may increase due to increase in prices of goods and services during the current year without increase in the flow of goods and services in the economy. Real national income reflects the real growth of an economy because it increases only when there is an increase in real national output over a period of time.

Given Nominal Income, we can find Real Income by eliminating the effect of change in prices between the base year and the current year in the following way:

$$\text{Real National Income} = \frac{\text{Nominal National Income}}{\text{Price Index}} \times 100$$

Goods	Price of Current Year (P_1) (in ₹)	Price of Base Year (P_0) (in ₹)	Quantity of Current Year (Q_1) (in units)	Nominal NI (P_1Q_1)	Real NI (P_0Q_1)
A	20	10	100	2,000	1,000
B	10	5	200	2,000	1,000
C	30	20	50	1,500	1,000
				ΣP_1Q_1 = 5,500	ΣP_0Q_1 = 3,000

In the above example, Nominal NI (ΣP_1Q_1) = ₹5,500 and Real NI (ΣP_0Q_1) = ₹3,000

Is GDP a perfect index of economic welfare?

No, GDP cannot always be taken as a perfect index of economic welfare. Following are some of the limitations of using GDP as an index of welfare of a country:

1. Distribution of GDP: If the GDP of the country is rising, the welfare of people may not increase if there is inequalities in the distribution of GDP. Increase in inequalities means that rich become richer and poor become poorer.

Since utility of money is higher among poor and lower among the rich, therefore, if the distribution of GDP is not uniform, inequalities may not lead to increase in welfare of people.

2. Non-monetary exchanges (or non-monetary production): Non-monetary exchanges refer to the goods and services produced but not exchanged for any monetary value. For example, value of household chores (cooking, washing, cleaning etc.) by a millions of home-makers is not included in the GDP of the economy. Similarly, barter exchanges are not included as these exchanges are not evaluated in terms of money due to non-availability of data.

Since GDP does not include non-monetary exchanges/production, it is major cause of undervaluation of GDP in the economy. As result, welfare of the people is also underestimated.

3. Externalities: Externalities refer to the benefits/harms caused by a firm/individual to the society in general, without being penalised/paid. There are two types of externalities:

Negative externalities: Social harms, e.g. (i) Air pollution caused by vehicles and smoke out of chimneys of factories (ii) Traffic jams.

Negative externalities may cause harm to the people. Hence, their welfare will fall. However, GDP does not account for such negative externalities. Thus, GDP overestimates the actual welfare.

Positive externalities: Social benefits, e.g. (i) Introduction of metro rail has saved the time and money of general public and has provided safe means of transport. (ii) Saving of time/fuel with construction of better roads in a country. Positive externalities increase welfare of people or general public. However, GDP does not account for such positive externalities. Thus, GDP as an index underestimates welfare.

HOTS

Analysing, Evaluating & Creating Questions

Q.1 Answer the following: **1.5 × 4 = (6)**

(a) Giving valid reasons, state how the services of a 'School Teacher' will be undertaken in estimation of National Income.

(b) Gross investment is always greater than net investment." Defend or refute the given statement with valid argument.

(c) Net factor income from abroad can never be negative." Defend or refute the given statement with valid argument.

(d) Discuss briefly how the money received from the sale of a second-hand car will be undertaken in estimation of National Income.

Ans. (a) The services of a school teacher will be included in the national income of the country as it contributes to the current flow of services in the economy.

(b) The given statement is refuted. Gross investment includes addition to capital stock which also includes replacement for the normal wear and tear (depreciation). Whereas, addition to capital stock in an economy is measured by net investment. So, in an accounting sense, if the value of depreciation becomes zero, only then gross investment will be equal to net investment.

(c) The given statement is refuted. Net factor income from abroad is the difference between factor income earned from rest of the world and factor income paid to rest of the world. If the value of factor income paid to rest of the world is greater than the factor income earned from rest of the world, the resulting value (net factor income from abroad) can be negative.

(d) The money received from the sale of a second hand car will not be included in the national income of the country as it does not contribute to the current flow of goods in the economy.

Q.2 Final goods are those goods which are consumed only by the households." Defend or refute the given statement with a valid argument. (3)

Ans. The given statement is not correct and is thus refuted. Final goods are those goods which are purchased/consumed either by households or by the producers for investment purpose, i.e., these are the goods which have crossed the production boundary.

Q.3 State with valid reason, which of the following statement is true or false: (3)

(a) Gross Value Added at market price and Gross Domestic Product at market price are one and the same thing.

(b) Intermediate goods are always durable in nature.

Ans. (a) The given statement is false as Gross Domestic Product is the result of sum of Gross Value Added by all the producing units/firms in an economy, during an accounting year.

(b) The given statement is false as intermediate goods are generally non-durable in nature. They are the goods used as raw material and they lose their identity in the production process for the creation of a new commodity, during an accounting year.

Q.4 (a) 'Domestic/household services performed by a woman may not be considered as an economic activity'. Defend or refute the given statement with valid reason. (2)

(b) 'Compensation to the victims of a cyclone is an example of a welfare measure taken by the government'. State with valid reason, should it be included/not included in the estimation of national income of India. (2)

Ans. (a) The given statement is defended; as it is difficult to measure the monetary value of the services performed by a woman (homemaker). Therefore, these activities may not be considered as an economic activity.

(b) Compensation given to the victims of a cyclone is an example of a social welfare measure taken by the government. However, it is not included in estimation of national income as it is a transfer payment which does not lead to corresponding flow of goods and services.

Q.5 "India's GDP is expected to expand 7.5% in 2019-20: World Bank" — The Economic Times. Does the given statement mean that welfare of people of India increase at the same rate? Comment with reason. (3)

Ans. Generally it is considered that an increase in the Gross Domestic Product (GDP) of any economy (India in this case) ensures increase in welfare of the people of the country. However, this may not always be correct. GDP is not the best indicator of the economic welfare of a country. Some of the prime reasons for the same are:

(a) unequal distribution and composition of GDP,

(b) non-monetary transactions in the economy which are not accounted for in GDP, and

(c) occurrence of externalities in the economy (both positive and negative).

Q.6 'Real Gross Domestic Product is a better indicator of economic growth than Nominal Gross Domestic Product'. Do you agree with the given statement? Support your answer with a suitable numerical example. (4)

Ans. The given statement is correct. Real Gross Domestic Product (GDP) is a better indicator of economic growth than Nominal Gross Domestic Product (GDP) as it is not affected by changes in general price level.

(Give numerical example on Page No. 5)

Q.7 'Circular flow of income in a two sector economy is based on the axiom that one's expenditure is other's income'. Do you agree with the given statement? Support your answer with valid reasons. (3)

Ans. Yes, the given statement is correct. In a two sector economy, the firms produce goods and services and make factors payments to the households. The factor income earned by the households will be used to buy the goods and services which would be equal to income of firms. The aggregate consumption expenditure by the households in the economy is equal to the aggregate expenditure on goods and services produced by the firms in the economy (Income of the producers).

Q.8 "Management of a water polluting oil refinery says that it (oil refinery) ensures welfare through its contribution to Gross Domestic product." Defend or refute the argument of management with respect to GDP as a welfare measure of the economy. (3)

Ans. No, the given statement is not true. The value added by oil refinery to the Gross Domestic Product (GDP) may also be polluting the nearby source of water. Such harmful effects that the refinery is causing to people and marine life is not penalized for the same. Thus, these negative externalities are not ensuring the welfare of the economy through Gross Domestic Product (GDP).

Q.9 'Subsides to the producers, should be treated as transfer payments.' Defend or refute the given statement with valid reason. (3)

Ans. The given statement is defended, as subsidy is a transfer payment. Subsidy is the financial assistance provided by the government to producers to fulfill its social welfare objectives. Government does not get anything in consideration for the same. It does not contribute to the current flow of goods and services and hence do not contribute to any value addition.

Q.10 State giving reasons whether the following statements are True or False: (3)

(a) Capital goods are used up to produce other goods.

(b) Machine purchased is always a final good.

Ans. (a) False: Capital goods like machines make production of other goods feasible, but they themselves don't get transformed in the production process, i.e., they are not used up to produce other goods.

(b) False: Whether 'machine' is a final good or not depends on how it is being used. • If the machine is bought by a household, then it is a final good because it is used for final consumption. • If the machine is bought by a firm for its own use, then also it is a final good because it is used for investment. • If the machine is bought by a firm for re-sale, then it is an intermediate good.

Q.11 Suppose a ban is imposed on consumption of tobacco. Examine its likely effects on gross domestic product and welfare. (3)

Ans. Ban on consumption of tobacco will bring down production of tobacco. Since it is counted in GDP, GDP will fall. The ban will improve the health in general. It will thus increase welfare.

Q.12 Government incurs expenditure to popularise yoga among the masses. Analyse its impact on gross domestic product and welfare of the people. (3)

Ans. Government expenditure on popularising yoga raises GDP because it is government's final consumption expenditure. It also raises welfare of the people because yogic exercises improve health and thus, raise efficiency of the people.

Q.13 Sale of petrol and diesel cars is rising particularly in big cities. Analyse its impact on gross domestic product and welfare. (3)

Ans. Sale of cars raises GDP, because sales are of final products. Cars provide convenience in transportation but at the same time, it causes traffic jams, air pollution and noise pollution, which reduces the welfare of the people. Pollution has bad effects on the health of the people.

Q.14 "Higher Gross Domestic Product (GDP) means greater per capita availability of goods in the economy." Do you agree with the given statement? Give valid reasons in support of your answer. (3)

Ans. "Higher Gross Domestic Product (GDP) means greater per capita availability of goods in the economy." This statement is not true.

(i) If the rate of population growth is more than the rate of growth of GDP, the per capita availability of goods and services will fall.

(ii) GDP doesn't account for changes in inequalities in distribution of Income. If the rising GDP is concentrated in a few hands, per capita availability of goods in the economy might not increase.

Q.15 If in a locality, a new park is developed by the municipal corporation, it will have externalities, both positive and negative. State on example each of both types of externalities with reason. (3)

Ans. The park in neighbourhood can be a source of positive externality as it helps in reducing pollution and thereby improving health and efficiency.

The park in neighbourhood can be a source of negative externality if it is used by anti-social elements. This can increase crime and lead to insecurity.

Q.16 Which of the following items will be included/not included while estimating Gross Domestic Product? Give valid reasons in support of your answer. (6)

(a) Wages received by an Indian working in the British Embassy in India.

(b) Financial aids received from abroad after 'Fani cyclone'.

(c) Purchase of second hand machinery from abroad.

Ans. (a) Wages received by an Indian working in British embassy in India is not a part of economic territory of India, as British Embassy is a part of Economic territory of Britain.

(b) Financial aid is a transfer income as no factor service is provided in return. Hence, it is not included while estimating the value of GDP.

(c) Purchase of second hand machinery from abroad is not included as the value of imports are deducted while estimation GDP of a country.

Numerical Questions

Q.1 Calculate 'Depreciation on Capital Asset' from the following data: **(3 marks)**

	Particulars	Amount (in ₹ crores)
(i)	Capital value of the asset	1,000
(ii)	Estimated life of the asset	20 years
(iii)	Scrap Value	Nil

Solution: Depreciation on capital (annual)

$$= \frac{\text{Cost of the capital asset} - \text{Scrap value}}{\text{Estimated life of the capital assets (in years)}}$$

$$= \frac{1000 - 0}{20} = ₹50 \text{ crores}$$

Q.2 Calculate compensation of employees from the following data: **(3 marks)**

	Particulars	Amount (in ₹ crores)
(i)	Profits after tax	20
(ii)	Interest	45
(iii)	Gross Domestic Product at Market Price	200
(iv)	Goods and Services Tax	10
(v)	Consumption of Fixed Capital	50
(vi)	Rent	25
(vii)	Corporate Tax	5

Solution:

GDPmp (iii) = Compensation of Employees (COE) + (vi) + (ii) + (vii) + (i) + (v) + (iv)

200 = COE + 25 + 45 + 5 + 20 + 50 + 10

COE = 200 – 155 = ₹45 crore

Q.3 Calculate the value of 'Change in Stock' from the following data : (3 marks)

	Particulars	Amount (in ₹ crores)
(i)	Sales	400
(ii)	Net value Added at Factor Cost (NVA_{FC})	200
(iii)	Subsidies	10
(iv)	Change in Stock	?
(v)	Depreciation	40
(vi)	Intermediate Consumption	100

Solution: NVAfc (ii) = (i) + Change in Stock – (vi) – (v) + (iii)

200 = 400 + Change in Stock – 100 – 40 + 10

Change in Stock = 200 + 100 + 40 – 10 – 400 = (–) ₹70 crore

Q.4 Using the following data of an imaginary economy, calculate and compare the Real Gross Domestic Product (RGDP) for the given years: (4 marks)

Year	2015-16	2016-17
Nominal GDP Growth Rate	8.4%	9%
GDP deflator	140	125

Solution: Real GDP = Nominal GDP/GDP deflator × 100

Suppose the Base year be 2014-15 and Nominal GDP and Real GDP of 2014-15= ₹10,000 crore

Year	2014-15	2015-16	2016-17
Nominal GDP	₹10,000 crore (Assume)	₹10,840 crore	₹11,815 crore
Real GDP = Nominal GDP/ GDP deflator × 100	₹10,000 cr (Assume)	₹7742 cr. (aprox.)	₹9452 cr. (approx)

Q.5 Calculate Gross Value Added at Market Price (GVA_{MP}) from the following data : (3 marks)

	Particulars	Amount (in ₹ lakhs)
(i)	Depreciation	20
(ii)	Domestic Sales	200
(iii)	Change in Stock	(-)10
(iv)	Exports	10
(v)	Single Use Producer Goods	120
(vi)	Net Indirect Taxes	20

Solution: GVA_{MP} = [(ii) + (iii) + (iv)] – (v)

= [200 + (–)10 + 10] – 120 = 200-120 = ₹80 lakhs

Q.6 The value of the Nominal Gross National Product (GNP) of an economy was₹2,500 crores in a particular year. The value of GNP of that country during the same year, evaluated at the price of base year base ₹3,000 crores. Calculate the value of GNP deflator of the year in percentage terms. Has the price level risen between the base year and the year under consideration? (3 marks)

Solution: Given that Nominal GNP = ₹2500 crores and Real GNP = ₹3000,

GNP deflator = Nominal GNP/ Real GNP × 100

= 2500/3000 × 100 = 83. 33%

No, the price level has reduced from base year to current year by 16.67%

Q.7 Calculate Net Value Added at Factor Cost (NCAFC) from the following data: (3 marks)

	Particulars	Amount (in ₹ crores)
(i)	Value of Output	800
(ii)	Intermediate Consumption	200
(iii)	Indirect taxes	30
(iv)	Depreciation	20
(v)	Subsidies	50
(vi)	Purchase of machinery	50

Solution: NVA_{FC} = (i) – (ii) – (iv) – [(iii) – (v)]

= 800 – 200 – 20 – [30 – 50]

= ₹600 crores

Q.8 If the Real Gross Domestic Product (GDP) in an economy is ₹520 crores and Nominal Gross Domestic Product (GDP) is ₹650 crores, calculate the price Index. (1 mark)

Solution: Price Index = Nominal GDP/Real GDP × 100

= 650/520 × 100 = 125

Q.9 Calculate Net Value Added at factor cost from the following data: (3 marks)

	Particulars	Amount (in ₹ crores)
(i)	Durable producer goods (with a life span of 10 years)	10
(ii)	Single use producer goods	5
(iii)	Sales	20
(iv)	Unsold Goods (Stock)	2
(v)	Good & Services Tax (GST)	1

Solution: Net Value Added at factor cost = iii + iv – ii – v – Depreciation

= 20 + 2 – 5 – 1 – 1 = ₹15 Lakhs

Notes: Depreciation = Cost of asset/estimated life of asset = 10 lakhs/10 years = 1 lakh

Q.10 Calculate Net Domestic Product at factor cost. (3 marks)

	Particulars	Amount (in ₹ crores)
(i)	Interest	700
(ii)	Compensation of Employees	3,000
(iii)	Net Indirect Taxes	500
(iv)	Rent and Profit	700
(v)	Transfer Payments by Government	10

Solution: Net Domestic Product at factor cost = i + ii + iv

= ₹700 + 3,000 + 700

= ₹1400 crores

Q.11 Suppose in an imaginary economy GDP at market price in a particular fiscal year was ₹4000 crore, National Income was ₹2500 crore, Net Factor Income paid by the economy to Rest of the World was ₹400 crore and the value of Net Indirect Taxes is ₹450 crore. Estimate the value of consumption of fixed capital for the economy from the given data. **(4 marks)**

Solution: National Income (NNPfc) = GDPmp – Consumption of fixed capital – Net indirect taxes – Net factor income paid by the economy to rest of the world

2500 = 4000 – Consumption of fixed capital – 450 + –400

Consumption of fixed capital = 4000 – 450 – 400 – 2500
= ₹650 crore

Q.12 In an economy, following transactions took place.

(i) Firm A sold to firm B goods of ₹80 crore; to firm C ₹50 crore; to households ₹30 crore and goods of value ₹10 crore remains unsold.

(ii) Firm B sold to firm C goods of ₹70 crore; to firm D ₹40 crore; goods of value ₹30 crore were exported and goods of value ₹5 crore was sold to government.

Calculate:

(i) Value of output of Firm A and Firm B.

(ii) Value added by Firm B **(4 marks)**

Solution:

(i) Value of output of Firm A
= Total sales + Value of unsold stock
= (Sales to Firm B + Sales to Firm C + Sales to Households) + Value of unsold stock
= (80 + 50 + 30) + 10 = ₹170 crore

Value of output of Firm B
= Sales to Firm C + Sales to Firm D + Exports + Sales to Government
= 70 + 40 + 30 + 5 = ₹145 crore

(ii) Value added by Firm B = Value of output of Firm B – Purchases by Firm B from Firm A = 145 – 80 = ₹65 crore

Q.13 In a single day, Raju, a barber, collects ₹500 from haircuts. Over this day, his equipment depreciates in value by ₹50. Of the remaining ₹450, Raju pays sales tax ₹30, takes home ₹200 and retains ₹220 for improvement and buying of new equipment. He further pays ₹20 as income tax. Based on this information, calculate Raju's contribution to GDP, NDP and National Income. **(3 marks)**

Solution: Raju's contribution to:

(i) GDP = Value of haircuts service produced by him = ₹500

(ii) NDP = GDP – Depreciation of equipment = 500 – 50 = ₹450

(iii) National Income (NNP at factor cost) = NDP – Sales Tax = 450 – 30 = ₹420

Q.14 Calculate GVA at factor cost of a firm:

		(₹)
(i)	Net indirect taxes	900
(ii)	Price per unit of output	10
(iii)	Net change in stocks	(–)50
(iv)	Purchases of raw materials	10000
(v)	Import of raw materials	3000
(vi)	Import of machines	20000

Additional information: **Output sold is 2000 units.** **(3 marks)**

Solution: GVA at factor cost = Sales (Output sold × Price per unit) + (iii) – (iv) – (i)
= 2000 × 10 + (– 50) – 10000 – 900
= 20000 – 50 – 10000 – 900 = ₹9050

Q.16 Calculate Gross National Product at market price. **(4 marks)**

		(₹in crore)
(i)	Compensation of employees	2500
(ii)	Profit	700
(iii)	Mixed income of self-employed	7500
(iv)	Net addition to capital stock	400
(v)	Rent and royalty	400
(vi)	Interest	350
(vii)	Factor income from abroad	150
(viii)	Indirect taxes	200
(ix)	Gross investment	470
(x)	Net exports	40
(xi)	Factor income paid to abroad	100
(xii)	Subsidies	50

Solution: GNPmp = (i) + (ii) + (iii) + (v) + (vi) + (vii) – (xi) + Depreciation (ix – iv) + (viii) – (xii)
= 2500 + 700 + 7500 + 400 + 350 + 150 – 100 + (470 – 400) + 200 – 50 = ₹11720 crore

Q.17 Compute National Income. **(4 marks)**

		(₹in crore)
(i)	Private final consumption expenditure	900
(ii)	Government final consumption expenditure	400
(iii)	Net imports	30
(iv)	Gross domestic capital formation	250
(v)	Change in stock	50
(vi)	Net domestic fixed capital formation	180
(vii)	Net indirect taxes	100
(viii)	Net factor income from abroad	(–) 40
(ix)	Profits	100

Solution: National income = (i) + (ii) + (vi) + (v) – (iii) – (vii) + (viii) = 900 + 400 + 180 + 50 – 30 – 100 + (– 40)
= ₹1360 crore

Q.18 Calculate Net National Product at market price. **(3 marks)**

		(₹in crore)
(i)	Gross domestic fixed capital formation	350
(ii)	Private final consumption expenditure	8000
(iii)	Government final consumption expenditure	3000
(iv)	Value of output produced in the economy	150
(v)	Current replacement cost of fixed capital	40
(vi)	Net exports	(–) 60
(vii)	Net factor income from abroad	80
(viii)	Sales by all firms in the economy	100

