

STUDENT SUPPORT MATERIAL



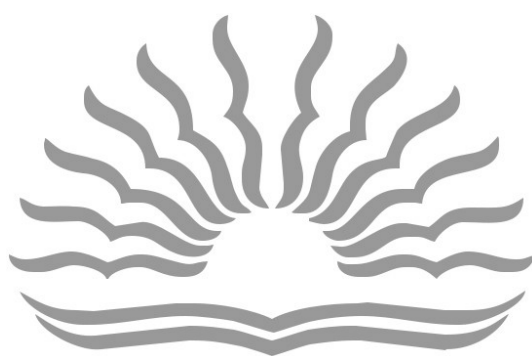
तत् त्वं पूषन् अपावृणु
केन्द्रीय विद्यालय संगठन

Session : 2019-20



Class-XII
ECONOMICS

STUDENT SUPPORT MATERIAL
Class XII
Economics



तत् त्वं पूषन् अपावृणु
केन्द्रीय विद्यालय संगठन

Session 2019-20

Kendriya Vidyalaya Sangathan
New Delhi

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आयुक्त
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A WORD TO MY DEAR STUDENTS

It gives me great pleasure in presenting the Students' Support Material to all KV students of class XII.

The material has been prepared keeping in mind your needs when you are preparing for final exams and wish to revise and practice questions or when you want to test your ability to complete the question paper in the time allotted or when you come across a question while studying that needs an immediate answer but going through the text book will take time or when you want to revise the complete concept or idea in just a minute or try your hand at a question from a previous CBSE Board exam paper or the Competitive exam to check your understanding of the chapter or unit you have just finished. This material will support you in any way you want to use it.

A team of dedicated and experienced teachers with expertise in their subjects has prepared this material after a lot of exercise. Care has been taken to include only those items that are relevant and are in addition to or in support of the text book. This material should not be taken as a substitute to the NCERT text book but it is designed to supplement it.

The Students' Support Material has all the important aspects required by you; a design of the question paper, syllabus, all the units/chapters or concepts in points, mind maps and information in tables for easy reference, sample test items from every chapter and question papers for practice along with previous years Board exam question papers.

I am sure that the Support Material will be used by both students and teachers and I am confident that the material will help you perform well in your exams.

Happy learning!

Santosh Kumar Mall
Commissioner, KVS

FOREWORD

The Students' Support Material is a product of an in-house academic exercise undertaken by our subject teachers under the supervision of subject expert at different levels to provide the students a comprehensive, yet concise, learning support tool for consolidation of your studies. It consists of lessons in capsule form, mind maps, concepts with flow charts, pictorial representation of chapters wherever possible, crossword puzzles, question bank of short and long answer type questions with previous years' CBSE question papers.

The material has been developed keeping in mind latest CBSE curriculum and question paper design. This material provides the students a valuable window on precise information and it covers all essential components that are required for effective revision of the subject.

In order to ensure uniformity in terms of content, design, standard and presentation of the material, it has been fine tuned at KVS Hqrs level.

I hope this material will prove to be a good tool for quick revision and will serve the purpose of enhancing students' confidence level to help them perform better. Planned study blended with hard work, good time management and sincerity will help the students reach the pinnacle of success.

Best of Luck.



U.N. Khaware
Additional Commissioner (Acad.)



STUDENT SUPPORT MATERIAL

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INDEX

SL No.	TOPIC/PARTICULARS	PAGE No.
1.	CBSE CURRIULUM	6-9
2.	BLUE PRINT	9-12
3.	SAMPLE QUESTION PAPER - 1	12-22
4.	SAMPLE QUESTION PAPER - 2	22-27
5.	SAMPLE QUESTION PAPER - 3	27-32
<u>PART 1-Introductory Macroeconomics</u>		
1	(CHAPTER 1): NATIONAL INCOME AND RELATED AGGREGATES	33-58
2	CHAPTER 2: MONEY AND BANKING	59-64
3	CHAPTER 3: DETERMINATION OF INCOME AND EMPLOYEMENT	65-77
4	CHAPTER 4: GOVT. BUDGET AND THE ECONOMY	78-84
5	CHAPTER 5: BALANCE OF PAYMENTS	85-93
6	HOTS AND COMMON MISTAKES	94-96
PART II INDIAN ECONOMY DEVELOPMENT		
1	CHAPTER 1: INDIAN ECONOMY ON THE EVE OF INDEPEDENCE	97-100
2	CHAPTER 2: INDIA ECONOMY – 1950-1990	100-106
3	CHAPTER 3: LIBERALISATION, PRIVATISATION, GLOBALISATION – AN APPRISAL	106-110
4	CHAPTER 4: POVERTY	110-114
5	CHAPTER 5: HUMAN CAPITAL FORMATION	114-118
6	CHAPTER 6: RURAL DEVELOPMENT	119-123
7	CHAPTER 7: EMPLOYMENT, GROWTH, INFORMALISATION AND OTHER ISSUES	124-130
8	CHAPTER 8: INFRASTRUCTURE	131-137
9	CHAPTER 9: ENVIRONMENT AND SUSTAINABLE DEVELOPMENT	138-145
10	CHAPTER 10: COMPERATIVE DEVELOPEMENT EXPERINCEIS INDIA AND ITS NEIGHBOURS	146-152

**CBSE CURRIULUM
ECONOMICS
CLASS XII
(2019-20)**

Theory: 80 Marks

3 Hours

Project: 20 Marks

Units		Marks	Periods
Part A	Introductory Macroeconomics		
	National Income and Related Aggregates	10	28
	Money and Banking	6	15
	Determination of Income and Employment	12	27
	Government Budget and the Economy	6	15
	Balance of Payments	6	15
		40	100
Part B	Indian Economic Development		
	Development Experience (1947-90) and Economic Reforms since 1991	12	28
	Current Challenges facing Indian Economy	22	60
	Development Experience of India – A Comparison with Neighbours	06	12
	Theory Paper (40+40 = 80 Marks)	40	100
Part C	Project Work	20	20

Part A: Introductory Macroeconomics

Unit 1: National Income and Related Aggregates

28 Periods

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 and Net Domestic Product (GDP and NDP) - at market price, at factor cost; Real and Nominal GDP.

GDP and Welfare

Unit 2: Money and Banking**15 Periods**

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 through Bank Rate, CRR, SLR, Repo Rate and Reverse Repo Rate, Open Market Operations, Margin requirement.

Unit 3: Determination of Income and Employment**27 Periods**

Aggregate demand and its components.

Propensity to consume and propensity to save (average and marginal). Short-run equilibrium output; investment multiplier and its mechanism. Meaning of full employment and involuntary unemployment.

Problems of excess demand and deficient demand; measures to correct them
- changes in government spending, taxes and money supply.

Unit 4: Government Budget and the Economy**15 Periods**

Government budget - meaning, objectives and components.

Classification of receipts - revenue receipts and capital receipts; classification of expenditure – revenue expenditure and capital expenditure.

Measures of government deficit - revenue deficit, fiscal deficit, primary deficit their meaning.

Unit 5: Balance of Payments**15 Periods**

Balance of payments account - meaning and components; balance of payments deficit- meaning.

Foreign exchange rate - meaning of fixed and flexible rates and managed floating. Determination of exchange rate in a free market.

Part B: Indian Economic Development

Unit 6: Development Experience (1947-90) and Economic Reforms since 1991:

28

Periods A brief introduction of the state of Indian economy on the eve of independence. Common goals of Five Year Plans.

Main features, problems and policies of agriculture (institutional aspects and new agricultural strategy, etc.), industry (industrial licensing, etc.) and foreign trade.

Economic Reforms since 1991:

Features and appraisals of liberalisation, globalisation and privatisation (LPG policy); Concepts of demonetization and GST

Unit 7: Current challenges facing Indian Economy

60

Periods Poverty- absolute and relative; Main programmes for poverty alleviation: A critical assessment;

Rural development: Key issues - credit and marketing - role of cooperatives; agricultural diversification; alternative farming - organic farming

Human Capital Formation: How people become resource; Role of human capital in economic development; Growth of Education Sector in India

Employment: Formal and informal growth; problems and policies.

Infrastructure: Meaning and Types: Case Studies: Energy and Health: Problems and Policies- A critical assessment;

Sustainable Economic Development: Meaning, Effects of Economic Development on Resources and Environment, including global warming.

Unit 8: Development Experience of India:

12 Periods

A comparison with
neighbours India and
Pakistan

India and China

Issues: growth, population, sectoral development and other Human
Development Indicators.

Part C: Project in Economics

20 Periods

Prescribed Books:

1. Macroeconomics, NCERT

2. Indian Economic Development, NCERT
3. Supplementary Reading Material in Economics, CBSE

Suggested Question Paper
Design Economics (Code No.
030)
Class XII (2019-20)
March 2020 Examination

Marks: 80

Duration: 3

hrs.

SN	Typology of Questions	Objective Type/ MCQ 1 Mark	Short Answer I 3 Marks	Short Answer II 4 Marks	Long Answer 6 Marks	Marks
1	Remembering: Exhibit memory of previously learned material by recalling facts, terms, basic concepts, and answers.	5	1	2	1	22
2	Understanding: Demonstrate understanding of facts and ideas by organizing, comparing, translating, interpreting, giving descriptions, and stating main ideas	5	1	2	1	22
3	Applying: Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way.	5	1	1	1	18
4	Analysing and Evaluating: Examine and break information into parts by identifying motives or causes. Make inferences and find evidence to support generalizations. Present and defend opinions by making judgments about information, validity of ideas, or quality of work based on a set of criteria. Creating: Compile information together in a different way by combining elements in a new pattern or proposing alternative solutions.	5	1	1	1	18
Total		20x1=20	4x3=12	6x4=24	4x6=24	80 (34)

There will be **Internal Choices** in questions of 1 mark, 3 marks, 4 marks and 6 marks in both sections (A & B). In all, total 8 internal choice

Guidelines for Project Work in Economics (Class XII)

The **objectives** of the project work are to enable learners to:

- probe deeper into theoretical concepts learnt in classes XI and XII
- analyse and evaluate real world economic scenarios using theoretical constructs and arguments
- demonstrate the learning of economic theory
- follow up aspects of economics in which learners have interest
- develop the communication skills to argue logically

The **expectations** of the project work are that:

- learners will complete only **ONE** project in each academic session
- project should be of 3,500-4,000 words (excluding diagrams & graphs), preferably hand-written
- it will be an independent, self-directed piece of study

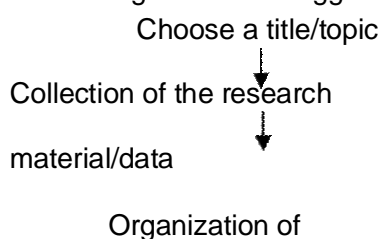
Role of the teacher:

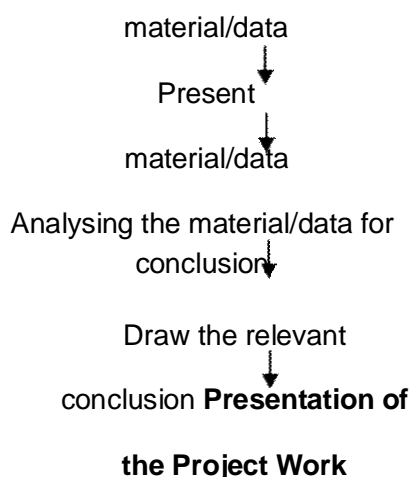
The teacher plays a critical role in developing thinking skills of the learners. A teacher should:

- help each learner select the topic based on recently published extracts from the news media, government policies, RBI bulletin, NITI Aayog reports, IMF/World Bank reports etc., after detailed discussions and deliberations of the topic
- play the role of a facilitator and supervisor to monitor the project work of the learner through periodic discussions
- guide the research work in terms of sources for the relevant data
- educate learner about plagiarism and the importance of quoting the source of the information to ensure authenticity of research work
- prepare the learner for the presentation of the project work
- arrange a presentation of the project file

Scope of the project:

Learners may work upon the following lines as a suggested flow chart:





Expected Checklist:

- Introduction of topic/title
- Identifying the causes, consequences and/or remedies
- Various stakeholders and effect on each of them
- Advantages and disadvantages of situations or issues identified
- Short-term and long-term implications of economic strategies suggested in the course of research
- Validity, reliability, appropriateness and relevance of data used for research work and for presentation in the project file
- Presentation and writing that is succinct and coherent in project file
- *Citation of the materials referred to, in the file in footnotes, resources section, bibliography etc.*

Mode of presentation/submission of the Project:

At the end of the stipulated term, each learner will present the research work in the Project File to the External and Internal examiner. **The questions should be asked from the Research Work/ Project File of the learner. The Internal Examiner should ensure that the study submitted by the learner is his/her own original work.** In case of any doubt, authenticity should be checked and verified.

Marking Scheme :

Marks are suggested to be given as –

S. No.	Heading	Marks Allotted
1.	Relevance of the topic	3

2.	Knowledge Content/Research Work	6
3.	Presentation Technique	3
4.	Viva	8
	Total	20 Marks

**SAMPLE PAPER -1
ECONOMICS CLASS XII
SOLVED**

PART-A INTRODUCTORY MACRO ECONOMICS					
Name of the chapter	1 mark	3 marks	4 marks	6 marks	Total Marks
1.National income and Related Aggregates	1(1)	1(3)	-----	1(6)	3(10)
2.Money and Banking	2(1)	-----	1(4)	----	3(6)
3.Determination of income and employment	3(1)	1(3)	----	1(6)	5(12)
4. Govt. Budget	2(1)	----	1(4)	-----	3 (6)
5.Balance of Payment	2(1)	----	1(4)	----	3(6)
Total	10(1) =10 marks	2(3) =6 marks	3(4) =12mar ks	2(6) =12ma rks	17 Questions =40 marks
PART-B INDIAN ECONOMIC DEVELOPMENT					
6.Developmental Experience (1947-1990)I	2(1)	----	1(4)	1(6)	4(12)
7.Current challenges facing by Indian Economy	6(1)	2(3)	1(4)	1(6)	10(22)
8.Development experience of India-A comparison with neighbours	2(1)	-----	1(4)	-----	3(6)
Total	10(1) =10 marks	2(3) =6 marks	3(4) =12 marks	2(6) =12 marks	17 Questions =40 marks
Grand Total	20x1=20	4x3=12	6x4=24	4x6=24	34 questions =80 marks

Note: There will be internal choices in questions of 1 mark, 3marks ,4marks and 6 marks in both sections(A and B).In all total 8 internal choices. The figure outside the bracket indicates no. of questions and figure inside the bracket indicates marks.

SAMPLE QUESTION PAPER - 1

CLASS-XII

MAX.MARKS: 80

SUB: ECONOMICS

TIME: 3 HRS

INSTRUCTIONS:

- 1. All questions in both sections are compulsory.*
- 2. Marks for questions are indicated against each question.*
- 3. Question no. 1-10 and 18-27 are very short answer question
Carrying 1 mark each . They are required to be answered in one sentence.*
- 4. Question no. 1-12 and 28-29 are short answer question
Carrying 3 marks each . Answer to them should not normally exceed 60 words .*
- 5. Question no. 13-15 and 30-32 are also short answer questions
Carrying 4 marks each . Answer to them should not normally exceed 80 words .*
- 6. Question no. 16-17 and 33-34 are long answer questions carrying 6 marks
each Answer to them should not normally exceed 100 words each.*

SECTION A

- Which of the following is a stock variable ? 1
a) Interest on capital c) expenditure of money
b) Distance between Goa and Hyderabad d) All of the these.
- What items are not included in M1 measure of money supply ? 1
a) Currency and coins with public c) Other deposits with RBI
b) Inter-bank deposits d) Net demand deposits with banks.
- What is Repo rate ? 1

(OR)

What is reverse repo rate ?

- Break-even point is achieved when 1
a) National income = consumption b) consumption = investment
c) Consumption = saving d) national income > consumption
- Which of the following can have a negative value ? 1
a) APC b) MPC c) MPS d) APS

6. When actual aggregate demand exceeds the aggregate demand required for full employment what will you call that situation ? 1
7. Escheats is an example of : 1
- a) Capital receipt c) revenue receipt
- b) Capital expenditure d) revenue expenditure
8. In a government budget primary deficit is Rs. 10,000 cr and interest payment is Rs. 8 000 cr . How much is fiscal deficit? 1
9. Export and import of goods is also known as: 1
- a) Invisible trade c) one sided transaction
- b) Visible trade d) unrequited remittances
10. Devaluation of currency means : 1
- a) Reduction in the value of domestic currency by the market forces
- b) Reduction in the value of domestic currency by the government
- c) Both (a) and (b)
- d) Neither (a) nor (b)
11. Distinguish between intermediate goods and final goods. 3
12. Define investment multiplier. Explain the relationship between Marginal propensity to consume and multiplier .

(OR)

Bring out the concept of break-even point with the help of consumption or Income curve.

13. Explain how the commercial bank creates credit money ? 4
14. Distinguish between; 4
- a) Capital receipts and revenue receipts
- b) Direct tax and indirect tax

(OR)

Explain any two objectives of government budget:

15. Explain the components of current account of Balance of Payments. 4

16. From the following data estimate (a) NNP at market price by Expenditure method and GNP at market price by Income method.

Sl No	Items	Rs. In cr
i.	Compensation of employees	800
ii.	Undistributed profits	20
iii	Private final consumption expenditure	1000
iv	Rent	300
v	Dividend	200
vi	Govt. final consumption expenditure	300
vii	Royalty	40
viii	Gross Domestic Fixed capital formation	500
ix	Corporation tax	50
x	Inventory investment	200
xi	Interest	400
xii	Exports	100
xiii	Depreciation	70
xiv	Net imports	(-) 40
xv	Net income received from abroad	(-) 10
xvi	Net Indirect tax	60

17. How are following used to correct excess demand and deficient demand?

- Bank rate
- Open market operations
- Government expenditure

(3x2)

(OR)

Explain the equilibrium level of income and employment with the help of savings and investment curves.

SECTION B

18. When was planning commission established?

1

- 1947
- 1948
- 1950
- 1951

19. Public sector enterprises are driven largely by consideration of :

1

- Profit
- social welfare
- either (a) or (b)
- none of these

20. In India absolute poverty is measured with reference to:

1

- Poverty line
- GDP
- per-capita income
- unemployment

b) The stock of skill and expertise of a nation at a point of time is known as:

1

a) Social infrastructure b) human capital c) physical capital d) None of these.

21. NREGA stands for : 1

22. Which type of unemployment is found in agricultural sector ? 1

a) Disguised unemployment c) structural unemployment
b) Industrial unemployment d) educated unemployment

23. Under which infrastructure transport, banking and irrigation fall? 1

24. Which of the following is considered as non-conventional energy ? 1

a) Solar energy b) wind energy c) bio-mas d) all of these

25. The number of people who are able to work and willing to work at

The existing wage rate is known as : 1

a) Labour force b) work force c) labour supply d) participation rate.

26. Two major environmental issues facing world today are -----

And _____ 1

27. Distinguish between physical capital and human capital 3

28. Can energy crisis be overcome with the use of renewable sources
Of energy ? 3

(OR)

Give any four factors responsible for land degradation.

29. What measures have been taken under Liberalisation (any four)

4

(OR)

What is privatization and explain steps taken toward it ?

30. Explain any four sources of human capital formation . 4

31. Explain the Great Leap Forward campaign of China as initiated in 1958.

32. What is green revolution ? How is it benefitted to farmers ? 6

(OR)

Explain 'growth, equity and self – reliance ' as long term economic Planning

33. Critically analyses any three anti-poverty programmes . 6

ANSWER KEY - SAMPLE PAPER 1

Q NO	VALUE POINTS	MARKS
1	(b) Distance between Gao and Hyderabad	1
2	(b) Inter=bank deposits	1
3	The rate at which the Central bank lends short term loans to commercial banks (OR) The rate at which the banks parks their surplus funds with RBI	1
4	(C) National income = consumption	1
5	(c) APC	1
6	Excess demand or inflationary gap	1
7	(c) Revenue receipt	1
8	Primary deficit = fiscal deficit – interest payments 10 000 = Fiscal deficit – 8000 Fiscal deficit = primary deficit + interest payment = 10 000 + 8 000 = 18 000 cr	1
9	Visible trade	1
10	(b) Reduction in the value of domestic currency by the Government	1
11	Intermediate good: meant for either resale or further production Final good: meant for either consumption or capital formation	1
12	Multiplier refer to the change in National income due to change in investment	1
13	Credit creation by the banks is determined by (i) the amount of initial deposits and ii) the legal reserve ratio (LRR). It is assumed that all the money that goes out of banks is redeposit into the banks, and LRR consists of CRR & SLR. An Illustration to explain the process of credit creation: Let the LRR be 20% and there is a Fresh/Primary/Initial/Deposit Account of Rs 10000. The banks keep 20% ie Rs 2000 as cash and lend the remaining Rs 8000 to a borrower by opening a new account, called as Loan/Secondary/Derived Account.	4

	<p>Here we assume that all the banking transactions will be through monetary instruments viz cheques etc.</p> <p>Total credit creation = Initial deposit X 1/LRR</p> <table><tr><th>ROUNDS</th><th>INITIAL DEPOSIT</th><th>LRR</th><th>SECONDARY DEPOSIT</th></tr><tr><td>1</td><td>10000</td><td>2000</td><td>8000</td></tr><tr><td>2</td><td>8000</td><td>1600</td><td>6400</td></tr><tr><td>-</td><td>-</td><td>-</td><td>-</td></tr><tr><td>-</td><td>-</td><td>-</td><td>-</td></tr><tr><td>-</td><td>-</td><td>-</td><td>-</td></tr><tr><td>TOTAL</td><td>50000</td><td>10000</td><td>40000</td></tr></table> <p>Total credit creation = Initial deposit X 1/LRR = 10000 X 1/20% = 10000 X 100/20 = Rs 50000</p>	ROUNDS	INITIAL DEPOSIT	LRR	SECONDARY DEPOSIT	1	10000	2000	8000	2	8000	1600	6400	-	-	-	-	-	-	-	-	-	-	-	-	TOTAL	50000	10000	40000	
ROUNDS	INITIAL DEPOSIT	LRR	SECONDARY DEPOSIT																											
1	10000	2000	8000																											
2	8000	1600	6400																											
-	-	-	-																											
-	-	-	-																											
-	-	-	-																											
TOTAL	50000	10000	40000																											
14	<p>a) Capital receipts: Receipts which either create liability or reduce asset Revenue receipt: Receipts which neither create liability nor reduce asset</p> <p>b) Direct taxes are those taxes for which incidence of burden cannot be shifted Indirect taxes are the taxes for which incidence of burden can be shifted.</p> <p>(OR)</p> <p>a) Re-allocation of resource b) Reduction of inequalities (or any other two points with explanation)</p>	4																												
15	<p>Components of Current account of Balance of payments:</p> <p>a) Net export of visible items b) Net export of invisible items c) Net income from property and entrepreneurship abroad d) Unrequited remittance (unilateral transfers (net))</p>	4																												
16	<p>Sol EXPENDITURE Method:</p> <p>1) GDP mp= Private Final consumption expenditure + Govt. final consumption exp.</p> <p>+ Gross capital formation + Net exports = 1000 + 300 + (500+200)+</p> <p>40</p> <p>= Rs. 2</p> <p>2) NNP mp = GDP mp – Dep + NFIA = 2140 – 70 + (-10)</p>	3+3																												