Solution: NNPmp = (ii) + (iii) + (i) + Change in stocks (iv – viii) + (vi) – (v) + (vii) = 8000 + 3000 + 350 + (150 – 100) + (– 60) – 40 + 80 = ₹11380 crore

Q.19 Calculate "Depreciation" from the following data: **(3 marks)**

(₹ in crores)

(i)	**Gross value of output**	**300**
(ii)	**Net value added at factor cost (NVAfc)**	**100**
(iii)	**Subsidies**	**15**
(iv)	**Intermediate Consumption**	**185**

Solution: NVAfc (ii) = (i) – (iv) – Depreciation + (iii)

100 = 300 – 185 – Depreciation + 15

Depreciation = 300 – 185 + 15 – 100 = ₹30 crore

Q.20 Given the following date, find the values of 'Operating Surplus' and 'Net Exports' **(6 marks)**

(in ₹crore)

(i)	**Wages and Salaries**	**2,400**
(ii)	**National Income**	**4,200**
(iii)	**Net Exports**	**?**
(iv)	**Net Factor Income from Abroad**	**200**
(v)	**Gross Domestic Capital Formation**	**1,100**
(vi)	**Mixed Income of Self-Employed**	**400**
(vii)	**Private Final Consumption Expenditure**	**2,000**
(viii)	**Net Indirect Taxes**	**150**
(ix)	**Operating Surplus**	**?**
(x)	**Government Final Consumption Expenditure**	**1,000**
(xi)	**Consumption of Fixed Capital**	**100**
(xii)	**Profits**	**500**

Solution: National income (ii) = (i) + Operating Surplus + (vi) + (iv)

Operating surplus = (ii) – (iv) – (vi) – (i)

= 4200 – 200 – 400 – 2400 = ₹1200 crores

National Income (ii) = (vii) + (x) + (v) + Net Exports – (xi) – (viii) + (iv)

Net Exports = (ii) – (vii) – (x) – (v) + (xi) + (viii) – (iv)

= 4200 – 2000 – 1000 – 1100 + 100 + 150 – 200

= ₹150 crores

Q.21 Suppose there are only two firms, A and B in an imaginary economy. Firm A uses no raw material and produces cotton worth ₹50 lakhs. Firm A gives ₹20 lakhs to the workers as wages and keeps the remaining ₹30 lakhs to be distributed as rent, interest and profits. Firm A sells its cotton to firm B, who uses it to produce cloth. Firm B sells the cloth produced to consumers for ₹200 lakhs and gives ₹60 lakhs as wages and keeps the remaining income generated as profits. Assuming no depreciation and indirect taxes or subsidies, calculate GDP by three methods. **(6 marks)**

Ans. (i) GDP by Value Added Method

Value added (VA) = Value of output – Intermediate consumption

VA by Firm A = 50 – 0 = ₹50 lakh

VA by Firm B = 200 – 50 = ₹150 lakh

GDP = VA by Firm A + VA by Firm B = 50 + 150 = ₹200 lakh

(ii) GDP by Income Method

= Sum total of factor incomes paid by Firms A and B

= Total wages received by workers of Firms A and B + Total operating surplus distributed by Firms A and B

= (20 + 60) + (30 + 90) = 80 + 120 = ₹200 lakh

(iii) GDP by Expenditure Method = Sum of final expenditures, i.e. expenditures on goods and services for end use. Here, the final expenditure is expenditure by consumers on cloth, therefore, GDP = ₹200 lakh

Thus, all the three methods give the same value of GDP.

Q.22 Suppose only one Product X is produced in the country. Its output during the year 2017 and 2018 was 100 units and 110 units respectively. The market price of X during the years 2017 and 2018 were ₹50 and ₹55 per unit respectively. Calculate the percentage change in real GDP and nominal GDP in year 2018 using 2017 as the base year. **(4 marks)**

Solution:

Year	Output	Price	Real GDP	Nominal GDP
2017	100	50	5000	5000
2018	110	55	5500	6050

Percentage change in Real GDP

= D in real GDP/Base year real GDP × 100

= 500/5000 × 100 = 10%

Percentage change in Nominal GDP

= D in nominal GDP/Base year nominal GDP × 100

= 1050/5000 × 100 = 21%

Q.23 Use the following information of an imaginary country:

Year	2017-18	2018-19	2019-20
Nominal GDP	6.5	8.4	9
GDP deflator	100	140	125

(i) For which year is real GDP and nominal GDP same and why?

(ii) Calculate real GDP for the given years. Is there any year for which real GDP falls? **(4 marks)**

Solution:

(i) For the year 2017-18, real GDP and nominal GDP are same as it is the base year and thus, GDP deflator is 100.

(ii)

Year	2017-18	2018-19	2019-20
Nominal GDP	6.5	8.4	9
GDP deflator	100	140	125
Real GDP = (Nominal GDP/GDP deflator) × 100	6.5	6	7.2

The real GDP declined in the year 2018-19. It is due to high rate of inflation. Price level has risen by 40% between 2017-18 and 2018-19.

Q.24 Suppose the Gross Domestic Product (GDP) of Nation X was ₹2,000 crores in 2018-19, whereas the Gross Domestic Product of Nation Y in the same year was ₹120,000 crores. If the Gross Domestic Product of Nation X rises to ₹4,000 crores in 2019-20 and the Gross Domestic Product of Nation Y rises to ₹200,000 crores in 2019-20. Compare the rate of change of GDP of Nations X and Y, taking 2018-19 as base year. **(4 marks)**

Solution:

Output	2018-19	2019-20	Growth Rate of GDP $= \frac{\text{Change in GDP}}{\text{Base year GDP}} \times 100$ (Base year = 2018-19)
100	₹2,000 crores	₹4,000 crores	= 2000/ 2000 × 100 = 100%
110	₹1,20,000 crores	₹2,00,000 crores	= 80,000/ 1,20,000 × 100 = 66.67%

Nation X has registered a GDP growth rate of 100% and has performed better on the front of GDP rise as compared to Nation Y that has registered a GDP growth rate of 66.67%.

Objective Type Questions

1. Inventory is a ___________ concept whereas the change in inventory is a ___________ concept.
   (a) stock, flow (b) flow, stock
   (c) stock, stock (d) flow, flow
2. State whether the following statement is true or false "Industrial waste driven into rivers is an example of positive externality."
3. If in an economy the value of Net Factor Income from Abroad is ₹200 crores and the value of Factor Income to Abroad is ₹ 40 crores. Identify the value of Factor Income from Abroad.
   (a) ₹200 crore (b) ₹160 crore
   (c) ₹240 crore (d) ₹180 crore
4. GNP deflator is represented by which of the following formula?
   (a) Nominal GNP/Real GNP × 100
   (b) Real GNP/Nominal GNP ×100
   (c) Real GNP/ Change in rate of inflation × 100
   (d) Change in rate of inflation/ Real GNP × 100
5. State, whether the following statement is true or false: 'Inventory is a stock variable.'
6. State whether the following statement is true or false: "Expected obsolescence is included in depreciation".
7. A car purchased by a household is a ___________.
   (a) Single use capital good
   (b) Single use consumer good
   (c) Durable consumer good
   (d) Semi-durable consumer good
8. State, whether the given statement is true or false : 'Unexpected obsolescence is a component of depreciation.'
9. ₹2,000 note lying in wallet of Rohini, a student is an example of ___________ (stock/flow) variable.
10. The sum of factor payments is equal to ___________.
    (a) Domestic Income
    (b) National Income
    (c) Per Capital Real Income
    (d) Per Capital Nominal Income
11. Combined factor income, which can't be separated into various factor income components is known as ___________.
12. When Nominal Gross Domestic Product (GDP) is ₹840 crores and price Index is 120, then the Real Gross Domestic product (GDP) will be _________.
    (a) ₹700 crores (b) ₹900 crores
    (c) ₹800 crores (d) ₹500 crores
13. State, whether the following statement is true or false: 'Purchase of machinery by a producer is an intermediate good.'
14. Which of the following statement is incorrect?
    (a) Gross Domestic Product (GDP) at Market price = GDP at factor cost plus Net Indirect taxes.
    (b) Net National Product (NNP) at Market price = NNP at factor cost.
    (c) Gross National Product (GNP) at Market price = GDP at Market price plus Net factor income from abroad.
    (d) Net National Product (NNP) at factor cost = National Income.
15. Which of the following is not a factor payment?
    (a) Free uniform to defence personnel
    (b) Rent paid to the owner of a building
    (c) Salaries to the Members of Parliament
    (d) Scholarship given to the students
16. Net Domestic Fixed Capital Formation + Change in stock = _________.
17. Rent + Interest + Profit = _________.
18. If tea leaves are used in a restaurant for tea brewing , and the drinkable tea is sold to the customers, then the tea leaves will be_______________.
    (a) Final goods (b) Intermediate good
    (c) Consumption goods (d) Capital goods
19. All the capital goods produced in a year do not constitute net addition to the capital stock already existing. True / False?
20. Which of the following does not explain the concept of depreciation?
    (a) An annual allowance for wear and tear of a capital good.
    (b) Cost of the capital good (minus scrap value) divided by number of years of its useful life.
    (c) Unexpected or sudden destruction or disuse of capital as can happen with accidents, natural calamities etc.
    (d) Maintenance and replacement cost of existing capital goods.
21. A firm produces ₹100 worth of goods per year, ₹20 is the value of intermediate goods used by it during the year

and ₹10 is the value of capital consumption. The net value added will be:

(a) ₹100 (b) ₹ 80
(c) ₹70 (d) ₹130

22. Production of a firm during a year – Sale of the firm during the year = __________ ?
23. Wages earned by a citizen of India working is Saudi Arabia will be included in GDP of India. True/ False ?
24. The profits earned by the Korean-owned Hyundai car factory in India will be included in the National income of India. True/False?
25. Depreciation is deducted from GDP while calculating national income because ____________.
26. Market prices include:
    (a) Subsidies
    (b) Indirect taxes
    (c) Intermediate consumption
    (d) Depreciation
27. Indirect taxes are deducted from NNP at market prices to calculate national income because ___________ .
28. That part of NNP which actually accrues to the owners of factors of production is called __________ .
29. Prizes received by the household from government and firms are included in National Income. True/False?
30. GDPmp includes market value of all final goods and services produced by the normal residents or the non-residents in a country. True/False?
31. ___________ is the income earned by the factors of production in the form of wages, profits, rent, interest, etc, within the domestic territory of a country.
32. _____ is the value of all the final goods and services that are produced by the normal residents of India and is measured at the market prices, in a year, regardless of whatever they are located within the economic territory or abroad.
33. If the nominal GDP of the current year is double the nominal GDP of the base year, the volume of production of the country must have doubled. True/False?
34. Suppose a country produces bread only. In the year 2018-19 it had produced 1,000 units of bread, price was ₹10 per bread. In 2019-20, it produced 1100 units of bread at price of ₹12 per bread. In 2019-20, the nominal and real GDP are:
    (a) ₹10,000 and ₹10,000
    (b) ₹10,000 and ₹11,000
    (c) ₹13, 200 and ₹10,000
    (d) ₹13,200 and ₹ 11,000
35. The ratio of nominal to real GDP is a well-known index of prices, called____________.
36. If the GDP deflator is 150% and real GDP is ₹1,100 the nominal GDP will be:
    (a) ₹733 (b) ₹1,650
    (c) ₹1,100 (d) ₹2,750
37. A representative consumer had to spend ₹1,400 on purchase of a given basket of commodities in the year 2015-16. Due to inflation, CPI of the year 2019-20 (taking 2015-16 as base year) was 120. How much amount the consumer had to spend on purchase of the same basket of commodities in the year 2019-20?
    (a) ₹1,167 (b) ₹1,680
    (c) ₹1,520 (d) ₹1,280
38. Which of the following is a flow concept?
    (a) Foreign exchange reserves
    (b) Inventory
    (c) Capital
    (d) Exports
39. Which of the following will be included in gross national product of India?
    (a) Profits earned by a foreign company in India
    (b) Salary paid to Americans working in Indian Embassy in America
    (c) Earnings from sale of bonds to the investors
    (d) None of the above
40. Which of the following will be included in national income?
    (a) Money receipt from sale of old car
    (b) Scholarships received by students
    (c) Remittances from abroad
    (d) Free services of owner occupied building
41. Losses are classified as:
    (a) Stock variable (b) Flow variable
    (c) Either (a) or (b) (d) Neither (a) nor (b)
42. Unforeseen obsolescence of fixed capital assets during production is:
    (a) Consumption of fixed capital
    (b) Capital loss
    (c) Income loss
    (d) None of the above
43. Foreign embassies in India are a part of India's :
    (a) Economic territory (b) Geographical territory
    (c) Both (a) and (b) (d) None of the above
44. Goods purchased for the following purpose are final goods:
    (a) For satisfaction of wants
    (b) For investment in firm
    (c) Both (a) and (b)
    (d) None of the above
45. State giving reason whether the following statement is True or False: "National income is always more than the domestic income."
46. Market price and factor cost will be equal when _____.
47. Which of the following transactions is not included in national income?
    (a) Payment of interest by a private firm
    (b) Payment of interest by banks on deposits
    (c) Interest paid by an individual on a car loan taken from a bank
    (d) None of the above
48. Which of the following transactions is not included in national income?
    (a) Brokerage paid to broker for facilitating sale of second hand goods

(b) Payment of corporation tax by firms to the government
(c) Interest paid by productions units to households
(d) Interest paid by banks on deposits by individuals

49. Which one of the following is not a part of a country's Net Domestic Product at market price'?
(a) Depreciation
(b) Indirect tax
(c) Net exports
(d) Net change in stocks

50. Which one of the following is an intermediate expenditure?
(a) Expenditure on purchase of furniture by a firm for its own use
(b) Expenditure on maintenance by a firm
(c) Expenditure on purchase of tractor by a firm for its own use
(d) Machine bought by a household

51. National income is the sum of factor incomes accruing to:
(a) Nationals
(b) Economic territory
(c) Residents
(d) Both residents and non-residents

52. State giving reason whether the following statement is True or False:
Purchase of car by a household is a part of gross domestic capital formation.

53. State giving reason whether the following statement is True or False:
Free services provided by the government will not be included in national income.

54. Market price is less than factor cost if ____________.

55. Gross domestic capital formation is less than gross fixed capital formation when ________________ .

56. GDP can be greater than GNP when ____________.

57. National income at current prices is higher than national income at constant prices during a period of:
(a) Rising prices
(b) Falling prices
(c) Constant prices
(d) Both (a) and (b)

58. Nominal GDP can be less than Real GDP when _______.

59. Net value added at factor cost = ₹100 crores, Depreciation = ₹30 crores, Subsidies = ₹15 crores and Intermediate Consumption = ₹185 crores, then "Gross value of output" is:
(a) ₹300 crores
(b) ₹330 crores
(c) ₹130 crores
(d) ₹230 crores

60. Construction of a school building by the government will be part of:
(a) Domestic fixed capital formation
(b) Change in stock
(c) Government final consumption expenditure
(d) Residential construction investment

61. Depreciation is also known as:
(a) Capital loss (b) Unforeseen obsolescence
(c) Capital allowance (d) Both (a) and (b)

62. If Net factor income to abroad is (–) ₹120 crores, factor income from abroad is ₹150 crores and domestic income is ₹4,500 crores, National Income will be:
(a) ₹4,380 crores (b) ₹4,620 crores
(c) ₹4,700 crores (d) ₹4,300 crores

63. If GDPmp is ₹5,000 crores, intermediate consumption is ₹2,500 and the ratio of sales to change in stock is 2 : 1, then sales will be:
(a) ₹4,000 (b) ₹5,000 (c) ₹3,000 (d) ₹2,000

64. While calculating gross domestic capital formation, exports are included because:
(a) Exporters are paid for it.
(b) It is an expenditure on domestic product.
(c) It is a final expenditure by the buyers.
(d) Exports result in expenditure.

65. NDPmp is the sum up of operating surplus, compensation of employees, mixed income and Net Indirect Tax. (True/False)

66. Salary of an Indian working in Russian embassy in India is included in National Income of India. (True/False)

67. If NDPfc = ₹80 crore, Net indirect tax = ₹10 crore, Net factor income from abroad = (–)₹10 crore, then NNPmp = ₹70 crore. (True/False)

68. Match the following:

(a) Value addition	(i) Value of all final goods and services produced in an economy during an accounting year
(b) Income from property and entrepreneurship	(ii) Excess of value of output over the value of intermediate consumption
	(iii) Operating surplus
	(iv) Wages , profits and rent

69. Match the following:

(a) Purchase of food products by household	(i) Intermediate goods
(b) Milk purchased by a tea-seller	(ii) Final goods
	(iii) Capital goods
	(iv) Consumer durables

70. Match the following:

(a) Market value of goods and services produced by a firm during an accounting year.	(i) Gross Domestic Product
(b) Money value of all final goods and services produced in an economy during an accounting year.	(ii) Value of output
	(iii) Value Addition
	(iv) Domestic Income

71. Match the following:

(a) Excess of factor incomes (rent,wages, interest, profit) earned from abroad over factor incomes paid to abroad.	(i) Operating surplus
(b) Excess of the value of exports over the value of imports of a country in an accounting year	(ii) Net income from property and entrepreneurship
	(iii) Net exports
	(iv) Net factor income from abroad

72. According to a report forwarded by the Reserve Bank of India, there was a fall in rate of inflation as measured by Consumer Price Index (CPI) on year-on-year basis to 5% from 8% in the previous year.
Which of the following statements represents the situation?
(a) CPI has fallen.
(b) CPI has risen at a rate lower than the preceding year.
(c) CPI is constant.
(d) None of the above

73. ____________ is the market value of the final goods and services produced within the domestic territory of a country during an accounting year, as estimated at the current year prices.

Answer Key

Objective Type Questions

1. (a) stock, flow.
2. False
3. (c) ₹240 crores
4. (a) Nominal GNP/Real GNP × 100
5. True
6. True
7. (c) Durable consumer good
8. False
9. Stock
10. (a) and (b)
11. Mixed income of self employed.
12. (a) ₹700 crores
13. False
14. (b) Net National Product (NNP) at Market price = NNP at factor cost.
15. (d) Scholarship given to the students
16. Net Domestic Capital Formation
17. 'Operating surplus
18. Intermediate good
19. True
20. (c) Unexpected or sudden destruction or disuse of capital as can happen with accidents, natural calamities etc.
21. (c) ₹70
22. Change in inventories of the firm during a year.
23. False
24. False
25. depreciation does not become part of anybody's income
26. (b) Indirect taxes
27. Indirect taxes accrue to the government. It is a transfer payment, not a factor payment .
28. Net National Product at factor cost or National Income.
29. False (It is a transfer payment.)
30. True
31. Net Domestic Product at factor cost (NDPfc)
32. GNP at market prices
33. False
34. (d) ₹13,200 and ₹ 11,000
35. GDP deflator
36. (b) ₹1,650
37. (b) ₹1,680
38. (d) Exports
39. (d) None of the above
40. (d) Free services of owner occupied building
41. (b) Flow variable
42. (b) Capital loss
43. (b) Geographical territory
44. (c) Both (a) and (b)
45. False: National income can be less than domestic income when net factor income from abroad (NFIA) is negative. National income can also be equal to domestic income if NFIA is zero.
46. Net indirect tax (indirect tax – subsidy) is zero.
47. (c) Interest paid by an individual on a car loan taken from a bank
48. (b) Payment of corporation tax by firms to the government
49. (a) Depreciation
50. (b) Expenditure on maintenance by a firm
51. (c) Residents
52. False: It is a private final consumption expenditure.
53. False: It will be included in national income as it is government final consumption expenditure.
54. Net indirect tax is negative, i.e. subsidy is more than indirect taxes.
55. Net change in stock is negative, i.e., when opening stock exceeds closing stock.
56. Factor income paid to abroad is greater than factor income received from abroad, i.e., when net factor income from abroad (NFIA) is negative.
57. (a) Rising prices
58. Prices in the current year are less than the prices in the base year.
59. (a) ₹300 crores
    Explanation: NVAFC = Gross Value of Output – Intermediate consumption – Depreciation + Subsidies
    100 = Gross Value of Output – 185 – 30 + 15
    Gross Value of Output = 100 + 185 + 30 – 15 = 300
60. (c) Government final consumption expenditure
61. (c) Capital allowance
62. (b) ₹4,620 crores
63. (b) ₹5,000
64. (b) It is an expenditure on domestic product.
65. True
66. True
67. False
    NNPmp = NDPfc + NFIA + Net Indirect Tax
    = –80 + (–10) + 10 = ₹80 crore
68. (a) – (ii); (b) – (iii)
69. (a) – (ii); (b) – (i)
70. (a) – (ii); (b) – (i)
71. (a) – (iv); (b) – (iii)
72. (b) CPI has risen at a rate lower than the preceding year.
73. Nominal GDP

Unit 2 — 6 Marks

Money and Banking

Revised CBSE Syllabus 2020-21	For CBSE Economics Examination 2021

- **Money - meaning and supply of money - Currency held by the public and net demand deposits held by commercial banks.**
- **Money creation by the commercial banking system.**
- **Central bank and its functions (example of the Reserve Bank of India): Bank of issue, Govt. Bank, Banker's Bank, Control of Credit**

2.1 Money and Supply of Money

Anything which is commonly accepted as a medium of exchange is called **money**.