	<div>= 2060</div> <div>(Note: Net imports (-)40 means Net exports 40)</div> <div>INCOMEMETHOD</div> <div>1) NDP fc = compensation of employees + operating surplus + Mixed income</div> <div>= 800 +</div> <div>(300+40+400+200+20+50+0)</div> <div>= 1810</div> <div>2) GNP mp = NDPfc + dep + NIT+NFIA</div> <div>= 1810 + 70 + 60 + (-)10</div> <div>= Rs. 1 930 cr.</div>													
17	<table><tr><th>INSTRUMENT</th><th>EXCESS DEMAND</th><th>DEFICIENT DEMAND</th></tr><tr><td>Bank rate</td><td>Should be raised by RBI</td><td>Should be reduced by RBI</td></tr><tr><td>Open market operations</td><td>RBI sells to member banks</td><td>RBI buys from member banks</td></tr><tr><td>Govt.expenditure</td><td>To be controlled by the Govt.</td><td>Govt. should increase its expenditure</td></tr></table> <div>(OR)</div> <div>According to Keynes means equilibrium levels of income and employment is it determined by the equality between saving and investment (ex-ante).</div> <div></div>	INSTRUMENT	EXCESS DEMAND	DEFICIENT DEMAND	Bank rate	Should be raised by RBI	Should be reduced by RBI	Open market operations	RBI sells to member banks	RBI buys from member banks	Govt.expenditure	To be controlled by the Govt.	Govt. should increase its expenditure	<div>2+2</div> <div>+2</div>
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Govt.expenditure	To be controlled by the Govt.	Govt. should increase its expenditure												
18	(C) 1950		1											
19	(b) social welfare		1											
20	(c) per-capita income		1											
21	(b) human capital		1											
22	National Rural Employment Guarantee Programme		1											
23	(a) Disguised unemployment		1											
24	Economic infrastructure		1											
25	(d) all of these		1											
26	(a) Labour force		1											

27	a) Pollution b) Excessive exploitation of resources			1
28	PHYSICAL CAPITAL	HUMAN CAPITAL		3
	It is a tangible good	It is intangible good		
	Can be separated from the owner	Cannot be separated from owner		3
	Can be moved from one place to another place	It is not perfectly mobile		
	can be increased by imports	Can be built with proper planning and skill development		
29	a) Presently more consumption than production b) Renewable energy can be replenished quickly c) Cost effective d) Unlimited in supply (or any other related point) (OR) a) Encroachment into forest lands b) Due to deforestation, there will be loss of vegetation c) Shifting cultivation causes loss of fertility d) Extensive use of fertilizers and pesticides (Or any other valid points)			4
30	a) Abolishing of industrial licensing system b) Amendment to MRTP Act c) Reducing the role of RBI d) Rationalisation of taxes (or any other measures) (OR) Privatisation: opening of the economy to the private sector. Measures: a) Reduction of major industries of the Govt. b) Disinvestment of public sector (or any other related point)			4

31	<p>Four sources of Human capital formation:</p> <ul style="list-style-type: none"> a) Expenditure on education b) Expenditure on health c) Expenditure on the job-training d) Expenditure on migration 	4
32	<p>The Great Leap Forward (GLF) was a campaign initiated by China in 1958.</p> <ul style="list-style-type: none"> • To initiate large scale industrialization in both rural and urban areas • Encouraged urban people to set up industries in their backyards • Under Commune system, people were encouraged in collective farming 	4
33	<p>Green revolution refers the large scale production of food grains, pulses etc., due to introduction of fertilizers and agricultural. Technology.</p> <p>Benefits: a) Achieved self-sufficiency in the production of food grains b) farmers' incomes have increased (c) extensive credit facilities are made available to the farmers. (or any other point) (OR)</p> <p>GDP is indicator of growth. It means the increase of country's capacity to produce goods and services</p> <p>Equity: It means equal opportunities to all the section of society. The fruits of the economy should not be limited to only rich people. Gender equation should be achieved.</p> <p>Self-reliance: It should be achieved by import substitution. Reduction of imports of food grains. Producing with in the domestic economy the goods which are imported till now.</p>	6
34	<p>Anti-poverty program:</p> <p>1. * Self-Employment Programmes</p> <ul style="list-style-type: none"> • Rural Employment Generation Programme (REGP) 	

- Prime Minister Rozgar Yojana (PMRY) 6
 - Swarna Jayanti Shahri Rozgar Yojana (SJSRY)
 - Swarnjayanti Gram Swarozgar Yojana (SGSY)
- 2. Wage Employment Programme**
- Sampoorna Grameena Rozgar Yojana (SGRY)
 - National Food for Work Programme (NFFWP)

MODEL PAPER-2 (2019-2020)
BLUE PRINT
SUBJECT: ECONOMICS
CLASS : XII

SECTION – A	1 mark	3 mark	4 mark	6 mark	Total Marks
Unit-1: National Income	1	1		1	10
Unit -2: Money & Banking	2		1		06
Unit -3 : Determination of Income and Employment	2		1	1	12
Unit -4 : Govt. Budget & the Economy	3	1			06
Unit – 5: Balance of Payments	2		1		06
SUB-TOTAL					40
SECTION – B					
Unit -6: Development Experience (1947 – 90) and Economic	3	1		1	12

Reforms					
Unit - 7: Current challenges facing Indian Economy	7	1	1	1	20
Unit -8: Development Experience of India – A comparison with Neighbours			2		08
SUB-TOTAL					40
TOTAL MARKS	10 X 1 = 10	4 X 3 = 12	6 X 4 = 24	4 X 6 = 24	80
PART C: PROJECT WORK	20				

ECONOMICS (2019-20)

TIME: 3 HRS

CLASS : XII
M.MARKS: 80

Instructions:

- (i) All questions in both the sections are compulsory,
- (ii) Marks for questions are indicated against each.
- (iii) Questions no 1-10 and 18-27 are very short answer questions carrying 1 mark for each part are required to be answered in one sentence each.
- (iv) Questions no 11-12 and 28-29 are short answers questions carrying 3 marks are required to be answered not exceed 60 words each.
- (v) Questions no 13-15 and 30-32 are also short answer questions carrying 4 marks are required to be answered not exceed 70 words each.
- (vi) Questions no 16-17 and 33-34 are long answers questions carrying 6 marks each are required to be answered not exceed 100 words each.
- (vii) Answer should be brief and to the point and the above word limits be adhered to as far as possible.

SECTION A: Macro Economics

Q.No	Question	Marks
------	----------	-------

1.	Borrowing in government budget is: a) revenue deficit b) fiscal deficit c) primary deficit d) deficit in taxes	1
2	State the two components of M_1 measure of money supply	1
	Define stocks.	1
4	The percentage of demand deposits which the commercial banks are legally required to maintain as their liquid assets is called: a) CRR b) Repo Rate c) SLR d) Reverse Repo Rate	1
5	Which of the following is not the instrument of credit control? a) CRR b) SLR c) Bank Rate d) Managed floating	1
6	Give the meaning of balance of trade. (OR) Give the meaning of Balance of Payment	1
7	What is primary deficit?	1
8	The non-tax revenue in the following is (choose the correct alternative): a) export duty b) import duty c) dividends d) excise	1
9	Which of the following does not come under quantitative methods of monetary policy? a) Open market operations b) Cash Reserve Ratio c) Moral suasion d) Repo Rate	1
10	Balance of trade is a part of: a) current account BOP b) capital account BOP c) Official reserves account d) none of these	1
11	Explain the concepts of intermediate goods and final goods. Give example each one.	3
12	Giving reason, categories the following into revenue expenditure and capital expenditure: i) Subsidies ii) Grants given to state	3

	<p>governments</p> <p>iii) Repayment of loan (OR)</p> <p>Is the following a revenue receipts or a capital receipts in the context of government budget and why?</p> <p>i) Tax receipts ii) Disinvestment</p>	
13	<p>Classify the following goods into intermediate goods and final goods:</p> <p>i) Milk purchased by a household</p> <p>ii) purchase of rice by a grocery shop</p> <p>iii) purchase of an air conditioner for use in shop</p> <p>iv) Cloth used for making a sofa-set by the carpenter</p>	4
14	<p>Explain how open market operations are helpful in controlling credit creation. (OR)</p> <p>Explain the process of credit creation by commercial banks.</p>	4
15	<p>In an economy, an increase in investment by Rs. 100 crore led to 'increase' in national income by Rs 1000 crore. Find marginal propensity to consume.</p>	4
16	<p>In an economy planned investment exceeds planned savings. How will the equality between the two be achieved? Explain. (OR)</p> <p>Explain the theory of determination of equilibrium level of output and income with the help of aggregate demand and aggregate supply curves.</p>	6
17	<p>From the following information, calculate Gross National Product at Factor Cost by (a) Income method and (b) Expenditure method:</p> <p>Items:</p> <p>Rs. Crore</p> <p>i) Net factor income from Abroad 5</p> <p>ii) Compensation of employees 150</p> <p>iii) Net domestic capital formation 50</p> <p>iv) Private final consumption expenditure 220</p>	(3,3)

v) change in stock 15 vi) Consumption of fixed capital 15 vii) Interest 40 viii) Net exports (-) 5 ix) Net Indirect taxes 20 x) Govt. final consumption expenditure 85 xi) Profit 100		
<u>SECTION-B:INDIAN ECONOMIC DEVELOPMENT</u>		
18	Define plan?	1
19	What is subsistence?	1
20	Define devaluation?	1
21	Define poverty line?	1
22	The responsibility of direction and control of higher education is with:	
	a) Govt. of India b) Department of Higher Education	1
	c) University Grants Commission d) none of these	
23	What is jobless growth? (OR) What it is called, Labour Force minus (-) Workforce a) Unemployed b) supply of labour c) Total population d) Participation rate	1
24	Which of the following is considered as social infrastructure?	1
25	What is the main difference between economic development and sustainable development?	1
26	Which of the following is an essential indicator of good health? a) Low death rate b) High expectancy of life c) Low infant mortality rate d) All of these	1
27	In India, absolute poverty is measured with	1

	reference to: a) Poverty line b) GDP c) Per capita income d) Unemployment	
28	What is inward looking trade policy? How is it relevant in the context of growth and development? (OR) Why were reforms introduced in India?	3
29	What factors contribute to human capital formation?	3
30	Differentiate between commercial and non commercial sources of energy.	4
31	What similar developmental strategies have India and Pakistan followed for their respective paths?	4

32	Give an outline of the strategy of development adopted by China and India	4
33	What is meant by globalization of the economy? State the measures adopted by the government to promote globalization. (OR) Distinguish between the following: i) Strategic and Minority sale. ii) Bilateral and Multilateral trade. iii) Tariff and Non-tariff barriers	6
34	What is sustainable development? Outline the steps involved in attaining sustainable development in India?	(2 +4)

MODEL PAPER-3

ECONOMICS (2019-20)

TIME: 3HRS

CLASS :XII

M.MARKS: 80

Instructions:

- (i) All questions in both the sections are compulsory,
(ii) Marks for questions are indicated against each.

- (iii) Questions no 1-10 and 18-27 are very short answer questions carrying 1 mark for each part are required to be answered in one sentence each.
- (iv) Questions no 11-12 and 28-29 are short answers questions carrying 3 marks are required to be answered not exceed 60 words each.
- (v) Questions no 13-15 and 30-32 are also short answer questions carrying 4 marks are required to be answered not exceed 70 words each.
- (vi) Questions no 16-17 and 33-34 are long answers questions carrying 6 marks each are required to be answered not exceed 100 words each.
- (vii) Answer should be brief and to the point and the above word limits be adhered to as far as possible.

SAMPLE PAPER -3

1. National income is _____ concept 1
 a) Stock b) final c) intermediate d) flow

2. Which of the following agency is responsible for issuing Re.1 currency note in India? 1
 a) Reserve Bank of India b) Banking Association
 c) Ministry of Finance d) Niti Aayog
3. Define Margin requirement.
 (or)
 What is Cash Reserve Ratio
4. Full employment implies absence of _____ 1
 a) Voluntary unemployment b) Involuntary unemployment
 c). unemployment d) None of the above

5. When MPC is zero, then K is : 1
 a) 1 b) 0 c) infinity d) none of these
6. When actual aggregate demand falls short of the aggregate demand required for Full employment level, what do you call situation?
 (or)
 Define money multiplier 1
7. What is reverse repo rate ? 1
8. Export and import of services is known as:
 a) Invisible items b) unrequited remittances
 c).Visible items d) Bilateral payments
9. Depreciation of currency means: 1

a) Reduction in the value of domestic currency by the market forces

b) Reduction in the value of domestic currency by the Government

c) Both (a) and (b)

D) Neither (a) nor (b)

10. The central bank issues appeals to the commercial banks through

1

a) Open Market operation b) Moral suasion c) Bank rate d) CRR

11. Distinguish between consumer goods and capital goods.

3

12. Explain any three fiscal measures to control deflationary gap.

3

(OR)

Distinguish between Average propensity to consume and Average propensity to save . What is the relation between two?

13. If the legal reserve ratio is 20% and deposit is Rs. 1000 . Explain the process of credit creation by the commercial banks.

4

14. Distinguish between :

a) Capital expenditure Revenue expenditure

b) Fiscal deficit and Primary deficit

(OR)

Give any four items of Non-tax revenue

4

15.a) What is appreciation of currency and give its impact on exports ?

b) What is depreciation of currency and give its impact on imports ?

16. From the following data calculate (a) Gross Domestic Product at factor cost

(b) Factor income to abroad

6

	Items	(Rupees in cr)
i)	Compensation of employee	1 000
ii)	Profits	200
iii)	Dividend	80
iv)	Gross national product at market price	1 800

v)	Rent	250
vi)	Interest	200
vii)	Gross domestic capital formation	300
viii)	Net fixed capital formation	200
ix)	Change in stock	50
x)	Factor income from abroad	80
xi)	Net indirect taxes	120

17. Explain Keynesian theory of income and employment .

6

or

An increase of Rs. 250 crore in investment in an Economy, resulted in total increase in income of rs.1,000 crore. Calculate the following:

- Value of investment multiplier
- Change in savings
- change in consumption expenditure
- Marginal propensity to consume.

SECTION B: INDIAN ECONOMIC DEVELOPMENT

18. TISCO is:

1

- Tata Iron and Steel Company
- Titan Iron and Steel Company
- Tata Industry and steel company and steel company
- Telecom, iron and steel company

19. In a socialist economy:

1

- All economic decisions taken by the central authority
- All the economic decisions taken by Private enterprises
- Economic decisions taken by both private and public sector
- None of the above.

20. Under _____ we remove tariff, subsidies on the flow of goods and

1

Services between counties

- Globalisation
- liberalization
- privatization
- disinvestment

21) Which of the following is not the source of Human capital formation ?

1

a) Education b) saving c) Health d)
Information

22) Percentage of education cess levied on all Union taxes is :

- a) 4% b) 3% c) 2% d) 1%

23) Define Worker Participation Rate.

1

(OR)

What is meant by job less growth ?

24) In 1997, the UN conference on climate change was held in:

- a) Japan b) India c) Germany d) China

25) Which of the following is a programme for the launch for elderly people ?

- a) Public Distribution System b) Pradhan Mantri
Grameen Sadak Yojana
c) Social assistance Programme d) National
Food for Work Programme

26) Define rural development

27) National Bank for Agriculture and Rural
Development (NABARD) established in _____

28) Explain any three sources of human capital formation 3

(OR)

Write a short note on 'Global Burden of Diseases'

29) The central and State governments take many initiatives and generate employment. What

Are the social and economic values associated with
employment generation ? 4

30) Explain main causes of poverty in India 4

(OR)

Explain any two long-term objectives of economic planning

31) Explain the steps that have been taken towards
Liberalisation. 4

32) What is Organic farming and how are the farmers benefited from it?

4

33) How did Green revolution benefited the farmers? Also give its advantages. 6

(OR

34) Why was public sector given a leading role in Industrial development during the Planning period. Compare and contrast the development of India, China and Pakistan with respect to the indicators of Human Development Index 6

PART 1 -Introductory Macroeconomics

ECONOMICS

IMPORTANT FORMULAE

UNIT V: NATIONAL INCOME ACCOUNTING

$$\text{GVO} = \text{IC} + \text{CFC} + \text{NIT} + \text{CE} + \text{OS} + \text{MISE}$$

$$= \text{Sales} + \text{Change in Stock}$$

$$= (\text{Domestic Sales} + \text{Exports}) + (\text{Closing Stock} - \text{Opening Stock})$$

$$= \text{VO in Primary Sector} + \text{VO in Secondary Sector} + \text{VO in Tertiary Sector}$$

$$= \text{Sales} + \text{Change in Stock} - \text{IC}$$

$$= \text{NDP}_{\text{MP}} + \text{CFC}$$

$$= \text{NDP}_{\text{FC}}^{\text{MP}} + \text{NIT} + \text{CFC}$$

$$= \text{NNP}_{\text{FC}} - \text{NFIA} + \text{NIT} + \text{CFC}$$

$$= \text{NNP}_{\text{FC}}^{\text{MP}} - \text{NFIA} + \text{CFC}$$

$$= (\text{VO in PS} + \text{VO in SS} + \text{VO in TS}) - (\text{IC in PS} + \text{IC in SS} + \text{IC in TS})$$

$$\text{NDP}_{\text{FC}} = \text{GVO} - \text{IC} - \text{CFC} - \text{NIT}$$

$$= \text{GDP}_{\text{MP}} - \text{CFC} - \text{NIT}$$

$$= \text{GDP}_{\text{FC}}^{\text{MP}} - \text{CFC}$$

$$= \text{NNP}_{\text{FC}} - \text{NFIA}$$

$$= \text{CE} + \text{OS} + \text{MISE}$$

$$= \text{GNP}_{\text{MP}} - \text{CFC} - \text{NFIA} - \text{NIT}$$

$$\text{NNP}_{\text{FC}} / \text{NI} = \text{GVO} - \text{IC} - \text{CFC} - \text{NIT} + \text{NFIA}$$

$$= \text{GDP}_{\text{MP}} - \text{CFC} - \text{NIT} + \text{NFIA}$$

$$= \text{GNP}_{\text{MP}} - \text{CFC} - \text{NIT}$$

$$= \text{NDP}_{\text{FC}}^{\text{MP}} + \text{NFIA}$$

$$= (\text{CE} + \text{OS} + \text{MISE}) + \text{NFIA}$$

ii) Value of Output & Value Added (Domestic Product) is the presence of IC in the former & absence of IC in the latter. $\text{GVO} = \text{GDP}_{\text{MP}} + \text{IC}$; $\text{GDP}_{\text{MP}} = \text{GVO} - \text{IC}$

ii) Gross Domestic Product (GDP) & Net Domestic Product (NDP) is the presence of CFC in the former & absence in the latter. $\text{GDP} = \text{NDP} + \text{CFC}$; $\text{NDP} = \text{GDP} - \text{CFC}$

iii) Market Price (MP) & Factor Cost (FC) is the existence of NIT in the former & absence in the latter.

$$\text{GDP}_{\text{MP}} = \text{GDP}_{\text{FC}} + \text{NIT}; \quad \text{GDP}_{\text{FC}} = \text{GDP}_{\text{MP}} - \text{NIT}$$

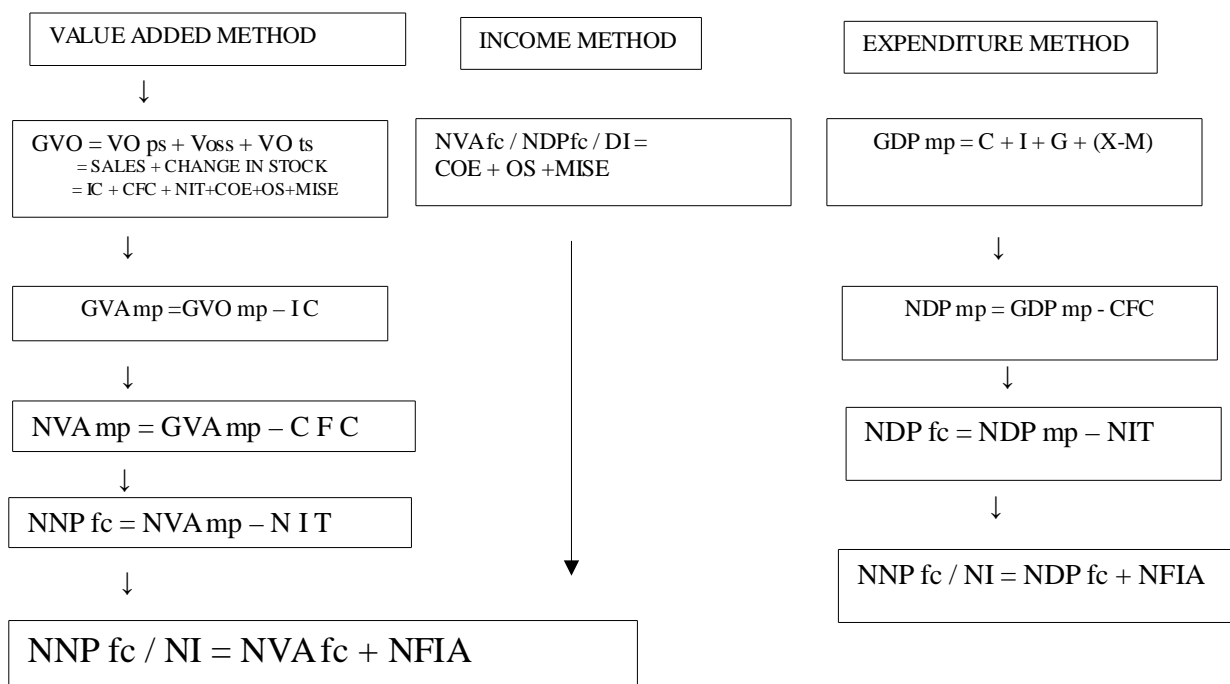
iv) National & Domestic Product is the existence of NFIA in the former & absence in the latter.

$$\text{NDP}_{\text{FC}} = \text{NNP}_{\text{FC}} - \text{NFIA}; \quad \text{NNP}_{\text{FC}} = \text{NDP}_{\text{FC}} + \text{NFIA}$$

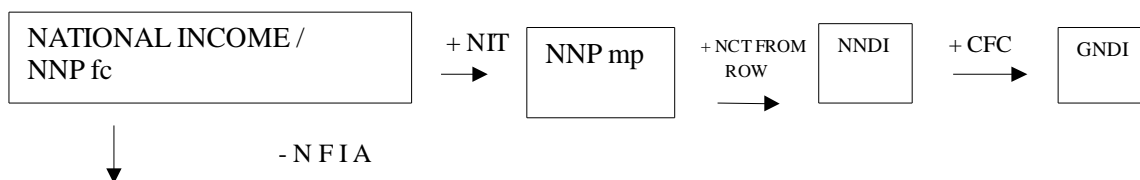
$$\text{GDCF} = \text{NDCF} + \text{CFC}$$

$$\text{Or GDCF} = \text{NDFCF} + \text{CFC} + \text{Change in stock.}$$

METHODS TO MEASURE NATIONAL INCOME



RELATED AGGREGATES OF NATIONAL INCOME



NDP @ fc OR DOMESTIC INCOME

- (INCOME FROM GOVT ADMINISTRATIVE DEPARTMENTS + SAVINGS OF NON DEPARTMENTAL ENTERPRISES)