Money supply refers to the total quantity of money in circulation in the economy at a given point of time. Thus, it is a stock variable. It has two components:

(i) Currency held by the public (CU): The currency issued by the central bank (Reserve Bank of India) can be held by the public or by the commercial banks, and is called the ***high-powered money.***

(ii) Net demand deposits held by commercial banks (DD): Demand deposits are the deposits which can be easily withdrawable on demand, by cheque or otherwise, by the depositor from his/her bank account, e.g. current account and savings account deposits.

Demand deposits are created by the commercial banks and are called ***bank money.***

Time deposits are those deposits in banks which have a fixed period of maturity, e.g., Fixed Deposits (FD).

2.2 Money Creation by Banks

Money creation (or credit creation or deposit creation) by commercial banks is determined by :

1. The amount of the initial deposits/primary deposits.

Primary deposits refer to initial deposits with the commercial banks.

2. Legal Reserve Ratio (LRR)/Reserve Deposit Ratio

LRR is the minimum reserves which a commercial bank must maintain as per the instructions of the central bank. There are two components of Legal Reserve Ratio (LRR): Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR). CRR is the fraction of net total demand and time deposits that commercial banks must keep as cash reserves with the Central Bank. SLR is the fraction of net total demand and time deposits that commercial banks must keep with themselves in the form of liquid assets.

Total credit creation = Initial deposits × 1/LRR

Suppose the initial deposits are ₹10,000 and LRR is 20%. The banks will keep 20% of the deposits i.e. ₹2,000 as reserves and will lend the remaining amount of ₹8000. Those who borrow will spend the money for making payments.

It is assumed that the entire ₹8000 comes back as secondary deposits to the banking system. Now the banks will again keep 20% of ₹8000 i.e. ₹1600 as reserves and lend out ₹6400.This process continues till total reserves become equal to initial reserves. Total money creation = Initial deposit × 1/LRR = ₹10,000 × 1/20% = ₹10,000 × 5 = ₹50,000.

Hence, the initial deposit of ₹10,000 has led to the total money supply of ₹50,000.

Rounds	Deposits (₹)	Loans (₹)	Reserves (₹)
I	10000	8000	2000
II	8000	6400	1600
III	6400	5120	1280
...	...	...	...
Total	**50000**	**40000**	**10000**

How does legal reserve ratio influence the process of credit creation? Credit creation is inversely related to the legal reserve ratio.

Total credit creation = Initial Deposits × 1/LRR

For example, suppose LRR is 0.2 and initial deposits are ₹10,000. = 10,000 × 1/0.2 = 10,000 × 5 = ₹50,000

Now suppose, if the LRR is increased by the Central Bank to 0.5 and initial deposits remain the same, i.e. ₹10,000.

Now, total credit creation = Initial Deposits × 1/ LRR

= 10,000 × 1/0.5 = 10,000 × 2 = ₹20,000.

Thus, any increase in LRR will decrease the credit creation power of the commercial banks (banking system).

Define Money Multiplier. What role does it play in determining the credit creation power of the banking system?

Money Multiplier *(or Credit Multiplier or Deposit Multiplier)* is the process by which the commercial banks create credit, based upon the reserve ratio and initial deposits.

The credit creation by commercial banks depends on money multiplier as it is inversely related to LRR.

Money Multipler = 1/Legal Reserve Ratio

Higher the value of money multiplier, higher will be the total credit created and vice-versa.

Total credit creation = Initial deposits × Money Multipler (1/LRR)

For example, suppose the LRR is 0.5 and initial deposit is ₹10,000. Money multiplier = 1/LRR = 1/0.5 = 2; andTotal credit created = ₹10,000 × 2 = ₹20,000.

Whereas, suppose LRR is decreased by the Central Bank to 0.2 and initial deposits remain the same, i.e. ₹10,000.

Then, Money multiplier = 1/0.2 = 5; and

Total credit created = ₹10,000 × 5 = ₹50,000.

Thus, with the same initial deposit total credit creation increases with an increase in the value of money multiplier.

2.3 Central Bank and its Functions

The Central Bank is the apex institution of a country's monetary system. India's central bank is the 'Reserve Bank of India'. It is the apex bank engaged in regulating commercial banks. Four main functions of Central Bank are:

1. **Bank of Currency Notes Issue:** In most of the economies across the world, there exists a centralised system of currency issues. Central Bank of a country has monopoly over the currency issue. It has the sole responsibility of printing and putting in circulation all types of currency notes (with a few exceptions).
   - This centralised and monopolised system of currency notes issue ensures uniformity of the currency system.
   - It also helps in easier control over the monetary system.
   - This function of the central bank also builds faith in the currency system of the economy.
2. **Government's Bank, Agent and Advisor:** Central Bank acts as the Government's banker (both central as well as state governments) and performs following functions:
   - Provides credit/loans to the government.
   - Accepts receipts and makes payments on behalf of the government.
   - Keeps accounts of government and accepts deposits from government.

   As the agent and advisor to the government, the Central Bank performs following functions:
   - Manages the public debts for the government
   - Buys and sells government securities in the open market.
   - Advises the government regarding the money market, capital market and also on policy matters.
3. **Bankers' Bank and Supervisor/Regulator:** As the banker to the banks, the Central Bank performs the following functions:
   - Holds surplus cash reserves of commercial banks.
   - Gives loans to the commercial banks when they are in need of funds.
   - Provides a large number of routine banking functions to the commercial banks, like cheque clearing house facility, remittance facilities, etc.

   In its supervisory/regulatory role, the central bank performs the following functions:
   - Ensures that the commercial banks follow all the rules regarding their licensing, branch expansion etc.
   - Gives instructions for the smooth functioning of the banking system.

> Central Bank acts as the 'Lender of Last Resort': It refers to the role of the Central Bank (RBI), of being ready to lend to banks, especially when a bank is faced with unanticipated severe financial crises, and due to this central bank is said to be the 'lender of last resort'. If the central bank refuses to extend this help, there is no option for the bank but to shut down.

4. **Controller of Credit:** The primary objective of credit control is to remove causes responsible for instability in price fluctuations which in turn are related to the supply of money. By controlling credit, the Central Bank can exercise an effective control over economic activity and mobilise it in the desired direction. Central Bank regulates the volume and use of credit by using quantitative and qualitative tools.

   Quantitative tools control the extent of money supply by changing the Cash Reserve Ratio (CRR) or Statutory Liquidity Ratio (SLR) or Bank Rate or Repo Rate or Reverse Repo Rate, or through Open market operations (OMO).

   Qualitative tools include persuasion by the Central Bank in order to make commercial banks discourage or encourage lending which is done through margin requirement, moral suasion, etc.

Objective Type Questions

1. Value of Money Multiplier _______ (increases/decreases/ remains unchanged) with an increase in Cash Reserve Ratio.
2. State, whether the following statement is true or false: 'All financial Institutions are banking institutions.'
3. Two components of money supply are _____ and _____.
4. Supply of money refers to _________.
   (a) currency held by the public

(b) currency held by Reserve Bank of India (RBI)
(c) currency held by the public and demand deposits of the public with commercial banks
(d) currency held in the government account

5. The value of money multiplier is equal to ___________.
6. Loans offered by commercial banks _________ (increase/decrease) the money supply in the economy.
7. __________ is the main source of money in an economy.
(a) Central bank (b) Commercial banks
(c) Both (a) and (b) (d) Government
8. The interest rate paid by the banks to depositors is lower than the rate charged from the borrowers. This difference between these two types of interest rates is called ______.
9. When the banks lend to any person, a new deposit is opened in that person's name. Thus, money supply in the economy increases to old deposits plus new deposits plus _______.
10. There is a limit to money or credit creation by banks, and this is determined by the central bank (RBI). The RBI decides a certain percentage of (i) _______ which every bank must keep as reserves, called (ii) _______.
11. If the Reserve Ratio is 20% and the primary deposits are ₹100, the total lending by the banking system will be ______.
12. M_1 measure of money supply is defined as follows: M_1 = CU +DD where, CU is Currency (notes plus coins) held by the public and DD is 'net' demand deposits held by commercial banks. What does word 'net' imply here?
13. The currency issued by the central bank can be held by the public or by the commercial bank, and is called the ______ .
14. Demand deposits include _______.
(a) Saving account deposits and fixed deposits
(b) Saving account deposits and current account deposits
(c) Current account deposits and fixed deposits
(d) All types of deposits
15. Deposit creation by banks comes to an end when _____.
(a) fresh deposits with banks become zero
(b) legal reserve ratio becomes zero
(c) money multiplier becomes zero
(d) total reserves equal initial deposits
16. The ratio of net total deposits that a commercial bank has to keep with Reserve Bank of India is called:
(a) Statutory liquidity ratio
(b) Deposit ratio
(c) Cash reserve ratio
(d) Legal reserve ratio
17. Which of the following is not a Quantitative Method of credit control?
(a) Open Market Operation
(b) Margin Requirements
(c) Variable Reserve Ratio
(d) Bank Rate Policy
18. Who regulates money supply?
(a) Government of India (b) Reserve Bank of India
(c) Commercial Banks (d) Planning Commission
19. State whether the following statement is true or false: Currency created by the Central Bank is called bank money.
20. Signature of _______ appears on a ₹2,000 currency note.
21. The formula used for calculating money multiplier :
(a) 1/Cash Reserve Ratio
(b) 1/Statutory Liquidity Ratio
(c) 1/Legal Reserve Ratio
(d) All of the above
22. Repo rate relates to ________.
(a) Short-term borrowings by commercial banks
(b) Long-term borrowing by commercial banks
(c) Disinvestments
(d) Dis-savings
23. An increase in Legal Reserve Deposit Ratio increases the credit creation power of the commercial banks (banking system). True/False? Give reason.
24. Total deposits created by commercial banks is ₹12,000 crore and LRR is 25%. Calculate the amount of initial deposits.
(a) ₹6000 crore (b) ₹4000 crore
(c) ₹5000 crore (d) ₹3000 crore
25. __________ measures the amount of money that the banks are able to create in the form of deposits with every initial deposit.
26. If Reserve Deposit Ratio is 12.5%, the value of money multiplier will be:
(a) 2 (b) 5 (c) 8 (d) 10
27. ______________ is the rate of interest at which central bank lends to the commercial banks for long-term.
28. _____ is the agent and adviser to the Government of India.

Answer Key

Objective Type Questions

1. Decreases 2. False
3. (i) Currency held with public
(ii) Demand deposits of the public with commercial banks.
4. (c)
5. the reciprocal of the reserve ratio or 1/Reserve Ratio
6. Increase 7. (c) Both (a) and (b)
8. 'spread' 9. Currency held by the public
10. (i) Net total demand and time deposits
(ii) Legal Reserve Ratio 11. ₹400
12. Only deposits of the public held by the banks are to be included in money supply. The interbank deposits, which a commercial bank holds in other commercial banks, are not to be regarded as part of money supply.
13. high powered money
14. (b) 15. (d) 16. (c) 17. (b) 18. (b)
19. False: The currency created by the Central bank (Reserve Bank of India in India) is called High Powered Money.
20. Governor of Reserve Bank of India (RBI)
21. (c) 1/Legal Reserve Ratio
22. (a) Short-term borrowings by commercial banks
23. False: An increase in Legal Reserve Deposit Ratio will decrease the credit creation power of the commercial banks (banking system) since credit creation is inversely related to the Legal Reserve Ratio.
Credit creation = Primary deposits × 1/ Legal Reserve Ratio
24. (d) ₹3000 crore
25. Credit multiplier/Money multiplier/Deposit multiplier
26. (c) 8
27. Bank Rate
28. Reserve Bank of India. (RBI)

Unit 6 12 Marks

Development Experience (1947-90) and Economic Reforms since 1991

Revised CBSE Syllabus 2020-21	For CBSE Economics Examination 2021

- **A brief introduction of the state of Indian economy on the eve of independence.**
- **Indian economic system and common goals of Five Year Plans.**
- **Main features, problems and policies of agriculture (institutional aspects and new agricultural strategy), industry (IPR 1956; SSI – role & importance) and foreign trade.**
- **Economic Reforms since 1991: Features and appraisals of liberalisation, globalisation and privatisation (LPG policy);**
- **Concepts of Demonetization and GST**

6.1 State of Indian economy on the eve of independence

Sequence of Events

I	Introduction of the railways in India by the British	**1850**
II	Opening of the Suez Canal	**1869**
III	Various details about the population of British India were first collected through a census	**1881**
IV	The Tata Iron and Steel Company (TISCO) was incorporated	**1907**
V	Second stage of demographic transition in India	**1921**

Definitions of KEY TERMS

1. **Commercialisation of agriculture:** Change in the cropping pattern from food crops to commercial crops/cash crops is called commercialisation of agriculture. It implies production of crops for the market rather than for self-consumption i.e. family consumption.
2. **Capital goods industry:** Capital goods industry means the industry which can produce machine tools which are, in turn, used for producing articles for current consumption.
3. **Life Expectancy:** Life Expectancy is defined as number of years, on an average an individual is expected to live.
4. **Occupational Structure:** It refers to the distribution of working persons across different industries and sectors – agriculture, manufacturing and services sectors.
5. **Morbidity :** It is the propensity to fall ill. It affects a person's work by making him/her temporarily disabled. Prolonged morbidity may lead to mortality. **Morbidity rate** refers to the number of people who have a disease compared to the total population.
6. **Mortality rate :** The word 'mortality' refers to the annual number of deaths (from a disease or in general) per 1,000 people.
7. **Infant Mortality Rate :** It is the number of deaths of infants before reaching the age of one, in a particular year, per 1,000 live births during that year.
8. **Maternal Mortality Rate :** It is the relationship between the number of maternal deaths due to childbearing by the number of live births or by the sum of live births and foetal deaths in a given year.
9. **Land/Revenue Settlement:** It refers to different systems in which revenues were to be collected from each parcel of land – (i) system of permanent settlement, which is also known as the zamindari system (ii) ryotwari system (a system of revenue settlement entered into by the government with individual tenants) (iii) mahalwari system (a system of revenue settlement entered into by the government with a mahal).
10. **Agricultural Productivity:** Agricultural Productivity refers to output per hectare of land.

Q&A Exercises

Q.1 What was the focus of the economic policies pursued by the colonial government in India? What were the impacts of these policies? (NCERT) (3)

Ans. The economic policies pursued by the colonial government in India were more concerned with the protection and promotion of the economic interests of their home country than with the development of the Indian Economy.

Such policies brought about a fundamental change in the structure of the Indian economy – transforming the country into (i) supplier of raw materials, and (ii) and consumer of finished products from Britain.

Q.2 The traditional handicrafts industries were ruined under the British rule. Do you agree with this view? Give reasons in support of your answer. (NCERT) (4)

Ans. India was well-known for its handcraft industries in the fields of cotton and silk textiles, metal and precious stone works etc. These products enjoyed a world wide market because of (i) reputation of the fine quality of material used and; (ii) high standards of craftsmanship seen in all imports from India.

However, during the British rule, the country's world famous handicraft industries were ruined, which not only created massive unemployment in India but also a new demand in the Indian consumer market — increasing imports of cheap manufactured goods for Britain.

Q.3 State the two-fold motive for the systematic destabilisation of indigenous Indian industries in the British era. (3)

Ans. Two-fold motive behind systematic destabilisation of indigenous Indian industries in the British era was.

- To get raw material from India at cheaper rates to be used for upcoming modern industries in Britain.
- To sell finished products produced by the British industries in Indian market at higher prices.

Q.4 *"During the British colonial rule, despite being the occupation of about 85% of India's population, the agriculture sector continued to experience stagnation and, not infrequently, unusual deterioration. Agricultural productivity became low."* Do you agree? What were the main causes of India's agricultural stagnation/low productivity during the colonial period? (6)

Ans. The given statement is correct. During the British colonial rule, India's agricultural sector experienced stagnation and low productivity. The main causes of India's agricultural stagnation and low productivity are:

(1) Various systems of land/revenue settlement introduced by the colonial government, particularly the zamindari system. • The profit went to the zamindars instead of the cultivators. However, government and zamindars did nothing to improve the condition of agriculture. • The main interest of the zamindars was only to collect rent regardless of the economic condition of the cultivators.

(2) Low levels of technology, lack of irrigation facilities and negligible use of fertilizers – all contributed to the low level of agricultural productivity.

(3) Absence of adequate infrastructure – lack of investment in terracing, flood-control, drainage and desalinisation of soil.

(4) Even commercialisation of agriculture couldn't help farmers in improving their economic condition. Instead of producing food crops, now they were producing cash crops which were to be ultimately used by British industries back home.

Q.5 *"India could not develop a sound industrial base under the British colonial rule. Even as the country's world famous handicraft industries declined, no corresponding modern industrial base was allowed to come up to take pride of place so long enjoyed by the former."*

In the light of the above statement, critically appraise some of the shortfalls of the industrial policy pursued by the British colonial administration. (6)

Ans. Some shortfalls of the industrial policy pursued by the British colonial administration are as follows:

(1) Industrial development remained very slow.

- Initially, this development was confined to the setting up of cotton and jute textile mills.
- Subsequently, the iron and steel industries began coming up in the beginning of the 20th century, e.g. TISCO was incorporated in 1907. A few other industries in the fields of sugar, cement, paper, etc. came up after the second world war.

(2) Lack of capital goods industries – There was hardly any capital goods industry to help promote further industrialisation in India.

(3) Low growth rate — The growth rate of the new industrial sector and its contribution to GDP remained very small.

(4) Very limited area of operation of the public sector — railways, power generation, communications , ports and some other departmental undertakings.

Q.6 Comment upon any two salient features of the foreign trade policy of India, on the Eve of Independence. (4)

OR

Indicate the volume and direction of foreign trade of India at the time of Independence. (4)

OR

What do you understand by the drain of Indian wealth during the colonial period? (3)

Ans. Salient features of foreign trade policy of India, on the eve of independence, were:

(1) Britain's monopoly over trade – British maintained monopoly control over India's exports and imports. More than half of India's foreign trade was restricted to Britain while the rest was allowed with a few other countries like China, Ceylon (Sri Lanka) and Persia (Iran)

(2) India as exporter of raw material and importer of finished goods – India became an exporter of primary products such as raw silk, cotton, wool, sugar, indigo, jute, etc and an importer of finished consumer goods like cotton, silk, and woollen clothes and capital goods like light machinery produced in the factories of Britain.

(3) India had huge export surplus during the colonial rule. But this surplus came of a huge cost to the country's economy – export surplus did not result in any flow of gold or silver into India. Rather, this was used to make payments for the office expenses in Britain, expenses on war, and the import of invisible items. All of these led to the *drain of Indian wealth*.

Secondly, Several essential commodities – food grains, clothes, kerosene, etc. were scarcely available in the domestic market.

Q.7 Give a quantitative appraisal of India's demographic profile during the colonial period. (NCERT) (4)

Ans. Salient features of India's demographic conditions during the British colonial rule:

(1) High Birth Rate and High Death Rate: Various details about the population of British India were first collected through a census in 1881. Second stage of demographic transition began after 1921.

Due to absence or lack of adequate public health facilities, water and air-borne diseases were rampant. Life expectancy was also very low – 44 years (in contrast to the present 69 years).

(2) High Infant Mortality Rate: The infant mortality rate was quite alarming – about 218 per thousand in contrast to the present infant mortality rate of 33 per thousand.

(3) Low level of Literacy: Overall literacy level was less than 16%. Out of this, female literacy level was only about 7%.

(4) Prevalence of Rampant Poverty and Unemployment – which contributed to the worsening profile of India's population of the time.

Q.8 Highlight the salient features of India's pre-independence occupational structure. (NCERT) (4)

Ans. The occupational structure of India on the eve of independence had the following two main features:

(1) Predominance of agriculture sector: The agricultural sector accounted for the largest share of workforce with approximately three-fourth of the workforce depending on agriculture, directly or indirectly.

(2) Growing regional variation: Due to rise of manufacturing and services sector in some parts of India (like the then Madras, Bombay and Bengal Presidencies) the dependency ratio of workforce on agricultural sector declined.

Q.9 Were there any positive contributions made by the British in India? Discuss. (NCERT) (4)

Ans. Yes, the positive contributions made by the British in India are stated below:

(1) Introduction of the railways in India: It was considered as the most important contribution of the British. It enabled people to undertake long distance travel and thereby break geographical and cultural barriers.

(2) Construction of modern roads: Prior to the British rule, there was an acute shortage of all weather roads to reach out to the rural areas during the rainy season. The British constructed modern roads in India.

(3) Development of the inland trade and sea lanes

(4) Introduction of electric telegraph and postal services

Q.10 *"Under the colonial regime, basic infrastructure such as railways, ports, water transport, posts and telegraph develop. However, the real motive behind infrastructure development was not to provide basic amenities to the people but to subserve various colonial interests."*

What objectives did the British intend to achieve through their policies of infrastructure development in India? (4)

Ans. The objectives that the British intend to achieve through their policies of infrastructure development in India:

(1) The introduction of railways by the British fostered commercialisation of Indian agriculture, which adversely affected the self-sufficiency of the village economies in India. The benefits of exports surplus did not accrue to the Indian people. It was used to make payments for office expenses in Britain, war expenses, etc.; all of which led to the drain of Indian wealth.

(2) The roads that were built primarily served the purposes of mobilising the army within India and drawing out raw materials from the country side to the nearest railway station or the port to send these to England or other foreign destinations.

(3) The inland waterways, at times, proved uneconomical as in the case of the coast canal on the Orissa coast, which had to be ultimately abandoned.

(4) The introduction of the expensive system of electric telegraph in India served the purpose of maintaining law and order by the British colonial government. The postal services, despite serving a useful public purpose, remained all through inadequate.

Q.11 The economic challenges before India at the time of independence were enormous. Do you agree? Underscore some of India's most crucial economic challenges at the time of independence. (6)

Ans. The given statement is correct. Some of India's most crucial economic challenges at the time of independence were:

(1) Low level of economic growth and development — The country's growth of aggregate real output was less than 2% p.a coupled with about 0.5% p.a. growth in per capital output.

(2) The agricultural sector had surplus labour with extremely low productivity. Agricultural productivity was extremely low due to low levels of technology, lack of irrigation facilities, negligible use of fertilisers, etc.

(3) The industrial sector was crying for modernisation, diversification, capacity building and increased public investment. There were only a few industries in the fields of cotton and jute textile, iron and steel, sugar, cement, paper, etc. There was hardly any capital goods industry to help promote industrialisation in India.

(4) Foreign trade was oriented to feed the industrial revolution in Britain. British maintained a monopoly control over India's exports and imports. Huge export surplus generated from India's foreign trade was used to make payments for office expenses in Britain, war expenses, etc.; all of which led to the drain of Indian wealth.

OBJECTIVE TYPE QUESTIONS

1. __________ is one of the main positive contribution made by the British in India.

2. Opening of __________ Canal significantly reduced the cost of transportation of goods between Britain and India.

3. India entered the __________ stage of Demographic Transition after the year 1921.
   (a) fourth (b) second
   (c) third (d) first

4. Read the following statements - Assertion (A) and Reason (R). Choose one of the correct alternatives given below:
   Assertion (A): India became an exporter of primary products and an importer of finished consumer and capital goods produced in Britain.
   Reason (R): Restrictive policies of commodity production, trade and tariff pursued by the colonial government adversely affected the structure, composition and volume of India's foreign trade.
   Alternatives:
   (a) Both 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 and Reason (R) is not the 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.

5. Read the following statements - Assertion (A) and Reason (R). Choose one of the correct alternatives given below:
   Assertion (A): Britishers destroyed indigenous handicraft market in India
   Reason (R) : India was made market for British manufactured products
   Alternatives:
   (a) Both 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 and Reason (R) is not the 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.

6. Read the following statements - Assertion (A) and Reason (R). Choose one of the correct alternatives given below:
   Assertion (A): During British rule, India saw huge drain of wealth.
   Reason (R): India generated large export surplus during the period.
   Alternatives:
   (a) Both 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 and Reason (R) is not the 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.

7. Read the following statements - Assertion (A) and Reason (R). Choose one of the correct alternatives given below:
   Assertion (A): During the British colonial rule in India, Britishers built roads extensively to cover the nation.
   Reason (R): Roads were built by Britishers primarily to mobilise army.
   Alternatives:
   (a) Both 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 and Reason (R) is not the 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.

8. Read the following statements relating to industrial sector during British rule and choose the correct sequence of these statements.
   (i) Cheap imports of British manufactured goods increased in the country.
   (ii) The growth rate of Industrial sector was very small.
   (iii) India was reduced to be mere exporter of raw material.
   (iv) India faced shortage of locally made goods.
   Alternatives:
   (a) (i), (ii), (iii), (iv) (b) (iv), (iii), (ii), (i)
   (c) (iii), (iv), (ii), (i) (d) (iii), (iv), (i), (ii)

9. Read the following statements relating to foreign trade during British rule and choose the correct sequence of these statements.
   (i) India was exporter of products like raw silk, cotton etc.
   (ii) Britain maintained monopoly control over India's foreign trade.
   (iii) India generated large export surplus
   (iv) Exports did not result in any flow of wealth into the country.
   Alternatives:
   (a) (i), (ii), (iii), (iv) (b) (iv), (iii), (ii), (i)
   (c) (ii), (i), (iii), (iv) (d) (iv), (i), (ii), (iii)

10. Read the following statements relating to demographic condition of India during British Rule and choose the correct sequence of these statements.

(i) Overall mortality rate was very high
(ii) Water and airborne diseases were rampant
(iii) Public health services were either unavailable or were inadequate
(iv) Infant mortality was at alarming level
Alternatives:
(a) (i), (ii), (iii), (iv)
(b) (iii), (ii), (i), (iv)
(c) (ii), (i), (iii), (iv)
(d) (iv), (i), (ii), (iii)

11. Arrange the following events of India before the independence in chronological order:
(i) The opening of the Suez Canal
(ii) Introduction of the railways
(iii) Second stage of demographic transition
(iv) Incorporation of the Tata Iron and Steel Company

12. Write the correct sequence of alternatives given in Column II by matching them with respective terms in Column I:

Column I	Column II
A. India's first official census	(i) less than 2%
B. Introduction of the railways in India	(ii) about 7%
C. India's annual growth rate of aggregate real output during colonial period	(iii) 1850
D. Female literacy level at the time of independence	(iv) 1881

13. Write the correct sequence of alternatives given in Column II by matching them with respective terms in Column I:

Column I	Column II
A. Focus of the economic policies pursued by the colonial government in India	(i) To use a large export surplus to make payments for the expenses incurred by an office set-up in British, expenses on war, and import of invisible items.
B. Motive of the British behind the systematic deindustrialisation in India	(ii) To reduce India to the status of a mere exporter of important raw materials for the upcoming modern industries in Britain.
C. Motive of the British behind infrastructural development in India	(iii) Protection and promotion of the economic interests of their home country then withe the development of the Indian economy.
D. Motive of the British behind monopoly control over India's exports and imports	(iv) To subserve various colonial interests, e.g. mobilising the army within India and drawing out raw materials from the countryside to the nearest railway station or the port to send these to England.

14. The opening of the Suez Canal in 1869:
(a) Raised the cost of transportation between Britain and India.
(b) Intensified British control over India's foreign trade.
(c) Reduced the cost of transportation and made access to the Indian market easier.
(d) Both (b) and (c)

15. Under the British colonial rule, the agricultural production decreased. True/False? Give reason.

16. One of the significant drawbacks of the industrial policy pursued by the British colonial administration was the very limited area of operation of the public sector. This sector remained confined only to the ____________.

17. India's demographic condition on the eve of independence was characterised by:
(a) High level of literacy, high mortality rates, high life expectancy and high level of poverty.
(b) Low level of literacy, low mortality rates, low life expectancy and Low level of poverty.
(c) Low level of literacy, low mortality rates, high life expectancy and high level of poverty.
(d) Low level of literacy, high mortality rates, low life expectancy and high level of poverty.

18. Name some notable economists who estimated India's per capita income during the colonial period.

19. Name some modern industries which were in operation in our country at the time of independence.

20. When was India's first official census operation undertaken?

21. Which is regarded as the defining year to mark the demographic transition from its first to the second decisive stage?

Answer Key

1. Introduction of Railways
2. Suez
3. (b) second
4. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
5. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
6. (b) Both Assertion (A) and Reason (R) are true but Reason (R) is not the correct explanation of Assertion (A).
7. (d) Assertion (A) is false but Reason (R) is true.
8. (d) (iii), (iv), (i), (ii)
9. (c) (ii), (i), (iii), (iv)
10. (b) (iii), (ii), (i), (iv)
11. (ii), (i), (iv), (iii)
12. (iv), (iii), (i), (ii)
13. (iii), (ii), (iv), (i)
14. (d) Both (b) and (c)
15. False: in absolute terms, the agricultural sector experienced some growth due to the expansion of the aggregate area under cultivation.
16. railways, power generation, communications, ports and some other departmental undertakings.
17. (d) Low level of literacy, high mortality rates, low life expectancy and high level of poverty.
18. Dadabhai Naoroji, William Digby, V.K.R.V Rao and R.C Desai (Rao's estimates was considered very significant).
19. Cotton and Jute textile industries iron and steel industries; sugar, cement, paper industries etc.
20. 1881
21. 1921

6.2 Indian Economy 1950-1990

Sequence of Events

I	**First Industrial Policy** of Independent India	**1948**
II	**Planning Commission** was set up in India with Prime Minister as its Chairperson.	**1950**
III	Village and Small-Scale Industries committee (also called **Karve Committee**) was constituted for the development of small-scale industries.	**1955**
IV	**Industrial Policy Resolution (IPR)** was adopted in accordance with the goal of the state controlling the commanding heights of the economy.	**1956**

Definitions of KEY TERMS

1. **Mixed economy** is a type of economic system where the market system will provide whatever goods and services it can provide well, and the government will provide essential goods and services which the market fails to do.
2. **Import Substitution Policy:** The Policy aimed at replacing or substituting imports with domestic production by protecting the domestic industries from foreign competition is known as import substitution policy (commonly called as inward looking trade strategy).
3. **Quota/ Quantitative Restrictions:** Quota refers to non-tariff barriers imposed on the quantity of imports and exports. Or, Quota refers to quantitative restrictions on imports for the protection of the domestic firms from foreign competition.
4. **Tariff:** A tax on imports, which can be levied either on physical units, e.g. per tonne or on value. Tariffs make imported goods more expensive and discourage their use.
5. **Small-scale industry:** A 'small-scale industry' is defined with reference to the maximum investment allowed on the assets of a unit. This limit has changed over a period of time. In 1950 a small-scale industrial unit was one which invested a maximum of ₹5 lakh; at present the maximum investment allowed is ₹1 crore.
6. **Subsidy:** Subsidy is the financial assistance provided by the government to producers to fulfill its social welfare objectives.
7. **Green Revolution:** Green Revolution refers to large scale increase in production of food grains (like wheat, rice etc.) resulting from the use of high yielding variety seeds, chemical fertilizers, modern sophisticated agricultural machines/tools/equipments etc.
8. **Marketed surplus:** Marketed surplus is the portion of agricultural produce which is sold in the market by the farmers after meeting their own consumption requirement.
9. **High Yielding Variety (HYV) seeds:** Seeds that give large proportion of output are called HYV seeds. The use of these seeds require the use of fertiliser and pesticide in the correct quantities as well as regular supply of water.
10. **Land reforms:** Land reforms primarily refer to change in the ownership of land holdings, i.e. to make the tillers the owners of land.
11. **Land ceiling:** Land ceiling means fixing the maximum size of land which could be owned by an individual.
12. **Structural/Sectoral Composition:** The contribution made by different sectors of the economy (agriculture, industry and services) in the GDP of the country makes up the structural composition of the economy.
13. **Planning Commission :** An organisation set up by the Government of India, responsible for formulating plans for the most effective and balanced utilisation of resources and determining priorities, etc.
14. **NITI Aayog:** The National Institution for Transforming India, also called NITI Aayog, was formed via a resolution of the Union Cabinet on January 1, 2015. NITI Aayog designs strategic and long-term policies and programmes for the Government of India. It also provides relevant technical advice to the Centre and States.
15. **Permit License Raj :** A term used to denote the rules and regulations framed by the government to start, run and operate an enterprise for production of goods and services in India.

Exercises

Q.1 Discuss the common goals of five year plans in India till 2017. (6)

OR

Discuss briefly, the rationale behind 'growth with equity' or 'equity with growth' as planning objectives for Indian Economy. (NCERT) (3)

OR

Discuss briefly the rationale behind choosing 'Modernisation' as a planning objective for the Indian economy. (3)

OR

Why was it necessary for a developing country like India to follow self-reliance as a planning objective? (NCERT) (3)

Ans. The common goals of five year plans in India are: growth, equity, modernisation and self-reliance.

(1) **Growth:** It refers to increase in the country's capacity to produce the output of goods and services within the country. It implies either a larger stock of productive capital, or a larger size of supporting services (like transport, banking, etc.), or an increase in the efficiency of productive capital and services.

(2) **Equity:** Equity refers to reductions in inequality of income

and wealth. • When the objective of economic growth and equity are achieved, it may lead to development with social justice, which may increase the per capital availability of goods and services. • It is important that the benefits of economic growth should reach the poor sections as well instead of being enjoyed only by the rich. Every Indian should be able to meet his/her basic need of food, house, education and health care. Inequality in the distribution of income and wealth should be reduced.

(3) Modernisation: Modernisation aimed at increasing the production of goods and services by way of adopting newer technologies. In the post independence era, modernisation was chosen as an objective of planing for the Indian economy with a view to raise the standard of living of the people by adopting new technology, change in social outlook, e.g. recognition that women should have the same rights as men.

(4) Self-reliance: 'Self-reliance' as a common goal of five year plans means avoiding imports of those goods which could be produced in India itself. Rationale behind choosing 'Self-reliance' as a planning objective for the Indian economy were:

- <u>To reduce foreign dependence</u>: 'Self-reliance' as an objective for the planning process of the Indian economy was promoted by the policy makers to avoid dependence on the foreign countries on account of goods, capital and technology.
- <u>To avoid foreign interference</u>: It was feared that dependence on imported food supplies, foreign technology and foreign capital may increase foreign interference in the policies of our country.

Q.2 Comment on the following statements: (6)

(a) It is necessary that the service sector should contribute maximum to GDP of an economy.

(b) Modernisation as a planning objective shows a dichotomy with employment generation.

(c) 'Atamnirbhar Bharat' had been at the roots of the Indian planning process in the form of 'self reliance' as an objective of the planning process.

Ans. (a) The given statement is appropriate. Generally, at higher levels of development the service sector contributes more to the GDP than the agriculture and industrial sectors. In India, the share of agriculture in the GDP was more than 50 per cent–as we would expect for a poor country. But by 1990s, the share of the service sector was 40.5 per cent, more than that of agriculture or industry, like what we find in developed nations.

(b) The given statement is appropriate. Modernisation implies use of advanced technology to enhance productivity at a faster pace. With application of modern technology, higher output is obtained at a relatively lower cost. However, in a labour abundant country like India modernisation may lead to an increase in unemployment as modern technology requires lesser labour per unit of output.

(c) The given statement is correct; in the early post-independence period the aim of the government's policy was to reduce the dependence on the foreign countries for goods, services, technology and capital. It stressed on the use of domestic resources to avoid foreign interference, as it was feared that the dependence on the imported food supplies, foreign technology and foreign capital may increase foreign interference in the policies of our country. Similarly, the main thrust of the 'Atmanirbhar Bharat' is also to make India an economy that is self-reliant and self-sufficient.

Q.3 Discuss briefly how institutional reforms (land reforms) have played a significant role in transforming Indian agriculture.

OR

Discuss briefly the rationale behind implementation of land reforms in the post-independence era.

OR

Explain the need and type of land reforms/institutional reforms implemented in the agriculture sector in India.

Ans. After independence the government of India took several institutional/land reforms to ensure transformation of Indian agriculture, such as:

(1) <u>Land ceiling</u> : Land ceiling means fixing the maximum size of land which could be owned by an individual. It ensured reduction of concentration of land ownership in few hands.

(2) <u>Abolition of Zamindari system</u> – It focused on elimination of farmers' exploitation and promotion of agricultural growth.

(3) <u>Change in the ownership of the landholdings ('land to the tiller' policy)</u> – The idea behind this move was that ownership of land would give incentives to the tillers to invest in making improvements.

These reforms have led to stability of farming as an occupation and promoted equity.

Q.4 How far the land reforms in the agriculture sector in India were successful in their implementation? Explain? (6)

Ans. The land reforms implemented in the agriculture sector in India were not quite successful because of the following reasons:

(1) Abolition of intermediaries meant that some 200 lakh tenants came into direct contact with the government – they were thus freed from being exploited by the zamindars. However, in some areas the former zamindars continued to own large areas of land by making use of some loopholes in the legislation. Thus, the goal of equity was not fully served by abolition of intermediaries.

(2) Ownership of landholdings gave the tenants incentive to increase output; and this contributed to growth in agriculture. However, there were cases where tenants were evicted and the landowners claimed to be the actual tillers, claiming ownership of the land. And even when the tillers got ownership of the land, the poorest of the agricultural labourers (such as sharecroppers and landless labourers) did not benefit from land reforms.

(3) Land ceiling legislation also faced hurdles. The big landlords challenged the legislation in the courts, delaying its implementation. They used this delay to register their lands in the name of close relatives, thereby escaping from the legislation.

Moreover, land reforms were successful in Kerala and West Bangal because these states had governments committed to the policy of 'land to the tiller'. Unfortunately, other states did not have the same level of commitment and vast inequality in landholding continues to this day.

Q.5 Why was green revolution implemented in the agricultural sector and how did it benefit the farmers and the indian economy? Explain. (NCERT) (4)

OR

Explain the statement that green revolution enabled the government to procure sufficient food grains to build its stocks that could be used during times of shortage. (NCERT) (3)

Ans. At independence, about 75 per cent of the country's population was dependent on agriculture. However, productivity in the agricultural sector was very low because of the use of old technology and the absence of required infrastructure. The green revolution was implemented to permanently break the stagnation in agriculture.

Benefits of Green Revolution:

(1) Self-sufficiency in food grains: In the second phase of the green revolution (mid-1970s to mid- 1980s), the green revolution technology involving use of HYV seeds spread to a large number of states and benefited a large variety of crops, especially wheat and rice. It enabled India to achieve self-sufficiency in food grains. We no longer had to import food from America or any other nation.

(2) Increase in marketed surplus resulting in decline in the price of food grains: A good proportion of the wheat and rice produced during the green revolution period (available as marketed surplus) was sold by the farmers in the market. As a result, the price of food grains declined relative to other items of consumption. The low-income groups, who spend a large percentage of their income on food, benefited from this.

(3) Buffer Stock: The use of modern technology and HYV seeds together formed the Green Revolution, which led to an impressive rise in food grains production. The agricultural productivity increased considerably. This enabled the government to procure sufficient food grains to build the buffer stock to be used in times of shortages due to scanty rainfall, delayed monsoon, drought and other natural calamities.

Q.6 *"While the nation had immensely benefited from the green revolution, the technology involved was not free from risks."* Do you agree with the given statement? Give valid reasons in support of your answer. (4)

OR

***"The Green revolution would have favoured the rich farmers only if the state did not play an extensive role in ensuring that the small farmer also gains from the new technology."* Do you agree with the above statement? Give valid reasons in support of your answer.** (4)

Ans. The given statement is correct.

(1) One such risk was the possibility that it would increase the disparities between small and big farmers – since only the big farmers could afford the required inputs (Irrigation facilities, Chemical fertilisers, Pesticides, HYV seeds), thereby reaping most of the benefits of the green revolution.

However, the government provided loans at a low interest rate to small farmers and subsidised fertilisers so that small farmer could also have access to the needed inputs.

(2) Secondly the HYV crops were also more prone to attack by pests. Thus, the small farmers who adopted this technology could lose everything in a pest attack.

The risk was considerably reduced by the services rendered by research institutes established by the government.

Q.7 While subsidies encourage farmers to use new technology, they are a huge burden on government finances. Discuss the usefulness of subsidies in the light of this fact. (NCERT) (6)

Ans. Arguments against giving subsidies:

(1) Initially, it was necessary to use subsidies to provide an incentive for adoption of the new HYV technology by farmers. Any new technology will be looked upon as being risky by farmers. Subsidies were, therefore, needed to encourage farmers to test the new technology. But once the technology is fourd profitable and is widely adopted, subsidies should be eliminated since their purpose has been served.

(2) Further subsidies are meant to benefit farmers but a substantial amount of fertiliser subsidy also benefits the fertiliser industry; and among farmers, the subsidy largely benefits the farmers in the prosperous regions. Therefore, it is argued that there is no case for continuing with fertiliser subsidy as it does not benefit the target group and it is a huge burden on the government's finances.

Arguments in favour of giving subsidies:

(1) Some economists believe that the government should continue with agricultural subsidies because farming in India continues to be a risky business. Most farmers are very poor and they will not be able to afford the required inputs without subsidies. Eliminating subsidies will increase the inequality between rich and poor farmers and violate the goal of equity.