Methods to measure National Income:

- 1. Value Added Method:** $NNP_{fc} = \text{Sales} + \text{Change in Stock} - \text{IC} - \text{Depreciation} - \text{Net Indirect Tax} + \text{Net Factor Income from Abroad}$.
 $\text{Sales} = \text{Price} \times \text{Output}$; $\text{Change in Stock} = \text{Closing stock} - \text{Opening stock}$; $\text{NIT} = \text{Indirect Tax} - \text{subsidies}$; $\text{NFIA} = \text{Factor Income from Abroad} - \text{Factor Income to Abroad}$
- 2. Income Method:** $NNP_{fc} = \text{Compensation of employees} + \text{Operating Surplus} + \text{Mixed Income} + \text{NFIA}$
 $\text{COE} = \text{Wages \& salary} + \text{Employers contribution to social security scheme}$
 $\text{Operating Surplus} = \text{Rent} + \text{Interest} + \text{Royalty} + \text{Profit}$
- 3. Expenditure Method:** $NNP_{fc} = \text{Private final consumption expenditure} + \text{Govt. final consumption expenditure} + \text{Gross domestic capital formation} + \text{Net Exports} - \text{Depreciation} - \text{Net Indirect Tax} + \text{NFIA}$

ECONOMICS

- Basic Rules:** 1. $\text{Gross} - \text{Net} = \text{Depreciation}$; 2. $\text{Market Price} - \text{Factor Cost} = \text{Net Indirect Tax}$;
3. $\text{National Product} - \text{Domestic Product} = \text{NFIA}$; 4. $\text{Value of Output} - \text{Intermediate cost} = \text{Value added}$

UNIT VI: MONEY & BANKING

Money Supply (M) = Currency held with general public (C) + Demand deposits of general public held by the Commercial Banks (DD)

$M1 = C + DD + OD$ (Other Deposits held by RBI); $M2 = M1 + \text{Savings deposits of POSB}$. $M3 = M1 + \text{Net time deposits of Banks}$; $M4 = M3 + \text{Deposits of Post Office Saving Organization}$

Credit multiplier (K) = $1 / \text{Legal Reserve Ratio} \times 100$; $\text{Total Initial Deposit} = K \times \text{Initial Deposit}$

UNIT VII: THEORY OF INCOME DETERMINATION

$MPC + MPS = 1$; $MPC = 1 - MPS$; $MPS = 1 - MPC$; $MPC = \Delta C / \Delta Y$; $MPS = \Delta S / \Delta Y$; $APC = C / Y$; $APS = S / Y$; $APC + APS = 1$; $APC = 1 - APS$; $APS = 1 - APC$

$\text{Investment Multiplier (K)} = \Delta Y / \Delta I$; $K = 1 / 1 - MPC$; $K = 1 / MPS$;

CONSUMPTION FUNCTION: $C = C_0 + bY$, where C is Consumption expenditure; C_0 = Autonomous Consumption ie Consumption at zero level of income; 'b' is slope of consumption curve that is constant which is equal to $\Delta C / \Delta Y$ ie MPC; Y is National Income

SAVING FUNCTION: $S = -C_0 + (1-b)Y$, where S is Savings, $-C_0$ is autonomous saving, $(1-b)$ is MPS ie slope of saving curve, Y is National Income

UNIT VIII: GOVERNMENT BUDGET & ECONOMY

$\text{Revenue deficit} = \text{Revenue expenditure} > \text{Revenue Receipts}$

$\text{Fiscal Deficit} = \text{Total Expenditure} - \text{Total Receipt (Net of Borrowings)}$

$\text{Primary Deficit} = \text{Fiscal Deficit} - \text{Interest Payments}$

UNIT IX: BALANCE OF PAYMENTS

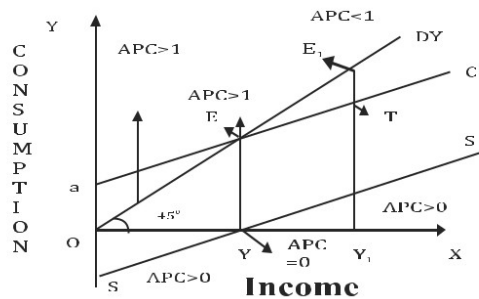
$\text{Balance of Trade} = \text{Value of Exports} - \text{Value of Imports}$ Surplus

$\text{BOP} = \text{International Receipts} > \text{International Payments}$ Deficit BOP

$= \text{International Receipts} < \text{International Payments}$

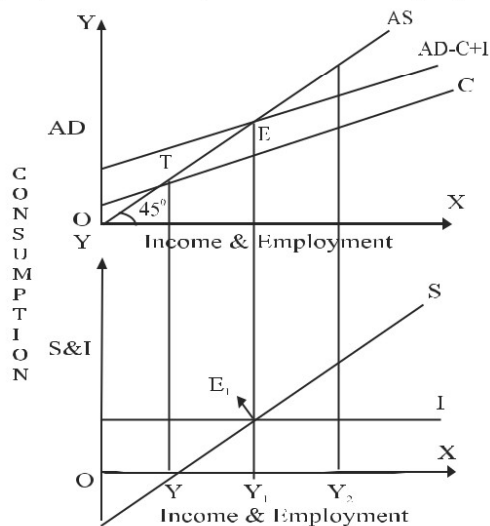
MACRO ECONOMICS: UNIT VII: THEORY OF INCOME DETERMINATION

Fig: Consumption Function



The above figure shows the consumption function. Income curve is a 45° line originating from the point of origin. The Consumption curve is constantly rising from the point 'a' on the Y-axis which indicates the rise in consumption due to rise in income. The point 'a' refers to autonomous consumption i.e. the consumption expenditure incurred when the income curve intersects consumption at the point E which is referred to as Break-even point.

Keynesian Theory of Income & Employment



In the first figure we see that AS function is 45° line from the origin which is intersected by AD at point E. This is the point where the economy is in equilibrium because the $AD = AS$. In this situation, the total quantity of commodities produced is purchased and there is no burden of excess supply or unsold stocks, and the loss of demand. The corresponding to investment. This is shown in the next figure where saving curve at point E1 level of income & employment of the economy.

In this context the saving & investment are planned (or ex-ante) saving & investment. Thus, the economy attains equilibrium when $AD = AS$ & $S = I$ at OY_1 level which is underemployment level.

MACRO ECONOMICS (PART – 1)

NATIONAL INCOME ACCOUNTING

KEY CONCEPT

Macro Economics: - It is that branch of economics which studies the aggregates of an economy or the larger units of an economy. The main objective of Macroeconomic study is 'how the income & employment of an economy is determined?' This branch of economics deals with the fuller utilization of resources.

National Income: - It can be defined as the net value of all final goods & services produced by the normal residents in the 'domestic territory of a country in an accounting year (NVA_{FC}), and adding net factor income from abroad (NFIA). $NI = NVA_{FC} + NFIA$

Depreciation or Consumption of Fixed Capital (CFC): - It refers to the loss of value of fixed assets due to normal wear & tear.

Normal Residents: - This refers to those individuals & institutions who normally reside in a country for more than one year, and whose centre of economic interest lies in that country.

Economic Territory: - Besides the landmass lying within the political frontier of a country, includes 200 nautical miles of the sea from the front.

Net Indirect Tax: - It refers to the difference between Indirect Tax paid by the enterprises to the Govt. & the Subsidies paid by the Govt. to some of the enterprises.

Operating Surplus (OS): Operating Surplus is defined as the sum of Income from property & Income from entrepreneurship.

Mixed Income of Self Employed: - it refers to the profits & dividends earned by the unincorporated & household enterprises, & the income earned by the self-employed viz. Doctors, Architects, Engineers, Professors, Teachers & other professionals.

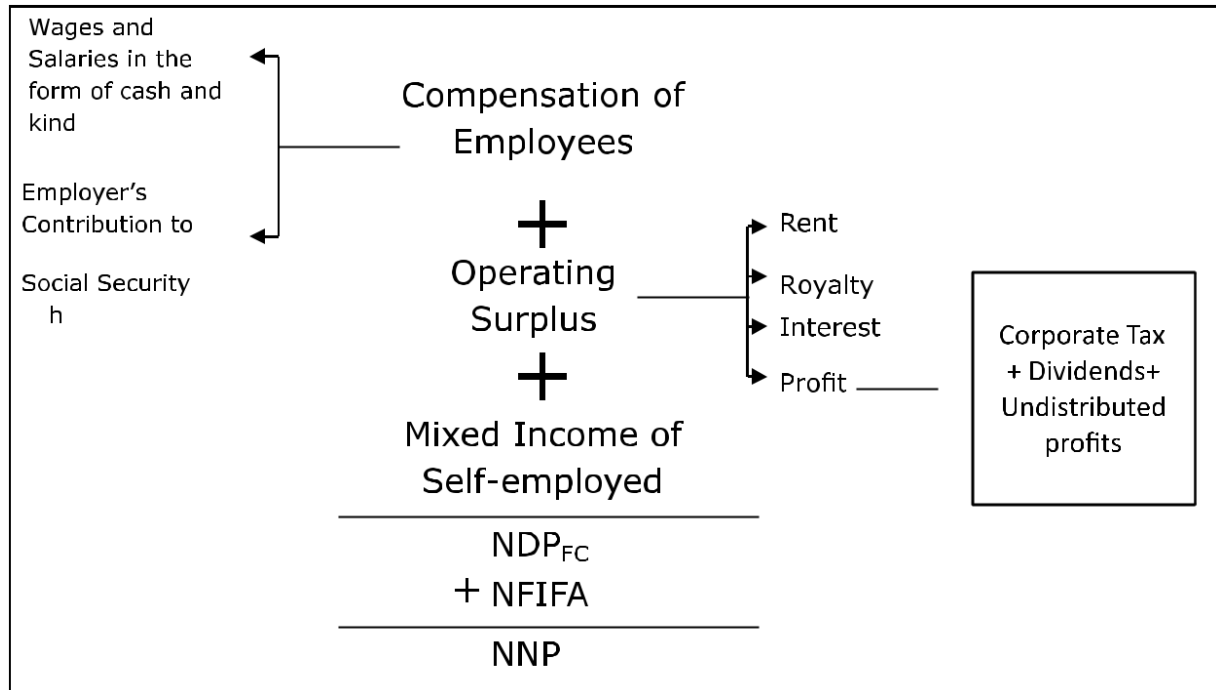
Private income: - private income refers to the income which accrues to private sector from all sources within and outside the country.

Personal income: - personal income is the sum total of all the incomes that are actually received by households from all the sources.

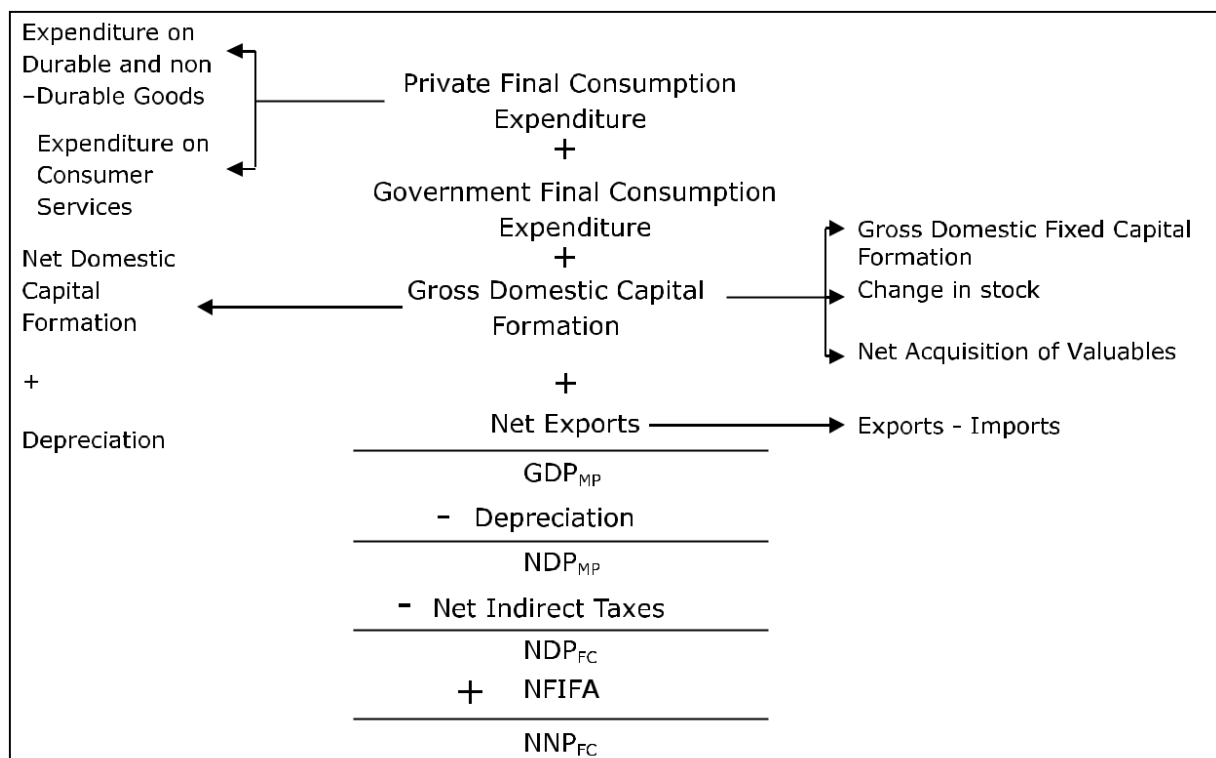
Personal disposal income: - it refers to that part of personal income which is actually available at the disposal of households. It is that part of personal income which is left with the households after making payments of taxes, fee and other miscellaneous receipts of the government.

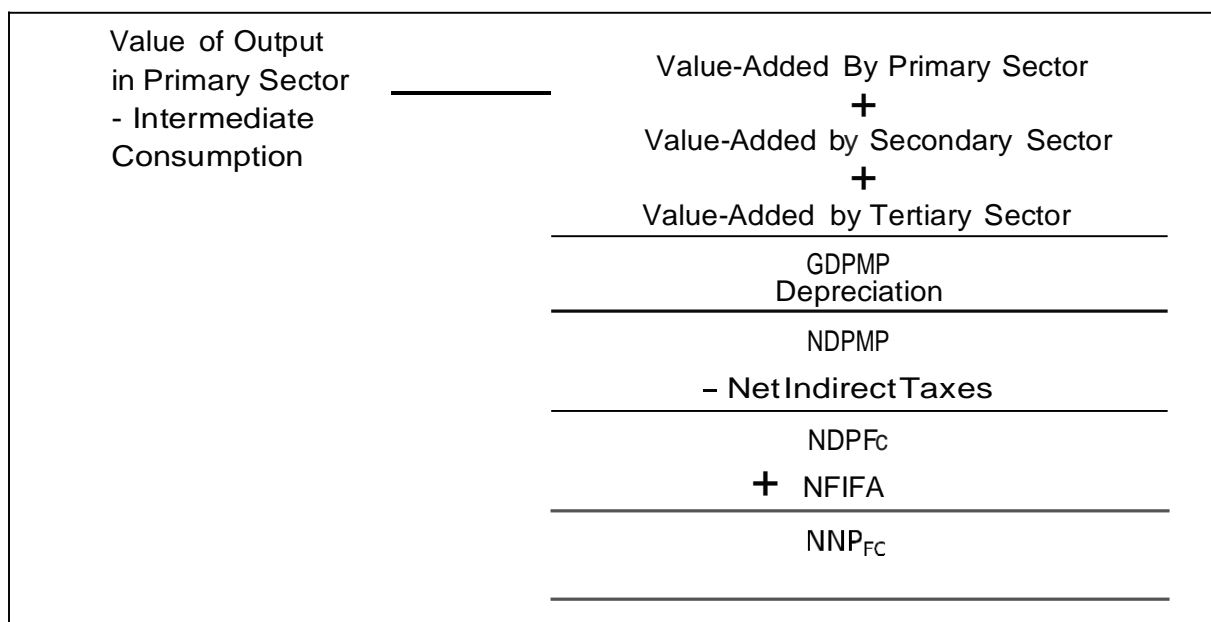
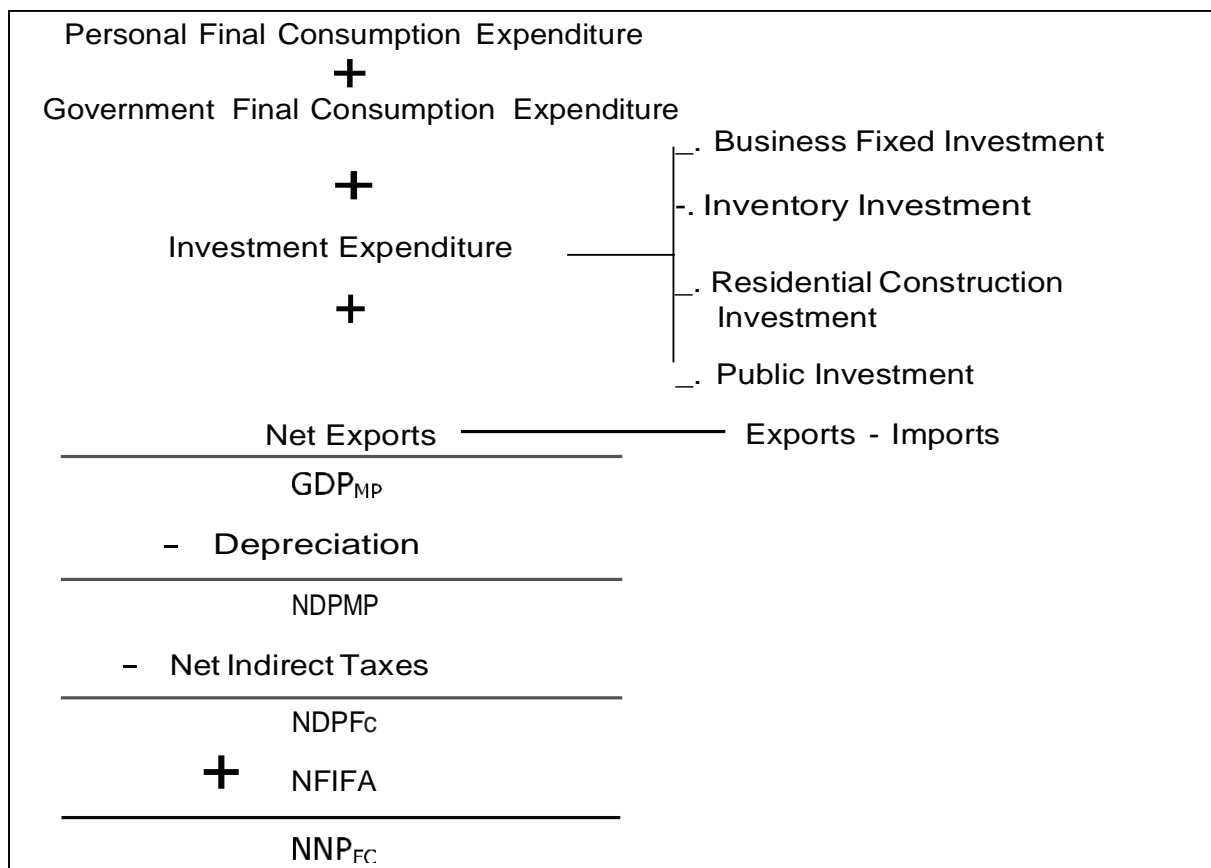
National disposable income: - national disposal income refers to the income which is available to the whole country for disposal. It includes both factors income and transfer income.

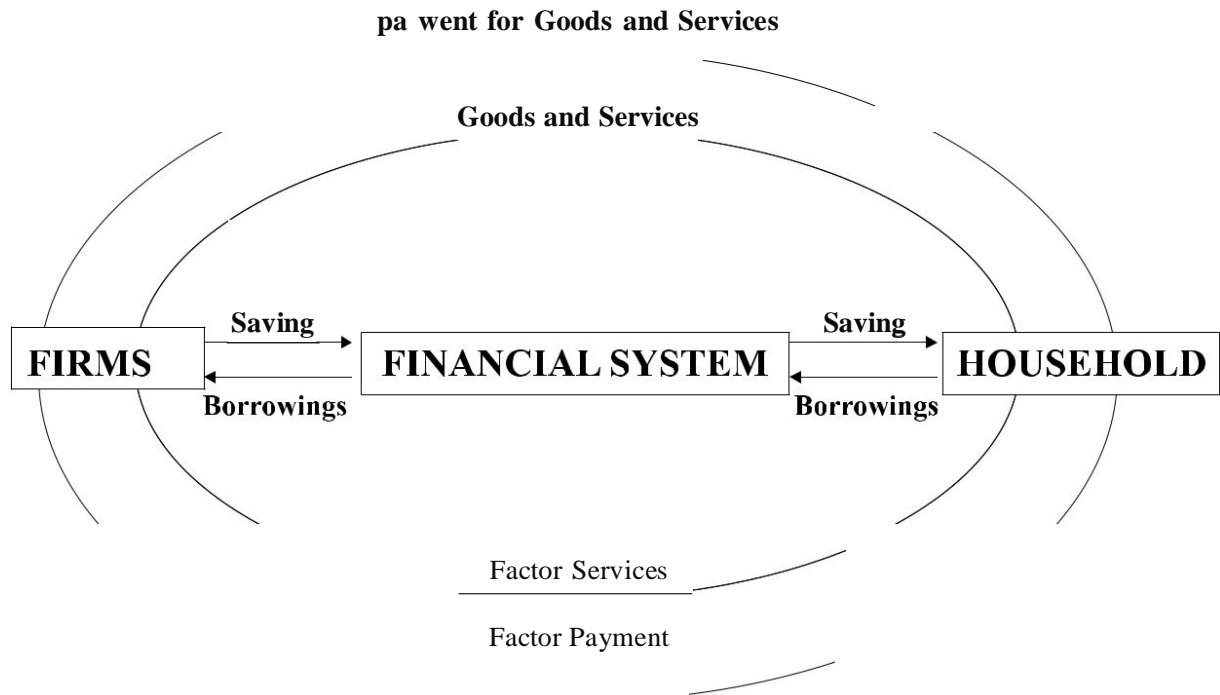
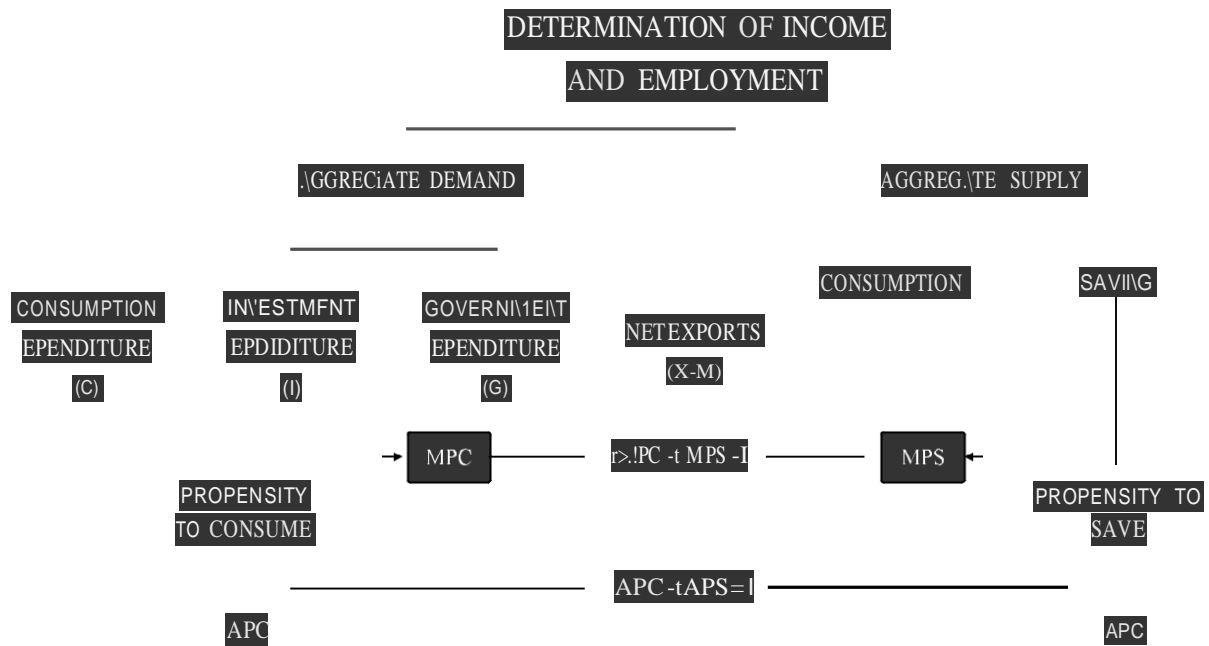
INCOME METHOD