(2) These experts argue that if subsidies are largely benefiting the fertiliser industry and big farmers, the correct policy is not to abolish subsidies but to take steps to ensure that only the poor farmers enjoy the benefits.

Q.8 Why was public sector given a leading role in industrial development during the planning period? (NCERT) (3)

Ans. During the planning period, public sector was given a leading role in industrial development due to the following reasons:

(1) Indian industrialists did not have the capital to undertake investment in industrial ventures required for the development of our economy.

(2) Secondly, the market was not big enough to encourage industrialists to undertake major projects even if they had the capital to do so.

(3) In addition, the decision to develop the Indian economy on socialist lines led to the policy of the state controlling the commanding heights of the economy.

Q.9 Why and how was private sector regulated under the IPR 1956? (NCERT) (4)

Ans. Under the Industrial Policy Resolution (IPR), 1956 the private sector was regulated through a system of licenses.

(1) No industry was allowed unless a license was obtained from the government.

Reasons: This policy was used for promoting industry in backward regions. It was easier to obtain a license if the industrial unit was established in an economically backward area. Even such units were given tax consessions and electricity at a low tariff. *Thus, the purpose of licensing policy was to promote regional equality.*

(2) Even an existing industry had to obtain a license for expanding output or for diversifying production.

Reasons: This was meant to ensure that the quantity of goods produced was not more than what the economy required. License to expand production was given only if the government was convinced that the economy required a larger quantity of goods.

Q.10 Explain briefly the importance/role of small scale industries in industrial development of India? Why and how has the government shielded small scale industries from the large firms? (4)

Ans. Role of small scale industries (SSIs):

(1) Generate more employment: Small scale industries are more 'labour intensive, i.e. they use more labour than the large-scale industries and therefore, generate more employment.

(2) Help in promoting rural development: In 1955, the village and Small-Scale Industries Committee, also called the Karve Committee, noted the possibility of using SSIs for promoting rural development.

Steps taken by the government:

Small-scale industries cannot compete the big industrial firms. Thus, development of small scale industry requires them to be protected from the large firms.

(1) The production of a number of products was reserved for the small scale industry.

(2) They were also given concessions such as lower excise duty and bank loans at lower interest rates.

Q.11 Explain how import substitution can protect the domestic industries. Why did the policy makers adopt such policy of protection? (4)

OR

"Import restrictions were imposed in India with the dual objective to save foreign exchange reserves and to be self-sufficient." Justify the given statement with valid arguments. (3)

Ans. The domestic industries of India were not in a position to compete against the goods produced by developed economies. So, the policy of import substitution helped in protecting them in two ways:

(i) The tariff on imported goods,and

(ii) Fixation of quotas helped in restricting the level of imports.

As a result, the domestic firms could expand without fear of competition from the foreign market.

The policy makers adopted the policy of import restrictions due to the following reasons/purposes:

(1) To be self-sufficient: Protecting the domestic industries from foreign competition by substituting imports with domestic production. It was assumed that if the domestic industries were protected they would learn to compete in the course of time. It helped India to move towards the goal of self-reliance.

(2) To save foreign exchange reserves: Our planners also feared the possibility of foreign exchange being spent on import of luxury goods if no restrictions were placed on imports.

Q.12 *"The achievements of India's industrial sector during the first seven plans are impressive indeed."*

Do you agree with the above statement? Give valid reasons in support of your answer. (4)

Ans. The given statement is correct.

(1) The proportion of GDP contributed by the industrial

sector increased in the period from 13 per cent in 1950-51 to 24.6 per cent in 1990-91.

(2) The 6% annual growth rate of the industrial sector during 1950-1990 is commendable.

(3) The industrial sector became well-deversified by 1990, largely due to the public sector. No longer was Indian economy restricted largely to cotton textiles and jute.

(4) The promotion of small-scale industries gave employment opportunities to those people who did not have capital to start large firms to get into business.

(5) Protection from foreign competition (due to import substitution policy) enabled the development of indigenous industries in the areas of electronics and automobile sectors, which otherwise could not have developed. *(any four)*

Q.13 *"The progress of the Indian economy during the first seven plans was impressive indeed."* Do you agree with the above statement? Give valid reasons in support of your answer. (6)

Ans. The given statement is not totally correct.

(1) No doubt, during 1950-1990, our industries became far more diversified compared to the situation at independence. The 6% annual growth rate of the industrial sector during the period is commendable. Also, India became self-sufficient in food production due to the green revolution. Land reforms resulted in abolition of the hated zamindari system.

(2) Many economists became dissatisfied with the performance of many public sector enterprises (PSEs). They incurred huge losses but continued to function because it was difficult to close a government undertaking even if it was a drain on the nation's limited resources.

(3) Excessive government regulation through ***'permit license raj'*** prevented growth of entrepreneurship. More time was spent by industrialists in trying to obtain a license or lobby with the concerned ministries rather than on thinking about how to improve their products. Even, the need to obtain a license to start an industry was misused by industrial houses. A big industrialist would get a license not for starting a new firm but to prevent competitors from starting new firms.

(4) Our inward-looking trade strategy failed to develop a strong export sector. In the name of self-reliance, our producers were protected against foreign competition and this did not give them the incentive to improve the quality of goods they produced. The producers were aware that they had a captive market. Due to restrictions on imports the Indian consumers had to purchase whatever the producers produced and sell at a high price.

Q.14 Though public sector is very essential for industries, many public sector undertakings incur huge losses and are a drain on the economy's resources. Discuss the usefulness of public sector undertakings in the light of this fact. (NCERT) (4)

Ans. Usefulness of public sector undertakings:

At the time of independence, Indian industrialists did not have the capital to undertake investment in industrial ventures required for the development of our economy. The market was not big enough to encourage industrialists to undertake major projects even if they had the capital to do so.

So, the government decided to develop the Indian economy by establishing many public sector undertakings. They contribute to the welfare of people.

However, many public sector undertakings incur huge losses but continued to function because it is difficult to close a government undertaking even if it is a drain on the nation's limited resources. This has led some scholars to argue that the state should get out of areas which the private sector can manage and the government may concentrate its resources on important services which the private sector cannot provide.

OBJECTIVE TYPE QUESTIONS

1. In the Industrial Policy Resolution of 1956, industries were classified in _________ (two/three) categories.
2. Read the following statements - Assertion (A) and Reason (R). Choose one of the correct alternatives given below:
   Assertion (A): The major policy initiatives i.e. land reforms and green revolution helped India to become self-sufficient in food grains production.
   Reason (R): The proportion of people depending on agriculture did not decline as expected
   Alternatives:
   (a) Both 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 and Reason (R) is not the 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.
3. During India's first seven five-year plans, the Government of India adopted ______ policy to protect domestic industries.
4. Identify the correct sequence of alternatives given in Column II by matching them with respective terms in Column I:

Column I	Column II
A. Land Ceiling	(i) Increase in production of food grain using high yielding variety seeds
B. Land reforms	(ii) Portion of agricultural produce sold in the market
C. Green Revolution	(iii) Fixing the maximum limit of land holding for an individual.
D. Marketed Surplus	(iv) Change in the ownership of land (land to tillers)

5. Policy of 'Import Substitution' was targeted to protect _______ industries.
6. In 1955, Karve committee was constituted for aiming the _______.
7. Write the correct sequence of alternatives given in Column II by matching them with respective terms in Column I:

Column I	Column II
A. Growth	(i) Adoption of new technology to increase the production of goods and services.
B. Modernisation	(ii) Avoiding imports of those goods which could be produced in India itself.
C. Self-reliance	(iii) Every Indian should be able to meet his/her basic needs such as food, a decent house, education and health, and inequality in the distribution of wealth should be reduced.
D. Equity	(iv) Increase in the country's capacity to produce the output of goods and services within the country.

8. Write the correct sequence of alternatives given in Column II by matching them with respective terms in Column I:

Column I	Column II
A. Karve Committee, 1955	(i) To encourage farmers for adopting new HYV technology.
B. Industrial Policy Resolution, 1956	(ii) Using small-scale industries to promote rural development.
C. Import Substitution Policy	(iii) To protect the domestic firm from foreign competition.
D. Subsidies	(iv) To regulate private sector through a system of licensing to promote regional equality.

9. Why, despite the implementation of green revolution, 65 per cent of our population continued to be engaged in the agriculture sector till 1990?
10. Match the following and choose the correct alternative:

1. Prime Minister	(A) The money value of all the final goods and services produced within the economy in one year
2. Gross Domestic Product	(B) Adoption of new technology
3. Modernisation	(C) Chairperson of the planning commission
4. Self-sufficiency	(D) Avoiding imports of those goods which could be produced in India itself.

(a) 1-D, 2-A, 3-B, 4-C (b) 1-C, 2-A, 3-B, 4-D
(c) 1-D, 2-A, 3-C, 4-B (d) 1-C, 2-B, 3-A, 4-D

11. Just a year after independence, steps were taken to abolish intermediaries and to make the tillers the owners of land. The idea behind this move was:
    (a) to reduce the concentration of land ownership in a few hands.
    (b) that ownership of land would give incentives to the tillers to invest in making improvements.
    (c) fixing the maximum size of land which could be owned by an individual.
    (d) to reduce the vast inequality in land holding.
12. Which of the following is not included in land reforms?
    (a) Use of high yielding variety (HYV)seeds
    (b) The abolition of intermediaries
    (c) The change in ownership of landholdings
    (d) Land ceiling
13. In the first phase of the green revolution (approximately mid 1960s, up to mid 1970s), the use of HYV seeds primarily benefited the growing regions only. True/False? Give reason.
14. In the second phase of the green revolution (mid 1970s to mid 1980s), the HYV technology benefited only the more affluent states and the wheat growing regions. True/False? Give reason.
15. Match the following and choose the correct alternative:

1. Quota	(A) Quantity of goods that can be imported
2. Land Reforms	(B) Seeds that give large proportion of output
3. HYV Seeds	(C) Improvements in the field of agriculture to increase its productivity
4. Subsidy	(D) The monetary assistance given by government for production activities.

(a) 1-D, 2-C, 3-B, 4-A (b) 1-A ,2-D, 3-B, 4-C
(c) 1-A, 2-C, 3-B, 4-D (d) 1-A, 2-B, 3-C, 4-D

16. The annual growth rate of the industrial sector during 1950-1990 was:
    (a) 5 per cent (b) 6 per cent
    (c) 8 per cent (d) 10 per cent
17. Land reforms primarily refer to:
    (a) fixing the maximum size of land which could be owned by individual.
    (b) change in the ownership of landholdings.
    (c) use of new technology in agriculture sector.
    (d) abolition of intermediaries.

Answer Key

1. three
2. (b)
3. Import Substitution
4. iii , iv, i , ii
5. Domestic
6. Development of small scale industries
7. (iv), (i), (ii), (iii)
8. (ii), (iv), (iii), (i)
9. This is so because the industrial sector and the service sector did not absorb the people working in the agricultural sector. (Many economists call this an important failure of our policies followed during 1950-1990).
10. (b)
11. (b)
12. (a)
13. True
14. False: In the second phase of the green revolution, the HYV technology spread to a larger number of states and benefited more variety of crops.
15. (c)
16. (b)
17. (b) change in the ownership of landholdings.

6.3 Economic Reforms since 1991

Sequence of Events

I	Establishment of **General Agreement on Trade and Tariff (GATT)** with 23 countries as the global trade organisation	**1948**
II	**New Economic Policy (NEP)** – Liberalisation, Privatisation and Globlisation was announced by the Government of India	**1991**
III	**World Trade Organisation (WTO)** was founded as the successor organisation to the **General Agreement on Tariffs and Trade (GATT).**	**1995**
IV	Government of India fully **removed quantitative restrictions on imports** of manufactured consumer goods and agricultural products.	**April 2001**
V	**Demonetisation of Currency** by the Government of India	**8 Nov. 2016**
VI	The Parliament passed a law, **Goods and Services Tax (GST) Act 2016,** which came into effect in India	**1 July 2017**

Definitions of KEY TERMS

1. **Budgetary Deficit:** A situation when the government's income and tax receipts fail to cover its expenditures.
2. **Deficit financing:** When government's budgetary expenditure is more than budgetary receipts, the government incurs a deficit in its budget. To finance the deficit, the government borrows from the RBI, from people within the country and from international financial institutions, such as, World Bank, IMF, etc. This is called 'Deficit Financing'.
3. **New Economic Policy (NEP):** India announced the New Economic Policy (NEP) in 1991 due to financial crisis and pressure from the World Bank and IMF. The NEP consisted of wide ranging economic reforms:
   (i) the stabilisation measures – short-term measures to correct the BoP position and to bring inflation under control; and
   (ii) structural reform policies – long-term measures aimed at improving the efficiency of the economy and increasing its international competitiveness by removing the barriers to entry and growth of firms, viz. liberalisation, privatisation and globalisation.
4. **Liberalisation:** Liberalisation is a part of the New Economic Policy, 1991 to put an end to those restrictions which became major hindrances in growth and development; and open various sectors of the economy.
5. **Privatisation:** It implies shedding of the ownership or management of a government owned enterprise. Government companies are converted into private companies by withdrawal of the government from ownership and management of public sector companies and/or by outright sale of public sector companies.
6. **Disinvestment:** Privatisation of the public sector enterprises (PSEs) by selling off a part/whole of the equity to the general public or any private sector player is known as disinvestment.
7. **Globalisation:** Globalisation is the outcome of the policies of liberalisation and privatisation. It means integration of the economy of the country with the world economy. It aims at transforming the world towards greater interdependence and integration.
8. **Outsourcing:** Outsourcing means hiring of regular service from external sources, mostly from foreign countries, which was previously provided internally or from within the country (like legal advice, computer service, advertisement, security services, etc.).
9. **Tarrif Barriers:** The barriers which are imposed on imports of goods and services to make them relatively costlier and to protect the domestic producers from the stiff international competition are known as tariff barriers e.g. Import Duties.
10. **Non-tariff Barriers:** Non-tariff barriers are those barriers which are imposed on quantity of import and export of goods and services e.g. quota and import licensing.
11. **Bilateral trade:** The trade (export and import) between two countries is known as bilateral trade.
12. **Multilateral trade:** The trade (export and import) among more than two countries is known as multi-lateral trade.
13. **Strategic sale:** It involves the sale of minimum 51% stake of a public sector undertaking (PSU) to the private sector. The control and management of the PSU is transferred to the private sector.
14. **Minority sale:** It involves the sale of less than 49% stake of a PSU to the private sector. The control and management of the PSU remains with the government as it holds the majority stake.
15. **Dereservation :** Allowing an individual or group of enterprises to produce goods and services which were hitherto produced by a particular individual or group of enterprises. In India, it refers to allowing large-scale industries to produce goods and services which were produced only by the smallscale industries.
16. **Devaluation of currency :** A deliberate reduction in the value of domestic currency (Rupee) vis-a-vis any foreign currency (Dollar) by the government of a country is known as devaluation of the currency.
17. **Fiscal Policy :** All the planned actions of a government in mobilising financial resources for meeting its expenditure and regulating the economic activities in a country.
18. **Foreign Exchange Markets :** A market in which currencies of different countries are bought and sold at market determined exchange rates.
19. **Foreign Direct Investment :** Investment of foreign assets into domestic structures, equipment and organisations. It does not include foreign investment into the stock markets.

20. **Foreign Institutional Investment :** Foreign investments which come in the form of stocks, bonds, or other financial assets. This form of investment does not entail active management or control over the firms or investors.
21. **Foreign Institutional Investors (FIIs) :** Banking and non-banking financial institutions of foreign origin e.g. commercial banks, investment banks, mutual funds, etc. whose investment in stocks and bonds in the country through stock markets have significant influence.
22. **Import Licensing :** Permission required from the government to import goods into a country.
23. **Export Duties:** Taxes imposed on goods exported from a country.
24. **Export-Import Policy :** The economic policies of the government relating to its exports and imports.
25. **Stock Exchange :** A market in which the securities of governments and public companies are traded. It provides the facilities for stock brokers to trade company stocks and other securities.
26. **Gross Value Added (GVA):** The sum of a country's GDP by adding subsidies on production and subtracting indirect taxes. (GVA = GDP + Subsidies – Indirect taxes)

Exercises

Q. 1 Why were economic reforms introduced in India in 1991? (NCERT) (6)

Ans. In the late 1980s, the Indian economy was facing problems of:

(1) Declining foreign exchange reserves – The government was not able to generate sufficiently from taxation. The income from PSUs was also not very high to meet the growing expenditure (on development programmes and to meet challanges like unemployment, poverty and population explosion). At times, out foreign exchange, borrowed from other countries and international financial institutions, was spent on meeting consumption needs. Foreign exchange reserves declined to a level that was not sufficient to finance imports of petrol and other important items for more than two weeks.

(2) Economic crisis related to external debt – Government expenditure began to exceed its revenue by such large margins that meeting expenditure through borrowings became unsustainable. The government was not able to make repayments on its borrowings from abroad. No country or international funder was willing to lend to India.

(3) Growing imports without matching rise in exports – Imports grew at a very high rate. But sufficient attention was not given to boost exports to pay for the growing imports.

(4) High inflation – The crisis was further compounded by the rising prices of essential goods.

India approached the World Bank and IMF and received $7 billion as loan to manage the crisis. For availing the loan, these international institutions expected India to liberalise and open up the economy by removing restrictions on the private sector, reducing the role of the government in many areas and remove trade restrictions between India and other countries.

India agreed to the conditionalities of World Bank and IMF and announced the New Economic Policy (NEP).

Thus, India changed its economic policies in 1991 due to:

(i) a financial crisis, and

(ii) pressure from international organisations like the World Bank and IMF.

Q.2 *"Liberalisation was introduced to put an end to those restrictions which became major hindrances in growth and development, and open various sectors of the economy."*
In the light of the above statement, explain the various liberalisation measures introduced in 1991. (6)

OR

The policy of liberalisation changed the role of Reserve Bank of India (RBI) from 'a regulator' to 'a facilitator' in the financial sector. Defend or refute the given statement with valid arguments. (3)

OR

Discuss briefly any two major steps taken by the Government of India on 'Financial Sector' front under the Economic Reforms of 1991. (3)

Ans. Liberalisation measures introduced in 1991:

(1) Deregulation of Industrial sector

- Industrial licensing was abolished for almost all products categories except alcohol, cigarettes, hazardous chemicals, industrial explosives, electronics, aerospace and drugs and pharmaceuticals.
- The only industries which are now reserved for the public sector are a part of defence equipment, atomic energy generation and railway transport.
- Many goods produced by small-scale industries have now been deserved.
- In many industries, the market has been allowed to determine the prices.

(2) Financial Sector Reforms

- Change in the role of Reserve Bank of India (RBI): The role of RBI was reduced from regulator to facilitator of financial sector. As a regulator (prior to liberalisation), RBI used to fix interest rate structure for the commercial banks, however, as a facilitator (post-liberalisation) the RBI now facilitates the free market forces to act independently. This means that financial sector was given greater autonomy (to take decisions) on many matters independent of RBI, e.g. freedom to banks to setup new branches without the approval of the RBI.

- Origin of Private Banks: The reform process led to establishment of private sector banks of Indian as well as foreign origin.
- Foreign investment limit in banks was raised to around 74 per cent.
- Foreign Institutional Investors (FIIs) such as merchant bankers, mutual funds and pension funds, are now *allowed to investment in Indian financial markets.*

(3) Tax Reforms

- Personal income tax rates have been reduced since 1991 as it was felt that high rate of income tax were an important reason for tax evasion. Moderate rates of income tax encourage savings and more tax compliance.
- Corporate tax rate, which was very high earlier, has been gradually reduced.
- In 2016, the Indian Parliament passed a law, Goods and Services Tax Act 2016, to simplify and introduce a unified indirect tax system in India. This law came into effect from July 2017. This is expected to generate additional revenue for the government, reduce tax evasion and create 'one nation, one tax and one market'.

(4) Foreign Exchange Reforms

- In 1991, as an immediate measure to resolve the balance of payments crisis, the rupee was devalued against foreign currencies. This led to increase in exports and thus more inflow of foreign exchange.
- Determination of foreign exchange rate through market forces of demand and supply, without any government control.

(5) Trade and Investment Policy Reforms: Liberalisation of trade and investment was initiated to increase international competitiveness of domestic goods; and to increase the inflow of foreign investment (FDI, FIIs etc.) and technology into the economy. The trade policy reforms aimed at: (i) Dismantling quantitative restrictions on imports and exports; (ii) Reduction in tariff rates; and (iii) Removal of licensing procedures for imports.

- Import licensing was abolished except in case of hazardous and environmentally sensitive industries.
- Quantitative restrictions on imports of manufactured consumer goods and agricultural products were fully removed from April 2001.
- Export duties have been removed to increase the competitive position of Indian goods in the international market.

Q.3 Comment on the following: (6)

(a) Those public sector undertakings which are making profits should be privatised.

(b) The opening up of the Indian Economy has led to a rapid increase in Foreign Direct Investments and Foreign Exchange Reserves of the country.