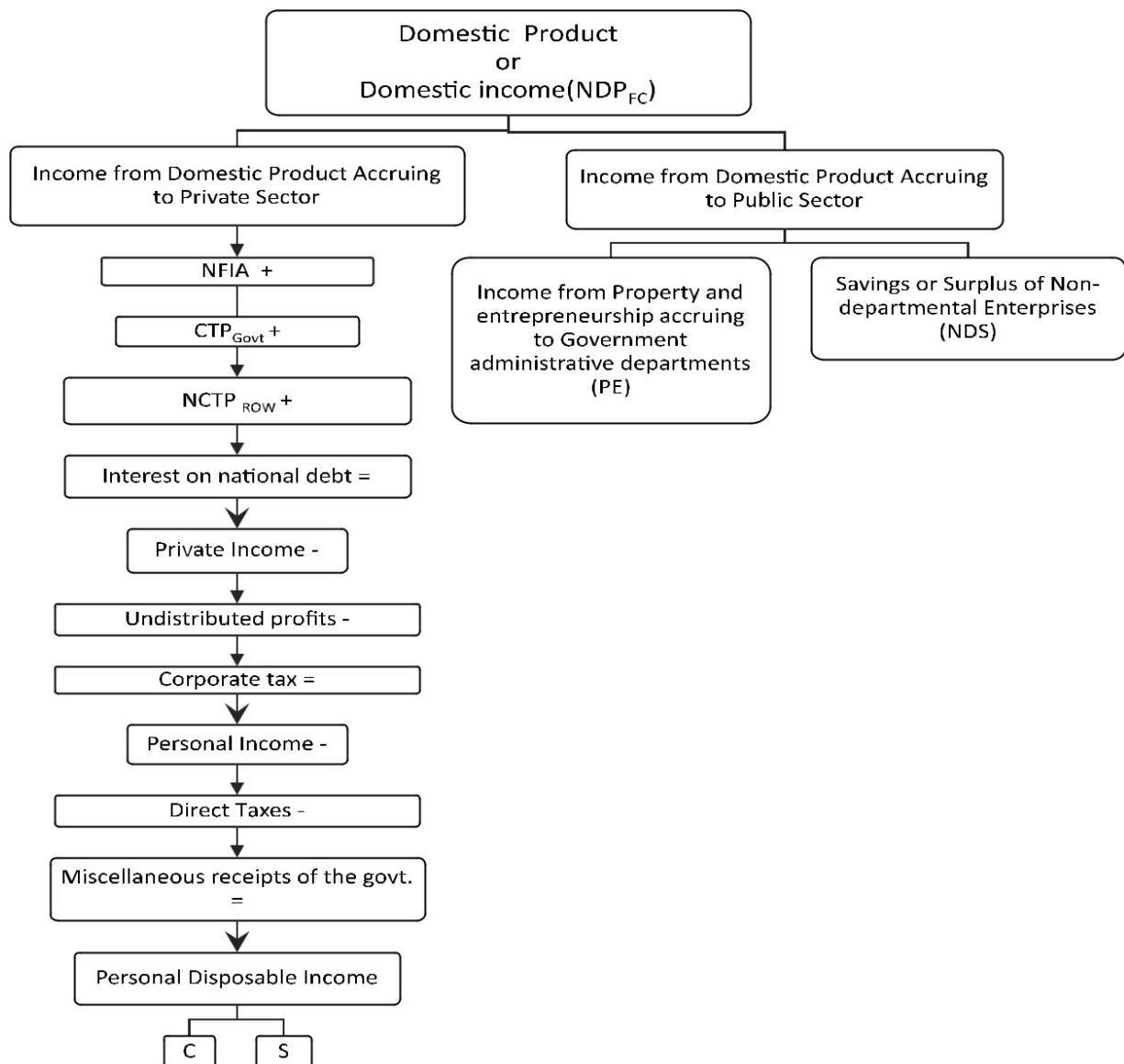


EXPENDITURE METHOD :









VERY SHORT ANSWER QUESTIONS

Q. Define the term Macro Economics.

Ans : It is that branch of economics which studies the aggregates of an economy or the larger units of an economy. The main objective of Macroeconomic study is 'how the income & employment of an economy is determined?' This branch of economics deals with the fuller utilization of resources.

Q. Define the term National Income.

Ans : It can be defined as the net value of all final goods & services produced by the normal residents in the domestic territory of a country in an accounting year (NVA_{FC}), and adding net factor income from abroad (NFIA). $NI = NVA_{FC} + NFIA$

Q. Who are Normal Residents?

Ans : This refers to those individuals & institutions who normally reside in a country for more than one year, and whose centre of economic interest lies in that country.

Q. Briefly explain the concept of Depreciation or Consumption of Fixed Capital (CFC).

Ans : It refers to the loss of value of fixed assets due to normal wear & tear.

SHORT ANSWER QUESTIONS

Q. Briefly explain the concept of Net Indirect Tax.

Ans : It refers to the difference between Indirect Tax paid by the enterprises to the Govt. & the Subsidies paid by the Govt. to some of the enterprises. This concept is used to obtain the national income at factor cost or factor prices. The NIT is deducted from market price (MP) to get factor cost (FC). **Indirect Tax** is the amount of burden whose impact falls on one person or a group and the incidence falls on other person or group. **Subsidies** refer to the financial assistance or aid provided by the state to the weak & sick units.

Q. Define the term Net Factor Income from Abroad & explain its components.

Ans : It is defined as the difference between income earned by the resident households in abroad & the same earned by the foreign residents in a resident country in an accounting year. In other words, it is the income earned from work, property & entrepreneurship by the resident household of a particular country in the ROW 'less' the same earned by the residents of ROW in a resident country in an year.

Components of NFIA: It contains **three** elements viz:

- i) **Net Compensation of Employees:** This refers to the income from work earned by the resident workers in the ROW 'less' the same earned by the resident workers of ROW in a resident country.
- ii) **Net Operating Surplus:** This refers to the difference between the income from property & entrepreneurship earned by the residents in ROW & the same earned by the foreign residents in a resident country.
- iii) **Net Retained Earnings of Resident Companies in Abroad:** It is the difference between the retained earnings of the resident companies abroad & the same of the foreign companies in a resident country.

Q. Define the following Concepts of Value of Output.

- Ans : 1. **Intermediate Cost / Consumption** is defined as the expenditure incurred on raw materials, fuel, semi-finished goods & other inputs by the firms to produce final products. It is the sum of purchase of raw materials & fuel purchased in domestic market & abroad (Import of raw materials). This amount has to be deducted from GVO to obtain GDP_{MP} , as the intermediate expenditure is not estimated in the estimation of NI to avoid the problem of double counting.
2. **Final sales** are the sum of domestic sales & sales made in abroad (Exports) & production for self-consumption.
 3. **Change in Stock** is defined as the difference between Closing Stock & Opening Stock.

Closing stock is the stock of raw materials, semi-finished goods, unsold finished goods been held by the enterprises; strategic materials & food grains held by the govt. agencies; & the livestock held by the animal husbandry, been estimated in the end of an accounting year i.e. 31st of March of a year.

Opening stock is the same estimated in the beginning on an accounting year i.e. 1st of April of a year.

LONG ANSWER QUESTIONS

Q. Explain the methods of measuring NI. Also state their precautions.

Ans : There are three methods to measure NI which is based on the principle of equality between income, expenditure & production. These methods are **i) Value Added or Product or Output method; ii) Income method; iii) Expenditure or Commodity Flow method.**

1. Value Added Method: By value added we mean the money value of final products produced by the normal residents in the domestic territory of a country. It is the difference between Value of Output & Intermediate Cost. Thus, **$VA = VO - IC$**

This method is based on the production of the country in a year. The following **steps** can be enumerated to explain this method:

- i) **Firstly** we **identify** the production units & **classify** them into three economic sectors viz. primary, secondary & tertiary sectors.
- ii) Then **we estimate** the money value of total production in each & every units, we **get GVO**.
- iii) **Thirdly**, we calculate the IC in every unit & deduct IC from VO to obtain VA, & after summing the VA of all the units, we get **GVA_{MP} / GDP_{MP}** .
- iv) Next we **deduct CFC & NIT from GVA_{MP} , we get NVA_{FC}** .
- v) Finally, we **add NFIA to NVA_{FC} to get NI/NNP_{FC}** .

Precautions: - The following precautions are required while using this method, viz.

- i) The **value of intermediate goods** should not be included, rather the value of only the final products to be included. Otherwise, the problem of double counting may arise.
- ii) The **value of second hand goods** is not to be included since the value of this goods have been already valued in the NI of those years when these goods have been manufactured & sold.
- iii) The **value of illegal goods** to be excluded because these goods have no legal sanction or authority to be produced or sold.
- iv) The **value of leisure items & non market goods** not to be included because it is difficult to keep accountability of these goods, & moreover, these goods are produced with not the motive of earning income.
- v) The **value of transfer payments** are to be excluded because these transactions do not contribute in the flow of income & product, rather these are transfer of ownerships.

2. Income Method: According to this method, the factor incomes have to be estimated, & then, after adding the total factor incomes generated in the domestic territory, we get domestic income. The domestic income is then has to be added to NFIA, we obtain NI. The following **steps** can be followed to measure NI by this method:

- i) Firstly, the factor incomes have to be identified & then classify them into CE, OS & MISE.
- ii) Then we add the total factor incomes generated in the domestic territory i.e. CE + OS + MISE, we get domestic income (NVA_{FC}).
- iii) Finally we add the domestic income to the NFIA, we get NI.

Precautions: The following precautions have to be considered while measuring NI by this method:

- a) The **transfer incomes** are not to be included because these transactions do not contribute to the flow of national production. For e.g., tax, gifts, donations, scholarships etc.
- b) The **incomes derived from illegal sources** are not to be included since the illegal activities are not backed by the legal sanction. For e.g., gambling, smuggling, theft & loot etc.
- c) The **incomes received after selling second hand goods** are not to be included but the **commission** earned by the broker is to be included because it is a factor income.
- d) The **income derived from leisure time activities** is not to be included because it is difficult to determine the actual price of leisure time goods.
- e) The **income earned by selling shares** is also not to be included since this is considered as the transfer income because these transactions are mere transfer of ownership of assets.