Ans.

(a) The statement is not correct. Only loss making PSUs should be privatised. Profit making PSUs should not be privatised only for drawing out funds to cover the deficit in government budget. The government envisaged that proceeds from disinvestment could be effectively utilised to improve the performance of the PSEs. Every year, the government fixes a target for disinvestment of PSEs. For instance, in 1991-92 it was targeted to mobilise ₹2,500 crore through disinvestment. The government was able to mobilise ₹3,040 crore more than the target. In 2017-18, the target was about ₹1,00,000 crore, whereas, the achievement was about ₹1,00,057 crore.

Critics point put that the assets of PSEs have been undervalued and sold to the private sector. This means that there has been a substantial loss to the government. Moreover, the proceeds from disinvestments were used to offset the shortage of government revenues rather than using it for the development of PSEs and building social infrastructure in the country.

(b) The given statement is true to its character. The foreign investment, which includes foreign direct investment (FDI) and foreign institutional investment (FII), has increased from about US $100 million in 1990-91 to US $ 30 billion in 2017-18. This has changed the status of India from a 'begging bowl' in 1990's to a 'selfdependent' economy in the present ages. Due to the opening up of the Indian Economy, she has become one of the largest foreign exchange reserve holders in the world. India been able to register an increase in the foreign exchange reserves from about US $ 6 billion in 1990-91 to about US $ 413 billion in 2018-19.

Q.4 Besides privatisation and disinvestment what attempts have been made by the government to improve the efficiency of PSUs? (3)

OR

Do you think the navaratna policy of the government helps in improving the performance of public sector undertakings in India? How? (NCERT) (3)

Ans. In order to improve efficiency of PSUs and enable them to compete more effectively in the liberalised global environment, the government has given them greater autonomy in taking various decisions to run the company efficiently and thus increase their profits. For instance, some PSUs have been granted a special status such as maharatnas, navratnas and miniratnas.

A few examples of PSUs with their status are as follows:

(i) Maharatnas

- Indian Oil Corporation Limited
- Steel Authority of India Limited

(ii) Navratnas

- Hindustan Aeronautics Limited
- Mahanagar Telephone Nigam Limited

(iii) Miniratnas
- Airport Authority of India
- Bharat Sanchar Nigam Limited

The granting of special status resulted in better performance of these companies.

Q.5 Justify the following giving reasons: (4)

(a) Recently the Government of India has decided to merge MTNL and BSNL on account of rising losses.

(b) India is often called as outsourcing hub/favourite outsourcing destination of the world.

Ans.

(a) The decision taken by the Government of India to merge BSNL and MTNL is quite appropriate. The Government has merged the two loss incurring businesses, with a motive to :

(i) Achieve higher economic and functional efficiency

(ii) Minimise possible losses.

(b) Reasons for India as favourite outsourcing destination of the world:

(i) Availability of skilled manpower: India has vast skilled manpower which enhances the faith of MNCs for investment in India.

(ii) Favourable Government policies: MNCs get various types of lucrative offers from the Indian government such as tax holidays, tax concessions etc.

Q.6 Do you think outsourcing is good for India? Why are developed countries opposing it? (NCERT) (4)

Ans. Yes, outsourcing has proved to be good for India in the following manner:

(i) Employment generation: Outsourcing from developed nations has created more employment opportunities in India.

(ii) Increased foreign investment: Successful execution of processes outsourced to India has increased India's international credibility and hence the inflow of foreign capital to India.

However, developed countries oppose outsourcing because it results in outflow of capital from the developed countries to the developing countries. Further, outsourcing leads to a reduction in employment in the developed countries as the same jobs are outsourced to the developing countries.

Q.7 Why is it necessary to become a member of WTO? Discuss the usefulness of India becoming a member of WTO. (NCERT) (6)

Ans. It is necessary to become a member of WTO because of the following reasons:

(i) It provides equal opportunities to all countries in the international market for trading purposes.

(ii) It ensures optimum utilisation of world resources.

(iii) The WTO agreements cover trade in goods as well as services to facilitate international trade (bilateral and multilateral) through removal of tariff as well as non-tariff barriers.

India is an important member of WTO. It has kept its commitments towards liberalisation of trade by removing quantitative restrictions on imports and reducing tariff rates. However, some scholars question the usefulness of India being a member of the WTO due to the following reasons:

(1) A major volume of international trade occurs among the developed nations.

(2) Developing countries like India feel cheated as they are forced to open their markets for developed countries but are not allowed access to the markets of developed countries because of high non-tarriff barriers.

Q.8 *"Fiscal policy reforms in India have had a negative impact on developmental and welfare expenditures."* Defend or refute the given statement. (4)

Ans. The given statement is true.

Effect on expenditure policy: Economics reforms have placed limits on the growth of public expenditure, especially in social sectors. The government was not able to address some of the basic problems facing our economy especially in areas of employment, agriculture, industry, infrastructure development, etc. Though the GDP growth rate has increased in the reform period from 5.6% p.a during 1980-91 to 8.2% p.a. during 2007-12. But it has not generated sufficient employment opportunities in India.

Effect on taxation policy:
- The tax reductions in the reform period aimed at yielding larger revenue and curb tax evasion, have not resulted in increase in tax revenue for the government.
- The reform policies, involving tariff reduction, have curtailed the scope for raising revenue through custom duties.
- In order to attract foreign investment, tax incentives were provided to foreign investors which further reduced the scope for raising tax revenues.

Q.9 Study the following table and answer the questions that follow:

Growth of GDP and Major Sectors (in %)

Sector	1980-91	1992-2001	2002-07	2007-12	2012-13	2013-14	2014-15
Agriculture	3.6	3.3	2.3	3.2	1.5	4.2	– 0.2
Industry	7.1	6.5	9.4	7.4	3.6	5	7.0
Services	6.7	8.2	7.8	10	8.1	7.8	9.8
Total	**5.6**	**6.4**	**7.8**	**8.2**	**5.6**	**6.6**	**7.4**

(a) Which sector has continued to witness a high level of growth during the reform period ? What are the major factors responsible for the high growth of this sector? (NCERT) (4)

(b) "Some economists believe that the economic reforms have adversely affected the agriculture sector in

India." Do you agree with the given statement? Justify your answer with valid reasons. (4)

(c) State and discuss any two reasons for the poor performance of industrial sector in the reforms period. (3)

Ans.

(a) The service sector continued to witness a high level of growth. In 2014– 15, this sector witnessed the high growth rate of 9.8 per cent. This indicates that GDP growth is mainly due to the growth in the service sector. The major factors responsible for the high growth of the service sector are as follows:

(i) Rise in income: With rise in income people demand services which can make their lives more comfortable.

(ii) Outsourcing: India is looked upon as a great destination to outsource various business processes such as call centres, accounting services etc.

(iii) Globalisation: It has increased the demand for courier, shipping, travel and information services.

(b) During the reform period, agriculture sector was adversely affected because of the following reasons:

(i) Reduction in public investment in agriculture sector: Public investment in agriculture sector especially in infrastructure like irrigation power, etc. has been reduced in the reform period.

(ii) Removal of fertilizers subsidy : Removal of fertilizer subsidy has increased the cost of production affecting thereby the small and marginal farmers.

(iii) Increased international competitiveness due to liberalisation and reduction of import duties.

(iv) Shift from food crops to cash crops due to export-oriented policy in agriculture led to a rise in prices of food-grains.

(c) Industrial growth has recorded a slow down during the reform period because of the following reasons:

(i) Cheaper imports: Cheaper imports have replaced the demand for domestic goods. Demand for industrial products have decreased because domestic manufacturers are facing competition from imports.

(ii) Inadequate investment in infrastructure: The infrastructure facilities including power supply have remained inadequate due to lower investment.

Q.10 *"The process of globalisation through liberalisation and privatisation policies has produced positive, as well as, negative results for India and other countries."*

Defend or refute the above statement. (6)

Ans. The given statement is true to its character. Some scholars argue that globalisation should be seen as an opportunity in terms of:

(1) Greater access to global markets,

(2) High technology and,

(3) Increased possibilities of large industries of developing countries to become important players in the international arena.

On the contrary, the critics argue that: *(Any three)*

(1) Globalisation is a strategy of the developed countries to expand their markets in other countries. According to them, it has compromised the welfare and identity of people belonging to poor countries.

(2) Market-driven globalisation has widened the economic disparities among nations.

(3) It has increased the income and quality of further consumption of only high income groups.

(4) The growth has been concentrated only in some select areas in the service sector such as telecommunication, IT, finance, entertainment, travel and hospitality services, real estate and trade rather than vital sectors such as agriculture and industry which provide livelihoods to millions of people in the country.

Q.11 Discuss economic reforms in India in the light of social justice and welfare. (NCERT) (4)

Ans. Economic reforms in India in the light of social justice and welfare: Globalisation is a strategy of the developed countries to expand their markets in other countries. It has compromised the welfare and identity of people belonging to poor countries.

(i) It has widened the economic disparities among nations and people.

(ii) It has increased the income and quality of consumption of only high-income groups.

(iii) The growth has been concentrated only in some select areas in the services sector such as telecommunication, information technology, finance, entertainment, travel and hospitality services, real estate and trade, rather than vital sectors such as agriculture and industry which provide livelihoods to millions of people in the country.

Q.12 *"The demonetisation of currency undertaken by the Government of India on November 8, 2016 had an adverse impact on the economic activities."*

Do you agree with the statement? Give reason in support of your answer. (4)

Ans. The given statement is not totally correct.

The shortage of currency in circulation had an adverse impact on the economic activities. There were long queues outside banks and ATM booths. However things improved with time and normally returned.

This move had many positive impacts on the Indian economy such as:

(1) It improved tax compliance as a large number of people were bought in the tax ambit. Tax evasion will result in financial penalty. It put a curb on black money and

corruption.

(2) The savings of an individual were channelised into the formal financial system. As a result, banks have more resources to provide more loans at lower interest rates.

(3) Shifting transactions out of the cash economy into the formal payment system. Households and firms have begun to shift from cash to electronic payment technologies.

Q.13 What is Goods and Services Tax (GST)? State its aim and features. (4)

Ans. The Parliament passed a law, Goods and Services Tax Act, 2016, to simplify and introduce a unified indirect tax system in India. This law came into effect from 1 July 2017. It aims to generate additional revenue for the government; to reduce tax evasion; and to create 'one nation, one tax and one market'.

Features:

(1) Goods and Service Tax (GST) is the single comprehensive indirect tax on supply of goods and services, right from the manufacturer/service provider to the consumer.

(2) It is a destination based consumption tax with facility of Input Tax Credit (ITC) in the supply chain.

(3) GST is applicable throughout the country with one rate for one type of goods/service. Under GST, there are 5 (five) standard rates applied, i.e. 0%, 5%, 12%, 18% and 28% on supply of all goods and services across the country.

(4) GST has amalgamated a large number of Central and State taxes and cesses. It has replaced large number of taxes on goods and services levied on production/sale of goods or provision of service, e.g. Central Excise Duty, Service Tax, VAT/Sales Tax, Entertainment Tax, etc.

OBJECTIVE TYPE QUESTIONS

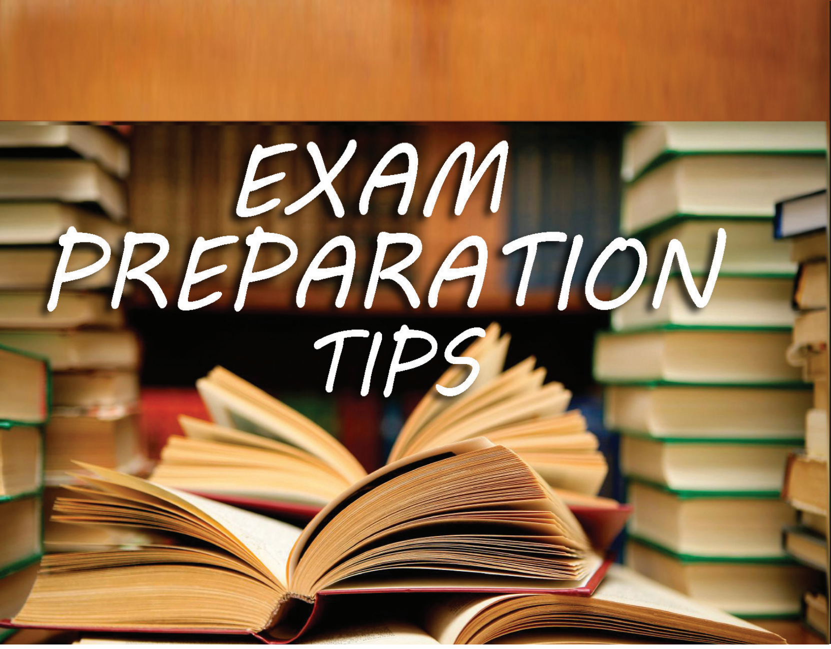
1. ______________ was the Indian Finance Minister in 1991, acknowledged for his capabilities to steer away the economic crisis looming large on the erstwhile Indian Economy.
   (a) Dr. Subramanian Swamy (b) Dr. Manmohan Singh
   (c) Pranab Mukherjee (d) Dr. Urjit Patel
2. Read the following statements - Assertion (A) and Reason (R). Choose one of the correct alternatives given below:
   Assertion (A): Every year government fixes a target for disinvestment of Public Sector Enterprises (PSEs).
   Reason (R): Disinvestment is an excellent tool for discarding the loss incurring Public Sector Enterprises (PSEs).
   Alternatives:
   (a) Both 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 and Reason (R) is not the 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.
3. State any one outcome of implementation of Economic Reforms in India In 1991.
4. Identify and match the correct sequence of alternatives of organisations given in column I with their respective functions in column II :

Column I	Column II
A. WTO	(i) Provides short-term loans to solve the Balance of Payments problem.
B. RBI	(ii) is a multilateral trade negotiating body.
C. IMF	(iii) facilitates lending for reconstruction and development.
D. IBRD	(iv) is the Central Bank of India.

   Choose the correct alternative from the following :
   (a) A-(ii), B-(i), C-(iii), D-(iv)
   (b) A-(ii), B-(iv), C-(iii), D-(i)
   (c) A-(ii), B-(iii), C-(iv), D-(i)
   (d) A-(ii), B-(iv), C-(i), D-(iii)
5. State, whether the following statement is true or false: "GATT was established in 1923 with 48 member countries."
6. State whether the following statement is true or false: 'World Bank is known as International Bank for Registration and Delimitation (BRD)'.
7. _________ is one of the taxes eliminated after implementation of Goods and Services Tax (GST.)
8. World Trade Organisation (WTO) established in 1995, as a successor organisation to _______.
9. Name any one Maharatna Company.
10. Name any one Navratana Company.
11. Name any two taxes which were subsumed in Goods and Services Tax (GST).
12. IBRD stands for ___________ .
13. In 1991, an immediate measure to resolve the balance of payments crisis was:
    (a) to free the determination of rupee value in the foreign exchange market from government control.
    (b) devaluation of rupee against foreign currencies.
    (c) removing the trade barriers –quotas and tariffs.
    (d) simplification of export and import procedures.
14. Rising prices have been kept under control in the reform period. *(True/False)*

Answer Key

1. (b) 2. (b)
3. Greater inflow of investment
4. (d) 5. False 6. False
7. Value Added Tax
8. General Agreement on Trade and Tariff (GATT)
9. Indian Oil Corporation Limited (IOCL) or Steel Authority of India Ltd.
10. Mahanagar Telephone Nigam Limited (MTNL)
11. Value added tax, service tax, excise duty, sales tax. (any two)
12. International Bank for Reconstruction and Development (popularly known as World Bank)
13. (b) 14. True



New CBSE Sample Question Papers 2021

Important Tips for Attempting CBSE Economics XII Examination 2021

- During 15 minutes Reading Time, read all questions carefully. Select the Option to be answered in questions having internal choice. When reading, underline the key lines with pencil which help you to write answers. Do calculations for all Numerical Questions during the reading time.
- In **Case-based Questions**, before reading the whole case study first you must read what is required in the questions.
- Timing is an essential ingredient of success. Attempting the full paper on time with at least 20 minutes Revision Time in hand to check calculations is necessary to score 100% marks in Economics Paper. Economics paper is worth 80 marks and must be completed in 180 minutes. Allowing 20 minutes revision time, this leaves 160 minutes or 2 minutes per mark. So, do not spend 10 minutes on a question worth just 3 marks! Do not exceed the time you have allocated for each question.
  The following Time Schedule will help you managing your time when sitting the examination hall.

For each Section: Macroeconomics and Indian Economic Development

Types of Questions	Marks	Word limit	No. of Questions	Total Marks	Estimated Time
OTQs (including Case-based Questions	1	One word to a sentence	10	10	10 min.
SA-I	3	60-80 words	2	6	10 min.
SA-II	4	80-100 words	3	12	30 min.
LA	6	100-150 words	2	12	30 min.
					20 Minutes – Revision
Total			**17**	**40**	**90 min.**

- The following table shows a list of key directive words which are most likely to occur in CBSE Economics examination questions. You should read these carefully and understand what each means.

Directive Words	The examine is supposed to:
Name/Identify/Which	Write the name of the concept/term only
Define	Give the exact meaning
State	Make clear
Explain	Give clear reasons
Describe	Give a description of
Illustrate	Give example/diagram
Discuss	Give the important arguments, for and against
Comment	Give your reasoned opinions on
Calculate/Compute	Work out using the information provided
Defend/Refute	Write whether given statement is correct/incorrect

- To score 100% marks, the presentation of answers is as much important as their content.
  - ✓ Don't forget to write Question Number you are answering.
  - ✓ Answer each question from new page (except 1 mark questions)
  - ✓ Give answer in points, as far as possible, rather than in paragraphs.
  - ✓ Leave one line space between two headings

- ✓ Leave at least 2-3 lines space between two answers of 1 mark questions.
- ✓ Step by Step Calculation is always appreciable by the examiner.
- ✓ Write the main heading in capital letters. (Use dark and bold pen like Pilot V10)
- ✓ Underline the headings with pencil.
- ✓ Explanation/description from next line of heading.
- ✓ Use bullets while giving explanation.
- ✓ Attempt all parts of a question together.
- ✓ Write impersonally. In other words, do not use 'I' or 'We' in your answers. For example, do not write — "I don't agree with the statement." Rather you must write — "The given statement is not correct."
- ✓ Take care with sentences and punctuation. In general, try to write short sentences.

➢ During last 20 minutes of revision, first of all make sure that you have attempted all the questions and written Question Number for each answer. If any question(s) left, attempt it first. Don't leave it even if you don't know the proper answer. Remember that writing something is always better than leaving it at all. Then check the calculations in Numerical Questions one by one. Then, read your answers one by one underlining the key lines using pencil.

Economics XII Paper requires a relaxed mind to attempt the Numerical Questions/Applying or Creating or Analysing based Questions. 'Study the whole night before the exam.' is the major cause of under-performance in Economics Paper. Successful students always have given proper rest to their mental faculty so as to do all calculations correctly and to attempt Numerical Questions/Applying or Creating or Analysing based Questions when sitting the Examination Hall.

In my teaching career, I've seen even good students making calculations as 2 × 3 = 5 or 1/0.2 = 2 who ultimately score 70 or 80 per cent only, just because they had spent the whole night revising the whole syllabus and solving numerical questions.

I hope these tips will help you take CBSE Economics XII Examination 2020 successfully and you will score sky touching marks.

So, good luck in your examination. I hope that you obtain the results you deserve. My advice to you is:

To work hard and give your 100%. Remember: Success will never lower its standard to accommodate you. You have to raise your standard to achieve it. For every bird, God provides food but not in their nest.

Always believe in yourself. Don't give up. One thing keep in mind: You are something! Because God does not create garbage.

Always remember God. Without Him, your all efforts are in vain! 0 0 0 0 0 0 0 = 0. But if you put 1 before these zeros, you get 1 crore (10000000). We human beings are zeros without Him! And 1 is God!

I'll feel pleasure to solve any of your queries/doubts related to the subject through my social media handles.

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Finally, I pray the Supreme Divine to bestow His best of blessings on you!
Serving the cause of education.

With warm regards

Your servant

SUBHASH DEY

B.Com. (Hons.), M.Com. (DSE), M.A. (Economics), PGDBA (Finance), B.Ed, PGD in Labour and Administrative Laws

- Author and Publisher of CBSE Books – Accountancy, Business Studies, Economics, Mathematics and English
- M.Com (Delhi School of Economics)– Gold Medalist, Topper of Delhi University
- Consecutive four years' Economics topper of Delhi University
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CBSE Sample Question Paper 2020-21

Maximum Marks – 80 **Time – 3 Hours**

Part-A Macroeconomics

Q.1 Inventory is a ____________ concept whereas the change in inventory is a ____________ concept.

(Fill up the blank with correct alternative) **(1)**

(a) stock, flow (b) flow, stock (c) stock, stock (d) flow, flow

OR

If in an economy the value of Net Factor Income from Abroad is ₹200 crores and the value of Factor Income to Abroad is ₹40 crores. Identify the value of Factor Income from Abroad. (Choose the correct alternative) **(1)**

Q.2 In the present COVID-19 times, many economists have raised their concerns that Indian economy may have to face a deflationary situation, due to reduced economic activities in the country. Suppose you are a member of the high powered committee constituted by the Reserve Bank of India (RBI). You have suggested that as the supervisor of commercial banks, ___________ (restriction/release) of the money supply be ensured, by the Reserve Bank of India (RBI).

(Choose the correct alternative) **(1)**

Q.3 Supply of money refers to ____________ . (Choose the correct alternative) **(1)**

(a) currency held by the public
(b) currency held by Reserve Bank of India (RBI)
(c) currency held by the public and demand deposits with commercial banks
(d) currency held in the government account

Q.4 Identify the correct pair of formula from the following column I and II: (Choose the correct alternative) **(1)**

Column I	Column II
A. Current Account Surplus	(i) Receipts $<$ Payments
B. Current Account Surplus	(ii) Receipts $>$ Payments
C. Balance Current Account	(iii) Receipts $\neq$ Payments
D. Current Account Deficit	(iv) Receipts $\leq$ Payments

(a) A – (i) (b) B – (ii) (c) C – (iii) (d) D – (iv)

Q.5 Identify which of the following statements is true? (Choose the correct alternative) **(1)**

(a) The flexible exchange rate system gives the government more flexibility to maintain large stocks of foreign exchange reserves.
(b) In the Managed floating exchange rate system, the government intervenes to buy and sell foreign currencies.
(c) In the Managed floating exchange rate system, the central bank intervenes to moderate exchange rate fluctuations.
(d) In the Fixed exchange rate system, market forces fix the exchange rate.

Q.6 An Indian real estate company receives rent from Google in New York. This transaction would be recorded on ____________ side of ____________ account. (Fill up the blanks with correct alternative) **(1)**

(a) credit, current (b) credit, capital
(c) debit, capital (d) debit, current

Read the following news report and answer Questions 7-10 on the basis of the same:

The Reserve Bank of India (RBI), cut Repo Rate to 4.4%, the lowest in at least 15 years. Also, it reduced the Cash Reserve Ratio (CRR) maintained by the banks for the first time in over seven years. CRR for all banks was cut by 100 basis points to release ₹1.37 lakh crores across the banking system. RBI governor Dr. Shaktikanta Das predicted a big global recession and said India will not be immune. It all depends how India responds to the situation. Aggregate demand may weaken and ease core inflation.

The Economic Times; March 27th, 2020

Q.7 Cut in Repo rate by RBI is likely to ___________ (increase/decrease) the demand for goods and services in the economy. (Choose the correct alternative) **(1)**

Q.8 Decrease in Cash Reserve Ratio will lead to ____________ . (Choose the correct alternative) **(1)**

(a) fall in aggregate demand (b) no change in aggregate demand
(c) rise in aggregate demand (d) fall in general price level

Q.9 The difference by which actual Aggregate Demand exceeds the Aggregate Demand, required to establish full employment equilibrium is known as ___________ (inflationary gap/deflationary gap). (Choose the correct alternative) **(1)**

Q.10 The impact of 'Excess Demand' under Keynesian theory of income and employment, in an economy are: (Choose the correct alternative) **(1)**

(a) decrease in income, output, employment and general price level
(b) decrease in nominal income, but no change in real output
(c) increase in income, output, employment and general price level
(d) no change in output/employment but increase in general price level.

Q.11 State with valid reason, which of the following statement is true or false: **(3)**

(a) Gross Value Added at market price and Gross Domestic Product at market price are one and the same thing.
(b) Intermediate goods are always durable in nature.

Q.12 State, giving valid reasons, whether the following statements are true or false: **(3)**

(a) Current account in Balance of Payments records only the exports and imports of goods and services.
(b) Borrowings from abroad are recorded in the Capital Account of the Balance of Payments on the debit side.

OR

'Trade Deficit must exist if a country is facing a situation of Current Account Deficit'. Defend or refute the statement, with valid argument.

Q.13 (a) Define money multiplier. **(1)**

(b) 'Credit creation is inversely related to the reserve deposit ratio'. Justify the given statement, using a hypothetical example. **(3)**

Q.14 In an economy C= 200 + 0.5 Y is the consumption function where C is the consumption expenditure and Y is the national income. Investment expenditure is ₹400 crores. Is the economy in equilibrium at an income level ₹1500 crores? Justify your answer. **(4)**

OR

Define: (i) Ex-Ante Savings (ii) Full Employment

Q.15 'India's GDP contracted 23.9% in the April-June quarter of 2020-21 as compared to same period of 2019-20, suggesting that the lockdown has hit the economy hard'. The Hindustan Times, 1st September 2020. State and discuss any two fiscal measures that may be taken by the Government of India to correct the situation indicated in the above news report. **(4)**

Q.16 (a) 'Domestic/household services performed by a woman may not be considered as an economic activity'. Defend or refute the given statement with valid reason. **(3)**

(b) 'Compensation to the victims of a cyclone is an example of a welfare measure taken by the government'. State with valid reason, should it be included/not included in the estimation of national income of India. **(3)**

OR

Suppose the Gross Domestic Product (GDP) of Nation X was ₹2,000 crores in 2018-19, whereas the Gross Domestic Product of Nation Y in the same year was ₹120,000 crores. If the Gross Domestic Product of Nation X rises to ₹4,000 crores in 2019-20 and the Gross Domestic Product of Nation Y rises to ₹200,000 crores in 2019-20. Domestic Product of Nation Y rises to ₹200,000 crores in 2019-20. **(6)**

Q.17 (a) Elaborate the objective of 'allocation of resources' in the Government budget. **(3)**

(b) Discuss briefly how the Government budget can be used as an effective tool in the process of employment generation. **(3)**

Part-B Indian Economic Development

Q.18 ____________ was the Indian Finance Minister in 1991, acknowledged for his capabilities to steer away the economic crisis looming large on the erstwhile Indian Economy. (Choose the correct alternative) **(1)**

(a) Dr. Subramanian Swamy (b) Dr. Manmohan Singh
(c) Pranab Mukherjee (d) Dr. Urjit Patel

Q.19 India entered the ____________ stage of Demographic Transition after the year 1921. (Choose the correct alternative) **(1)**

(a) forth (b) second (c) third (d) first

Q.20 Read the following statements - Assertion (A) and Reason (R). Choose one of the correct alternatives given below: **(1)**

Assertion (A): India became an exporter of primary products and an importer of finished consumer and capital goods produced in Britain.

Reason (R): Restrictive policies of commodity production, trade and tariff pursued by the colonial government adversely affected the structure, composition and volume of India's foreign trade.

Alternatives:

(a) Both 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 and Reason (R) is not the 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.

OR

Read the following statements - Assertion (A) and Reason (R). Choose one of the correct alternatives given below: **(1)**

Assertion (A): The major policy initiatives i.e. land reforms and green revolution helped India to become self-sufficient in food grains production.

Reason (R): The proportion of people depending on agriculture did not decline as expected

Alternatives:

(a) Both 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 and Reason (R) is not the 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.

Q.21 Read the following statements - Assertion (A) and Reason (R). Choose one of the correct alternatives given below: **(1)**

Assertion (A): Every year government fixes a target for disinvestment of Public Sector Enterprises (PSEs).

Reason (R): Disinvestment is an excellent tool for discarding the loss incurring Public Sector Enterprises (PSEs).

Alternatives:

(a) Both 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 and Reason (R) is not the 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.

Q.22 From the set of events/systems given in column I and corresponding relevant fact given in column II, about China, choose the correct pair of statement: **(1)**

Column I	Column II
A. Great Leap Forward	(i) Cultivating land Collectively
B. Commune System	(ii) Opening of the Industries in their homes
C. Proletarian Cultural revolution	(iii) Students were sent to work and learn from the countryside
D. Economic Reforms in China	(iv) 1988

(a) A - (i) (b) B - (ii) (c) C - (iii) (d) D – (iv)

Q.23 ____________adopted 'One Child Policy' as a measure to control population. (Choose the correct alternative) **(1)**

(a) India (b) China (c) Pakistan (d) Russia

Read, the following hypothetical Case Study, carefully and answer the question numbers 24-27 on the base of the same.

Since ages, farmers in India have taken recourse to debt. In the earlier times the same was from informal sources. Since independence with the efforts of the government, formal sector has actively come into picture. Farmers borrow not only to meet their investment needs but also to satisfy their personal needs. Uncertainty of income caused by factors likes crop failure caused by irregular rainfall, reduction in ground water table, locust/other pest attack etc. These reasons push them into the clutches of the private money lenders, who charge exorbitant rates of interest which add to their miseries.

Various governments in India, at different times for different reasons, introduced debt relief/waiver schemes. These schemes are used by governments as a quick means to extricate farmers from their indebtedness, helping to restore their capacity to invest and produce, in short to lessen the miseries of the farmers across India. The costs and benefits of such debt relief schemes are, however, a widely debated topic among economists. Some economists argue that such schemes are extremely beneficial to the poor and marginalised farmers while others argue that these schemes add to the fiscal burden of the government, others believe that these schemes may develop the expectation of repeated bailouts among farmers which may spoil the credit culture among farmers.

Q.24 Uncertainty of income for farmers in India is majorly caused by __________ (irregular rainfall/unavailability of loans). **(1)**

Q.25 Some economists argue that debt waiver schemes are extremely beneficial to the poor and marginalised farmers, as these schemes reduce the burden of ____________ (indebtedness/personal expenditures) **(1)**

Q.26 The rural banking structure in India consists of a set of multi-agency institutions. ______________ (Regional Rural Banks /Small Industries Development Bank of India) is expected to dispense credit at cheaper rates for agricultural purposes to farmers. **(1)**

Q.27 _____________ (Regional Rural Banks/ Land Development Banks) is the most prominent body responsible for providing loans for long term land development. **(1)**

Q.28 'India has emerged as a hotspot for medical tourism'. Defend the statement with valid arguments. **(3)**

OR

Discuss any two steps taken by the government in the direction of improving agricultural marketing system in India, since independence. **(3)**

Q.29 Discuss briefly the concept of 'informalisation of workforce', in the context of Indian economy. **(3)**

Q.30 "Agriculture sector appears to be adversely affected by the economic reform process." Explain the given statement. **(4)**

Q.31 'Atamnirbhar Bharat' had been at the roots of the Indian planning process in the form of 'self reliance' as an objective of the planning process. Do you agree with the given statement? Justify the rationale of the given statement. **(4)**

OR

Discuss briefly any two major steps taken by the Government of India on 'Financial Sector' front under the Economic Reforms of 1991. **(4)**

Q.32 Compare and analyse the given data of India and China with valid arguments. **(4)**

Annual Growth of Gross Domestic Product (%), 1980-2017

Country	1980-90	2015-2017
India	5.7	7.3
China	10.3	6.8

Source*: Key Indicators for Asia and Pacific 2016, Asian Development Bank, Philippines; World Development Indicators 2018.*

Q.33 (a) "If the rate of resource extraction exceeds the rate of regeneration, it leads to reduction in carrying capacity of the environment." Discuss the rationale of the given statement with valid reasons. **(3)**

(b) "Calorie-based norm is not an adequate measure to identify the poor. Establish the rationale of the given statement with valid reasons. **(3)**

OR

(a) Why are less women found in regular salaried employment? **(2)**

(b) Analyse the recent trends in sectoral distribution of workforce in India:

Trends in Employment Pattern (Sector wise), 1993-2012 (in %)

Sector	1993-94	1999-2000	2011-2012
Primary	64	60.4	24.3
Secondary	16	15.8	24.3
Services	20	23.8	26.8

Q.34 State, giving valid reasons whether the following statements are true or false.

(a) Since independence, the benefits of the increase in economic growth in India have trickled down to the people at the bottom of population pyramid. **(2)**

(b) Human Capital Formation gives birth to innovation, invention and technological improvements. **(2)**

(c) There exists an inverse correlation between infrastructural growth and national income. **(2)**

Answer Key

1. (a) stock, flow. **OR** (c) ₹240 crores
2. release 3. (c) 4. (b)
5. (c) 6. (a) 7. increase
8. (c) 9. inflationary gap 10. (d)
11. (a) The given statement is false as Gross Domestic Product is the result of sum of Gross Value Added by all the producing units/ firms in an economy, during an accounting year.
    (b) The given statement is false as intermediate goods are generally non-durable in nature. They are the goods used as raw material and they lose their identity in the production process for the creation of a new commodity, during an accounting year.
12. (a) The given statement is false as the Current Account of Balance of Payments records unilateral transfers along with exports and imports of goods and services.
    (b) The given statement is false as the borrowings from abroad are recorded in the Capital Account of Balance of Payments on the credit side as it results in an inflow of foreign currency in the economy.

OR

The given statement is refuted as the Current Account Deficit (CAD) is a broader concept. CAD occurs when the foreign exchange payments on account of visible, invisibles and current transfers are in excess over the receipts of visible, invisibles and current transfers. A country may face a situation of CAD, even if the country has trade surplus, with greater negative balances on account of services and unilateral transfers.

13. (a) Money multiplier is the process by which the commercial banks create credit, based upon the reserve ratio and initial deposits.
    (b) Reserve deposit ratio is the minimum reserves which a commercial bank must maintain as per the instructions of the Central Bank. Credit Creation = 1/reserve ratio

Thus, credit creation is inversely related to the reserve deposit ratio.

For Example: Suppose the Reserve Ratio is 0.2 and initial deposit is ₹1000 crores. Total Credit Created = 1/reserve ratio × initial deposits = 1/0.2 × 1000 = ₹5,000 crores.

Now, suppose reserve ratio is increased to 0.5. Total Credit Created = 1/0.5 × 1000 = ₹2,000 crore.

Thus, on the basis of the above illustration we can say that there exists an inverse relation between reserve and credit creation.

14. Given, Consumption function(C)=200+0.5Y, Investment (I) = 400, Level of income (Y) = 1500

At Equilibrium level, AD = AS or Y = C + I

$Y = (200 + 0.5Y) + 400$ $Y - 0.5Y = 600$ $Y = 600/0.5 =$ ₹1200 crores.

The equilibrium level of income = ₹1200 crores.

The given income (₹1500 crores) is greater than equilibrium level of income (₹1200 crores). Therefore, the economy is not in equilibrium.

OR

(i) Ex-ante savings: Ex-ante savings refers to the planned savings of an economy at different levels of income.
(ii) Full employment: It refers to a situation, where all the willing and capable resources get a gainful job at prevailing wage rate. It is a situation where there is no involuntary unemployment.

15. The situation suggests that Aggregate Demand is less than Aggregate Supply. Two fiscal measures to control it:
    (a) Decrease in Taxes: To curb the situation, the government may decrease the taxes. This may increase the purchasing power in the hands of the general public. This may increase the Aggregate Demand in the economy to bring it equal to the Aggregate Supply.
    (b) Increase in Government Expenditure: The government may also increase its expenditure. This may increase the purchasing power in the hands of the general public which in turn may increase the Aggregate Demand in the economy to bring it equal to the Aggregate Supply.
16. (a) The given statement is defended; as it is difficult to measure the monetary value of the services performed by a woman (homemaker). Therefore, these activities may not be considered as an economic activity.
    (b) Compensation given to the victims of a cyclone is an example of a social welfare measure taken by the government. However, it is not included in estimation of national income as it is a transfer payment which does not lead to corresponding flow of goods and services.

OR

Compare the rate of change of GDP of Nations X and Y, taking 2018-19 as base year.

Nations/ Years	2018-19	2019-20	Growth Rate of GDP = Change in GDP/Base Year GDP × 100 (Base year = 2018-19)
X	₹2,000 crores	₹4,000 crores	= 2000/ 2000 × 100 = 100%
Y	₹1,20,000 crores	₹2,00,000 crores	= 80,000/ 1,20,000 × 100 = 66.67%

Nation X has registered a GDP growth rate of 100% and has performed better on the front of GDP rise as compared to Nation Y that has registered a GDP growth rate of 66.67%.

17. (a) Allocation of resources: Government seeks to allocate resources with a view to balance the goals of all sections of the society. Production of goods and services which are injurious to health may be discouraged through taxation policy. Similarly, production of goods of socially beneficial nature may be encouraged through subsidies. If the private sector does not take initiative in certain activities (Public Goods), the government may directly control them like water supply and sanitation etc.
    (b) Employment Generation: Government budget can be used as an effective tool in the process of employment generation in various ways. Investment in infrastructural projects like construction of flyovers, bridges, expansion of roads etc. creates jobs for different sections of the workforce. In rural/ urban areas government can provide jobs through various employment generation schemes like MGNREGA, SJSRY, PMRY etc.
18. (b) 19. (b) 20. (a) **OR** (b)
21. (b) 22. (c) 23. (b)
24. irregular rainfall 25. indebtedness
26. Regional Rural Banks 27. Land Development Banks
28. The given statement is defended as in the recent past India has witnessed many foreign nationals visiting for surgeries, organ transplant, dental and even cosmetic care. The prime reason for this phenomenon can be quoted as:
    (i) Health services in India offer latest medical technologies with qualified professionals.
    (ii) All these medical services are less costly in India as compared to similar health care services in other countries.

OR

Two major steps taken by the government in the direction of improving agricultural marketing system in India, since independence are:

(i) Regulation of markets: This step was necessary in the post-independence period so as to create an orderly and transparent marketing condition across India. This policy benefited both farmers as well as consumers.

(ii) Physical Infrastructure: This is another important aspect tackled by the government. Improvement of physical infrastructure facilities like roads, railways, warehouses, godowns, cold storages, processing units etc. has been the target of the government since decades.

29. In the recent years, India has witnessed an unprecedented shift of the workforce from the formal sector to informal sector. This process whereby, the proportion of informal worker in the total workforce increases is known as informalisation of workforce.

30. The agricultural sector was adversely affected by the reform process in the following manner-

(i) Public investment in agriculture sector especially in infrastructure like irrigation, power etc. has been reduced in the reform period

(ii) Reduction of fertilizer subsidy has increased the cost of production affecting thereby the small and marginal farmers

(iii) Increased international competitiveness due to liberalisation and reduction of import duties.

(iv) Shift from food crops to cash crops due to export-oriented policy in agriculture led to a rise in prices of food-grains.

31. The given statement is correct; in the early post-independence period the aim of the government's policy was to reduce the dependence on the foreign countries for goods, services, technology and capital. It stressed on the use of domestic resources to avoid foreign interference, as it was feared that the dependence on the imported food supplies, foreign technology and foreign capital may increase foreign interference in the policies of our country.

Similarly, the main thrust of the 'Atmanirbhar Bharat' is also to make India an economy that is self-reliant and self-sufficient.

OR

Two steps taken by the government of India on financial sector under the Economic Reforms of 1991 were:

(a) <u>Change in the role of Reserve Bank of India (RBI)</u>: The role of RBI was reduced from regulator to facilitator of financial sector. This means that financial sector was given greater autonomy (to take decisions) on many matters independent of RBI.

(b) <u>Origin of Private Banks</u>: The reform process led to establishment of private sector banks of Indian as well as foreign origin.

32. The given data shown that China has gained economic strength over the years. When many developed countries were finding it difficult to maintain a growth rate of even 5%, China was able to maintain near double-digit growth during the decade of 1980s. The growth rate of China has decelerated to an average of 6.8%, over the period 2015-17. In the recent past India has posted a decent rise in the growth rate. While India had maintained a reasonable growth rate of 5.7% in the decade of 1980's it has shown great calibre and character in the period 2015-17 by registering an average of 7.3%, over the period 2015-17. Nevertheless, Indian elephant has to travel a long distance before it could present itself as a real threat to the growth story of the Chinese dragon.

33. (a) The environment is able to perform its functions uninterruptedly so long as the demand for these functions is within the carrying capacity of the environment. This means that the resources are not extracted beyond the rate of their regeneration.

If there is a disequilibrium (demand being more than supply), the environment fails to replenish itself and it will lead to environmental crisis. Thus, to maintain a healthy environment, the carrying capacity of the environment must be valued and respected.

(b) The calorie based norms is not an adequate measure to identify the poor as this method does not differentiate between the very poor and the other poor. This mechanism takes into account expenditure on food and a few other items as proxy for income. It ignores many other vital factors associated with poverty; for instance, the accessibility to basic education, health care, drinking water and sanitation.

OR

(a) Lesser women are found in regular salaried employment in India, because:

(i) jobs generally require skills and high level of literacy.

(ii) lack of mobility among women in India due to social constraints.

(b) The given data indicates that over the given period, the proportion of workforce in primary sector has gone down from 64% in 1993-94 to 24.3% in 2011-12, this account to nearly a fall of 20% over the years. Whereas, the employment share of both secondary and the services sector has increased in India.

The share of secondary sector has gone up by approximately 9% (from 16% in 1993-94 to 24% approximately in 2011-12), the corresponding figure for services sector has gone up by 7% (from 20% in 1993-94 to 27% approximately in 2011-12).

These sectoral changes have been very significant in the growth journey of India, showing the gradual shift of the workforce from primary sector to the secondary and tertiary sector.

34. (a) The given statement is false as there have been different factors (like massive rate of growth of population, unequal distribution of wealth, skewed benefits accruing from green revolution etc.) due to which benefits of increase in the Gross Domestic Product have not trickled down completely to the people at the bottom of population pyramid.

(b) The given statement is true. Human Capital Formation (investment in education/health) not only increases the productivity of the available human resources but also stimulates innovations and creates ability to adopt and adapt to the new technologies.

(c) The given statement is false, as generally, there exists a positive correlation between infrastructural growth and national income. Infrastructure is the support system for an economy which facilitates greater productive activities, higher levels of output/income and improvement of quality of life in an economy.

Sample Question Paper 10 (for Practice)

Part-A Macroeconomics

Q.1 To control recession, which of the following can be appropriate: **(1)**

(a) Reducing Repo Rate (b) Reducing CRR

(c) Both (a) and (b) (d) None of (a) and (b)

Q.2 The impact of 'Excess Demand' under the Keynesian theory of income and employment, in an economy are: **(1)**

(a) Decrease in output, income, employment and price level.

(b) Increase in output, income employment and price level.

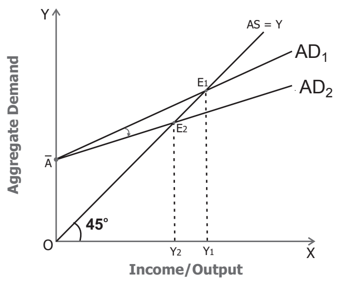
(c) Rise in the price level and the nominal income but no change in the output and employment.

(d) Increase in output, income and employment; but no change in the price level.

Q.3 Which of the following is the equilibrium condition in a two sector economy? **(1)**

(a) $Y = \frac{\bar{C}}{MPS}$ (b) $Y = \frac{\bar{C}}{1 - MPS}$ (c) $Y = \frac{\bar{C} + \bar{I}}{1 - MPC}$ (d) $Y = \frac{\bar{C} + \bar{I}}{MPC}$

OR



Q.4 The value of MPC can exceed one. True/False? Give valid reason. **(1)**

Q.5 If inflation is higher in country A than in country B, and the exchange rate between the two countries is fixed what is likely to happen to the trade balance between two countries? **(1)**

(a) Trade balance of country A will show a deficit whereas trade balance of country B will show a surplus.

(b) Trade balance of country A will show a surplus whereas trade balance of country B will show a deficit.

(c) Balance of trade of both the countries will be in balance

(d) None of the above.

Q.6 'Charity from Abroad' will be recorded on __________ (credit/debt) side of the Balance of Payment accounts. **(1)**

Read the following News Report and answer Q. 7-10 on the basis of the same:

10 major highlights of Budget 2020

- Empowering people to create wealth and boost purchasing power.
- Fundamentals of the economy are strong.
- GST brings 60 lakh new taxpayers.
- Three pillars of Union Budget 2020 – (i) Aspirational India. (ii) Economic Development (iii) Caring society.
- Promoting Education In India – Finance minister has allocated a total of ₹99,300 crore to the education sector of India.
- National Infrastructure policy to spend ₹100 lakh crore over the next 5 years.
- Building Data centre parks and National Quantum Tech Plan.
- Developing the structure of tourism.
- Governance is key.
- Empowering the scheduled class and scheduled tribes – Government has allocated ₹85k crore for the scheduled class and other backward classes for the year 2020-21 and ₹53,700 crore for the scheduled tribes.

Q.7 Goods and Services Tax (GST) is a __________ (direct/indirect) tax. **(1)**

Q.8 "GST brings 60 lakh new taxpayers." What will be its likely effect on revenue deficit in government budget? **(1)**

(a) Increase (b) Decrease (c) Constant (d) None of these

Q.9 "National Infrastructure policy to spend ₹100 lakh crore over the next 5 years." Building Infrastructure facilities is a _______ (revenue/capital) expenditure in a government budget.

Q.10 "Government has allocated ₹85k crore for the scheduled class and other backward classes for the year 2020-21 and ₹53,700 crore for the scheduled tribes." What objective of government budget has been highlighted in the above lines?

(a) Reallocation of resources (b) Reduction in income inequalities

(c) Price stability (d) Economic growth

Q.11 Saving function of an economy is: S = – 250 + 0.25Y. If the planned investment is ₹2,000 crores, calculate the following: (a) Equilibrium level of income in the economy. (b) Aggregate demand of income of ₹5,000 crores. **(3)**

OR

Consumption function of an economy is : C = 40 + 0.8Y (amount in ₹crores). Determine that level of income where average propensity to consume will be one. **(3)**

Q.12 Use the following information of an imaginary country: **(3)**

Year	2016	2017	2018
Nominal GDP	6.5	8.4	9
GDP deflator	100	140	125

(i) For which year is real GDP and nominal GDP same and why?

(ii) Calculate real GDP for the given years. Is there any year for which real GDP falls?

Q.13 Assuming that initial deposits with bank ₹5,000 and Legal Reserve Deposit Ratio 10%, explain the process of credit creation by the bank. **(4)**

Q.14 Explain, giving examples, the two components of capital receipts in a government budget. **(4)**

Q.15 (a) On which side and in which sub-account of Balance of Payments, will foreign investment in India' be recorded ? State valid reason for your answer. **(2)**

(b) "A country with trade deficit cannot have current account surplus in its Balance of Payments". Do you agree with given statement? Discuss with reason. **(2)**

OR

State on which side of capital account/current account will the following transactions be recorded and why:

(i) Interest on loan received from Nepal (ii) Import of mobile phones from China

Q.16 (a) Compute National Income. (₹in crore) **(3)**

		(₹in crore)
(i)	Private final consumption expenditure	900
(ii)	Government final consumption expenditure	400
(iii)	Net imports	30
(iv)	Gross domestic capital formation	250
(v)	Change in stock	50
(vi)	Net domestic fixed capital formation	180
(vii)	Net indirect taxes	100
(viii)	Net factor income from abroad	(–)40
(ix)	Profits	100

(b) Explain the circular flow of income in a two-sector economy. **(3)**

OR

(a) Calculate Net National Product at market price. (₹in crore) **(3)**

		(₹in crore)
(i)	Gross domestic fixed capital formation	350
(ii)	Private final consumption expenditure	8000
(iii)	Government final consumption expenditure	3000
(iv)	Value of output produced in the economy	150
(v)	Current replacement cost of fixed capital	40
(vi)	Net exports	(–) 60
(vii)	Net factor income from abroad	80
(viii)	Sales by all firms in the economy	100

(b) Explain any two precautions while calculating National Income by Product Method. **(3)**

Q.17 What is 'Effective Demand' principle? Explain with the help of a numerical example. **(6)**

Part-B Indian Economic Development

Q.18 Write the correct sequence of alternatives given in Column II by matching them with respective terms in Column I: **(1)**

Column I	Column II
A. India's first official census	(i) less than 2%
B. Introduction of the railways in India	(ii) about 7%
C. India's annual growth rate of aggregate real output during colonial period	(iii) 1850
D. Female literacy level at the time of independence	(iv) 1881

Q.19 Match the following and choose the correct alternative: **(1)**

Column I	Column II
1. Quota	(A) Quantity of goods that can be imported
2. Land Reforms	(B) Seeds that give large proportion of output
3. HYV Seeds	(C) Improvements in the fieldof agriculture to increase its productivity
4. Subsidy	(D) The monetary assistance given by government for production activities.

(a) 1-D, 2-C, 3-B, 4-A
(b) 1-A ,2-D, 3-B, 4-C
(c) 1-A, 2-C, 3-B, 4-D
(d) 1-A, 2-B, 3-C, 4-D

Q.20 ____________ have been removed to increase the competitive position of Indian goods in the international markets. **(1)**

(a) Import licensing
(b) Quantitative restrictions
(c) Export duties
(d) Tariffs

Q.21 Match the following: **(1)**

Column I	Column II
(a) High degree of urbanisation	(i) India
(b) Very high fertility rate	(ii) China
(c) Lowest density of population	(iii) Pakistan
(d) Growth due to service sector	

Q.22 ____________ is a whole system of farming that restores, maintains and enhances the ecological balance. **(1)**

OR

Unemployment is a situation in which all those who, owing to lack of work, are not working but either seek work though employment exchanges, intermediaries, friends or relatives or by making applications to prospective employers or express their willingness or availability for work under the prevailing condition of work and remunerations. This definition is given by:

(a) Economists

(b) National Sample Survey Organisation

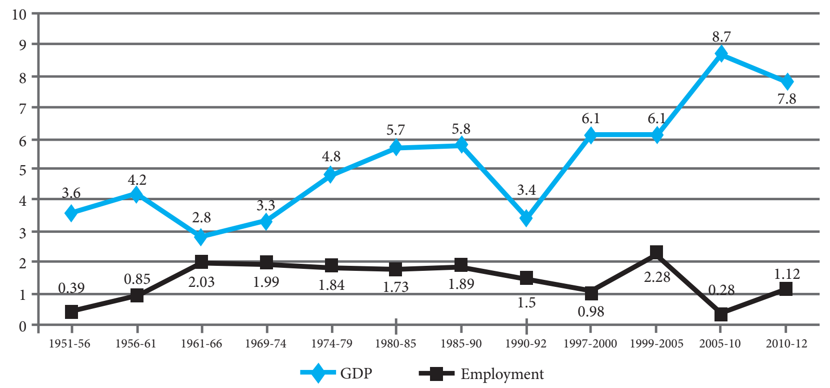
(c) Census of India

(d) Directorate general of Employment and Training

Q.23 Identify the correct sequence of alternatives given in column II by matching them with respective terms in column I. **(1)**

Column I	Column II
(a) A UN conference on climate change, held in Kyoto, Japan in 1997	(i) Emphasised the concept of sustainable development
(b) The CPCB (Central Pollution control Board)	(ii) To fight global warming
(c) The United Nations Conference on Environment and Development (UNCED)	(iii) Emphasised on protecting the future generation.
(d) The Brundtland Commission	(iv) Identified 17 categories of industries (large and medium scale) as significantly polluting

Read the following carefully and answer question no. 24-27 on the basis of the same:



Growth of Employment and Gross Domestic Product (GDP) during 1951-2012 (in %)

Q.24 During the period 1950–2010, Gross Domestic Product (GDP) of India grew positively and was higher than the employment growth. However, there was always fluctuation in the growth of GDP. During this period, employment grew at the rate of not more than ___________ per cent. **(1)**

(a) 1 (b) 2

(c) 3 (d) 4

Q.25 In the Indian economy, without generating employment, we have been able to produce more goods and services. Scholars refer to this phenomenon as__________ . **(1)**

Q.26 The process of moving from selfemployment and regular salaried employment to casual wage work as____________ (casualisation of workforce/informalisation of workforce). **(1)**

Q.27 All the public sector establishments and those private sector establishments which employ 10 hired workers or more are called _____________ (formal/informal) sector establishments. **(1)**

Q.28 Examine the role of education in the economic development of a country. **(3)**

OR

Comment on the following:

(a) It is necessary to create employment in the formal sector rather than in the informal sector.

(b) Less women are found in regular salaried employment.

Q.29 Explain, how according to the Brundtland Commission the present generation can promote sustainable development. **(3)**

Q.30 The economic challenges before India at the time of independence were enormous. Do you agree with the statement? Give reasons. **(4)**

OR

The economic justification of subsidies in agriculture is, at present, a hotly debated question. Some economists believe that subsidies should be phased out. What arguments do these economists give against giving subsidies?

Q.31 Explain how Goods and Services Tax (GST) has simplified the multiplicity of taxes on goods and services. **(4)**

Q.32 "Till the late 1970s, India, China and Pakistan – all the three countries were maintaining the same level of low development. The last three decades have taken these countries to different levels."

Do you agree with the given statement? Give valid reasons in support of your answer. **(4)**

Q.33 Explain the various poverty alleviation programmes initiated by the government of India since the Third Five Year plan (1961-66). (any four) **(6)**

OR

Bring out the importance of animal husbandry, fisheries and horticulture as a source of diversification. **(6)**

Q.34 "Infrastructure contributes to economic development of a country." Do you agree with the given statement? Give reasons in support of your answer. **(6)**

ANSWERS

Sample Question Paper-1

1. False
2. Current Account Surplus (CAS) refers to excess of the receipts from value of export of visible items, invisible items and unilateral transfers over the payments for value of import of visible items, invisible items and unilateral transfers.

OR

zero

3. 1/Legal Reserve Ratio
4. True
5. Tax is compulsory payment imposed by the government on individual and firms.
6. Fees
7. release
8. (c)
9. (a)
10. increase
11. (a) The given statement is not correct and is thus refuted. Final goods are those goods which are purchased/ consumed either by households or by the producers for investment purpose, i.e., these are the goods which have crossed the production boundary.

(b) The given statement is refuted. Gross investment includes addition to capital stock which also includes replacement for the normal wear and tear (depreciation). Whereas, addition to capital stock in an economy is measured by net investment. So, in an accounting sense, if the value of depreciation becomes zero, only then gross investment will be equal to net investment.

(c) The given statement is refuted. Net factor income from abroad is the difference between factor income earned from rest of the world and factor income paid to rest of the world. If the value of factor income paid to rest of the world is greater than the factor income earned from rest of the world, the resulting value (net factor income from abroad) can be negative.

12. (a) We know that:

Consumption expenditure $C = \overline{C} + bY = 500 + 0.6\ (5{,}000)$
$= ₹3{,}500$ crores

(b) Also, at equilibrium level, $Y = C + I$
$5{,}000 = 3{,}500 + I \Rightarrow I = ₹1{,}500$ crores

13. (i) False, trade deficit is a lesser cause of worry if it reflects a rise in investment which will build the capital stock and increase the future output in an economy.

(ii) True, Indians investing in assets abroad will lead to an outflow of foreign currency, it will be recorded under debit side of capital account in balance of payments.

OR

(a) (i) Recorded in the current account, because it is simply an import of a good.

(ii) Recorded on debit side because it leads to outflow of foreign exchange.

(b) (i) Recorded in capital account because it is a transaction in assets.

(ii) Recorded on credit side because it leads to inflow of foreign exchange.

14. (a) Central Bank performs similar banking functions for the government as commercial banks perform for its customers. Its functions include providing loans to the government, working as an agent of the government, managing the public debts for the government etc. The Central Bank also advises the government regarding the money market, capital market and also on policy matters.

(b) In most of the economies across the world there exists a centralised system of currency issues. Central Bank of a country has monopoly over the currency issue. It has the sole responsibility of printing and putting in circulation all types of currency notes (with a few exceptions). This centralised and monopolised system of currency notes issue ensures uniformity of the currency system. It also helps in easier control over the monetary system.

15.

Fiscal Deficit	Revenue Deficit
Fiscal deficit is the excess of the government's total estimated expenditure and its total estimated receipts excluding borrowing Fiscal Deficit = Total Expenditure – (Revenue Receipts + Non-debt creating capital receipts)	The revenue deficit refers to the excess of government's estimated revenue expenditure over its estimated revenue receipts Revenue Deficit = Revenue Expenditure – Revenue Receipts

16. (a) The services of a school teacher will be included in the national income of the country as it contributes to the current flow of services in the economy.

(b)

Real GDP	Nominal GDP
Real Gross Domestic Product (GDP) is defined as the market value of all final goods and services produced in a year, measured at the prices of a given base year.	Nominal Gross Domestic Product (GDP) is the market value of all final goods and services, produced in a year, measured at the prices of current year.

(c) The money received from the sale of a second hand car will not be included in the national income of the country as it does not contributes to the current flow of goods in the economy.

17. (a) The steps taken by the Central Bank to boost the falling demand in the economy are justified as the reduction in the Repo rate and Reverse Repo Rate will increase the availability of funds in the market through the commercial banks.

Rationale: A decrease in Repo/Reverse Repo Rate will push the commercial banks to reduce the lending rate and will eventually make the borrowings cheaper for the general public. As a result the consumption demand in the economy may increase.

(b) Involuntary Unemployment refers to a situation in which all those people who are willing and able to work at the existing wage rate do not get work.

OR

agriculture.

- Infrastructure is lacking in many parts of the country.
- It is yet to raise the level of living of more than one-fourth of its population that lives below the poverty line.

Pakistan

- The annual growth rate of GDP has fallen from 6.3% during 1980-90 to 5.3% during 2015-2017.
- The official data of Pakistan indicate rising poverty there. The proportion of poor which was 25 per cent in 1980s started rising again in 1990s.

  Political instability over a long period of time, over-dependence on remittances and foreign aid and volatile performance of agricultural sector are the reasons for the slowdown of the Pakistan economy. However, during the last three years, Pakistan has recovered its economic growth. In 2015-16, GDP growth rate was 4.7%, highest in last 8 years. Many macroeconomic indicators also began to show stable and positive results.

China: In China, the lack of political freedom and its implication for human rights are major concerns; yet, in the last three decades, it used the 'market system without losing political commitment' and succeeded in raising the level of growth along with alleviation of poverty.

- China has used the market mechanism to create additional social and economic opportunities.
- By retaining collective ownership of land and allowing individuals to cultivate lands, China has ensured social security in rural areas.
- Public investment in social infrastructure brought about positive results in human development indicators in China.

33. 1. Rural Employment Generation Programme (REGP): It aims at creating self employment opportunities in rural areas. The Khadi and Village Industries Commission is implementing it. Under this programme, one can get financial assistance in the form of bank loans to set up small industries.
2. Prime Minister's Rozgar Yojna (PMRY): The educated unemployment from low-income families in rural and urban areas can get financial help to set up any kind of enterprise that generates employment.
3. Swarnajayanti Gram Swarozgar Yojna (SGSY): Since 1990s, those who wish to benefit from self-employment programmes are encouraged to form Self-Help Groups (SHGs). Initially, they are encouraged to save some money and lend among themselves as small loans. Later, through banks, the government provides, partial financial assistance to SHGs which then decide whom the loan is to be given to for self-employment activities. SGSY has now been restructured as 'National Rural Livelihoods Mission (NRLM). A similar programme called 'National Urban Livelihoods Mission' has also been in place for urban poor.
4. Mahatma Gandhi National Rural Employment Guarantee Act, 2005: This Act provides guaranteed wage employment to every rural household whose adult volunteer is to do unskilled manual work for a minimum of 100 days in a year. The poor unskilled people in rural areas who are ready to work at the minimum wage can report for work in areas where this programme is implemented. In 2013-14, nearly 5 crore households got employment opportunities under this law.

OR

Importance of animal husbandry, fisheries and horticulture as a source of diversification:

1. Animal Husbandry: Livestock production provides increased stability in income, food security, transport, fuel and nutrition for the rural households. Today, livestock sector alone provides alternative livelihood options to over 70 million small and marginal farmers including landless labourers • Poultry accounts for the largest share with 58 percent • Milk production in India has increased by more than 8 times between 1951-2014, mainly due to the successful implementation of 'operation Flood'
2. Fisheries: In India, due to progressive increase in budgetary allocations and introduction of new technologies in fisheries, today total fish production accounts for 0.9 percent of the total GDP. Presently, fish production from inland sources contributes about 65 per cent to the total value of fish production and the balance 35 per cent comes from the marine sector (sea and oceans).
3. Horticulture: India has adopted growing of diverse horticulture crops such as fruits, vegetables, flowers, medicinal plants, etc. In rural India, horticultural plays a vital in providing food and nutrition to the rural population. It also addressed the problem of unemployment (particularly disguised and seasonal unemployment) in the villages. Various horticultural activities in Indian villages have improved the economic condition of many farmers. Such activities have become a lucrative source of livelihood for many women in the rural India. Horticulture sector contributes about 1/3rd of the value of agriculture output and 6 percent of GDP of India. Enhancing its role requires investment in infrastructure like electricity, cold storage systems, marketing linkages, etc.

34. The given statement is correct. Infrastructure is the foundation of economic development of a country.

A. Infrastructure contributes to economic development of a country by increasing the productivity of the factors of production.

   Infrastructure in the support system on which depends the efficient working of the modern industrial economy.

   1. Modern agriculture depends, to a considerable extent, on the adequate expansion and development of irrigation facilities. Agriculture also largely depends on infrastructure for speedy and large-scale transport of seeds, pesticides, fertilizers, and the produce using modern roadways, railways and shipping facilities. In recent times, agriculture also depends on insurance and banking facilities because of its need to operate on a very large scale.
   2. Industrial progress depends on the development of power and electricity generation, transport and communications.

B. Infrastructure also contributes to economic development of a country by improving the quality of life. Infrastructure in water supply and sanitation have a large impact by reducing morbidity from major waterborne diseases. Inadequate infrastructure can have multiple adverse effects on health.