3. Expenditure Method: According to this method, NI is evaluated by estimating the final expenditure incurred by different economic units' viz. household, govt. & the enterprises. The following **steps** are to be followed:

- i) At first, the sources of final expenditure have to identified & classify them into Private Final Consumption Expenditure (**PFCE**), Govt. Final Consumption Expenditure (**GFCE**), Gross Domestic Capital Formation (**GDCF**), & Net Exports (**X-M**).
- ii) Then we estimate the above four components of final expenditure incurred in the domestic territory in an year & add all the four components, we get GDP_{MP} .
- iii) Next, we deduct CFC & NIT from GDP_{MP} , we get NDP_{FC} .
- iv) Finally, we add NFIA to NDP_{FC} , we get NI.

Precautions: The following precautions are to be taken:

- a). The **expenditure on intermediate goods** are not to be estimated, otherwise it may lead to problem of double counting. We must make sure that we are not including the intermediate expenditure.

- b). The **expenditure on second hand goods & scraps** is not to be included because it is already been included in the year when these goods have been manufactured, but the expenditure made on broker's service as commission is to be included.
- c). The **expenditure on transfer payments** is not to be included because this expenditure does not lead to production of goods & services in the economy.
- d). The **expenditure on illegal goods** is also not to be included because these goods are not been legally sanctioned.
- e). The **expenditure on products produced through leisure time activities & non market activities** is not to be included.

Q. Define the term Double counting with the help of an example.

Ans : It refers to the situation when the value of a good is estimated more than once. It is a problem which leads to overestimation of NI. The problem of double counting arises when the value of intermediate goods is included or the value of second hand goods is estimated. The problem of double counting can be avoided by adopting any of the two approaches viz. Final Goods & Value Added approach. In case of final goods approach it is difficult to differentiate between intermediate good & final good. As there are some goods which are final to some & intermediate to some. For example, pencil to a student is final good but to an artist it is simply an intermediate good. Thus, it is commendable to use value added approach to estimate the National income. This can help us to avoid double counting in the estimation of NI.

We can understand the concept of double counting with the help of following illustration:

Stages of production	Value of inputs	Value of output	Value Added
Farmer-Wheat	---	500	500
Flour Mill-Flour	500	700	200
Bakery-Bread	700	1000	300
Distributer	1000	1200	200
Total	2200	3400	1200

From the above table, we see that, suppose we need to estimate the value of production of bread, we have to estimate the value added by different producers but not the value of output which amounts to Rs.3400. If we include this value then the value of wheat is been valued more than once say 4 times which gives overestimated value of the wheat produced. So to avoid this kind of situation, we have to calculate the value added of the bread at every stage of its production which gives a precise and correct picture about the production of bread in the economy.

Q. Explain the related aggregates of National Income.

Ans : There are six related aggregates of NI as mentioned above in the chart.

1. **NDPfc accruing to private sector/Domestic product accruing to private sector/Share of private sector in domestic income** refers to that part of total domestic income which accrues to general public viz. household & firms. It is

obtained by deducting the share of Govt. in national income also referred to as NDPfc accruing to public sector from the NDPfc.

NDPfc accruing to private sector = NDPfc – NDPfc accruing to Govt.

NDPfc accruing to Public sector = Profits & Dividend accrued to Departmental enterprises + Savings of Non Departmental enterprises.

2. **Private income** refers to that part of domestic income which is accrued to all the residents from all the sources in a year. Thus, Private income = NDPfc + NFIA + Net Current Transfers From Abroad + National Debt Interest + Current transfers from Govt.

Q. How private income is different from National Income?

Private Income is the income generated from all sources ie it includes both factor & transfer incomes, while NI includes only factor incomes. Whereas, both includes NFIA.

3. **Personal income** refers to that part of private income which is accrued to only the household, & it can be obtained by deducting the income of firms ie corporation tax & retained earnings of private corporate sector.

Personal Income = Private Income – Corporation Tax – Undistributed profits

4. **Personal disposable income** refers to that part of personal income which is actually received by the household for disposal in consumption & savings. It is also equal to Household final consumption expenditure & household savings. Thus, Disposable income = Personal Income – Personal Tax – Miscellaneous Receipts of the Govt. administrative departments.

5. **Net National Disposable Income (NNDI)** refers to that part of National Income which is available with the nation for disposal. Thus,
$$\text{NNDI} = \text{NNPfc} + \text{Net Indirect Tax} + \text{Net current transfers from abroad}$$

6. **Gross National Disposable Income** is the national disposable income including depreciation. Thus,
$$\text{GNDI} = \text{GNPmp} + \text{NCTFA or NNPfc} - \text{depreciation} + \text{NIT} + \text{NCTFA}$$

Q. Differentiate between Real & Nominal GDP.

Ans : Nominal GDP is estimated at current price ie the market values of the prevailing year, while Real GDP is estimated at constant(base)price. Nominal GDP is helpful to measure the price fluctuations while Real GDP helps to measure & compare the economic growth & performance. The nominal GDP is so called because it reflects the growth of output in monetary terms as it includes price effect, whereas real GDP reflect the growth of output in real/physical terms & does not include the price effect.

Q. Which one is a better indicator of economic growth & why?

Ans : Real GDP as it does not include the price effect on the growth of output.

Q. What is meant by economic welfare? What is its indicator?

Ans : The term welfare means the sense of wellbeing. The economic welfare means the sense of wellbeing which are affected by the non-economic factors viz. NI, consumption expenditure etc. which can be expressed in monetary terms. Wellbeing of the people is

also affected by various non-economic factors viz. pollution, liberty etc. The economic welfare is indicated by Per Capita Real GDP.

Q. Explain the limitations of Per Capita Real GDP as Indicator of Economic Welfare. OR “The economic growth of a country is rising but most of the people are still poor & there is a huge environmental pollution.” Explain.

It has been found in many economies that despite of a faster growth in GDP, there are many such problems still exist in those countries like starvation, corruption, environmental degradation & ecological imbalance etc. This reflects the fact that Real Per Capita GDP has certain limitations as a good indicator of economic welfare. These are:

- 1. The growth in GDP does not reflect the fact about the distribution of income** among the people. It may so happen that few of the individuals are becoming richer while the rest are remaining poorer. This leads to widening of gap between the rich & poor. This finally hampers the economic growth & development.
- 2. The composition of goods & services** is not reflected in the growth of GDP. There may be rise in GDP but it is not certain that what kind of products have shown rise in production, whether war time goods or peace time goods, harmful products like liquor & tobacco or useful products like food grains etc. The economic welfare does not depend upon only the volume of production but also its composition. But the irony is that GDP reflects only the money value of volume but not the composition.
- 3. Non-monetary transactions:** viz services of housewives & other members rendered to the other members of the family etc. are not estimated in GDP due to lack of adequate data & difficulty in their valuation. Whereas, these services contribute to economic welfare in many ways, & thus it remains underestimated.
- 4. The Externalities are not taken into account while estimating GDP.** The economic activities lead to various kinds of benefits as well as harms to human being. The benefits are referred to as positive externalities while the harms are referred to as negative externalities. For example, construction of a highway or flyover reduces transport costs & journey time to those who have not contributed towards the cost of construction. This is not reflected in GDP, & thus welfare is underestimated. Similarly, the negative externality is also associated viz. pollution & global warming etc. The construction of flyover & highways do not pay anything for this harm caused to the people of that vicinity. Here, welfare is less than what is indicated by GDP.

Q. How Real GDP is derived?

Ans : $\text{Real GDP} = \text{Nominal GDP} / \text{Price Index} \times 100$

Q. Explain the circular flow of Income & Product (two sector model).

Ans : Circular flow refers to the cyclical transactions of income & expenditure (money flow) & goods & services (real flow) among the economic sectors viz. household, enterprises, Govt. & foreign sector.

Q. How are the following treated while estimating private final consumption expenditure Give reasons for your answer.

Ans : 1. Exports; 2. Direct purchases made abroad by resident household; 3. Final consumption expenditure of non-profit institutions serving households; 4. Change in stocks.

Ans: 1. Exports will not be included in private final consumption expenditure as exports do not reflect consumption expenditure by residents. 2. It will be included in private final consumption expenditure as such purchases are meant for consumption. 3. It will be included in private final consumption expenditure as non-profit institutions serving households are a component of household sector. 4. It will not be included in private final consumption expenditure as it is a component of capital formation.

Q. Differentiate between stock & flow.

Ans : Stock refers to those variables which are measurable at a given point of time while flow refers to those variables which are measurable during a given a period of time. In this way, stock is static while flow is dynamic. Stock has no time dimension while flow has. For eg. Wealth is stock while income is flow, capital is stock while capital formation is flow.

Multiple Choice Questions

1. In the production of sugar, sugarcane is
- | | |
|--------------------------|--------------------|
| (a) a final good | (b) a capital good |
| (c) an intermediate good | (d) none of these |

Ans. (c)

2. Capital goods are those goods
- | |
|---|
| (a) which are used in the production process for several years; |
| (b) which are used in the production process for few years; |
| (c) which involve depreciation losses; |
| (d) both (a) and (b) |

Ans. (d)

3. Which of the following leads to depreciation?
- | | |
|---------------------------------|---------------------------|
| (a) Normal wear and tear | (b) Damages due to floods |
| (c) Damages due to market-crash | (d) None of these |

Ans. (a)

4. 'Income of the family' is the example of which variable?
- | | |
|-------------------------|----------------------------|
| (a) Stock | (b) Flow |
| (c) Both stock and flow | (d) Neither stock nor flow |

Ans. (b)

5. A quantity measured per unit of time period is known as
- | | |
|--------------------|-------------------|
| (a) Stock variable | (b) flow variable |
| (c) inventory | (d) none of these |

Ans. (b)

6. Which one of the following is a flow variable?
- (a) Consumption (b) Wealth
(c) Quantity of money (d) None of these

Ans. (a)

7. GNP at Market Price is measured as:
- (a) GDP at Market Price – Depreciation;
(b) GDP at Market Price + Net Factor Income from Abroad
(c) GDP at Market Price + Subsidies;
(d) NDP at Factor Cost + Net Factor Income from Abroad

Ans. (b)

SHORT ANSWER QUESTIONS

1. Define intermediate goods.

Ans : Intermediate goods are those goods which are within the boundary line of production and not ready for use by their final users. These goods are purchase for further sale or are to be use as raw material by the producers.

2. What is meant by producer goods?

Ans. Producer goods are those goods which are used for further production. These may be used either as raw material(like wood used in making chair) or as fixed assets (like a tractor in farming).

3. What is meant by capital goods?

Ans. Capital goods are those goods which are used in the process of production for several years and which are of high value. These goods are fixed assets of the producers.

4. What is fixed investment?

Ans. Fixed investment refers to increase in the stock of fixed assets or capital goods (like plant and machinery) of the producers during an accounting year.

5. What do you mean by inventory investment?

Ans. Change in inventory stock during the year is called inventory investment of the producer.

6. What is meant by consumption of fixed capital?

Ans. Consumption of fixed capital or depreciation refers to loss of value of fixed assets in use on account of: 1. Normal wear and tear; 2. Normal rate of accidental damage, and 3. Expected or foreseen obsolescence.

7. Define depreciation reserve fund?

Ans. Depreciation reserve fund is a provision of funds to cope with depreciation losses. These fund are used for the replacement of fixed assets when these are worn-out or when these become obsolete/outdated.

1. Define real flow.

Ans. Real flow refers to the flow of factor services from the household sector to the producing and the corresponding flow of goods and services from the producing sector to the household sector.

2. Define money flow.

Ans. Money flow refers to the flow of money (in term of receipts and payment) across different sectors of the economy. It is called money flow because it involves the flow of money value from one sector to the other. Thus, producers make sector payment to the households and household make payment to the producers (for the purchase of goods and services) in term of money.

3. Should purchase of wheat in the wholesale market be treated as the purchase of final goods?

Ans. Purchase of wheat in the wholesale market is often done by the trader. Wheat is a consumption goods and traders are not the final users of wheat. Therefore, purchase of wheat in the wholesale market is to be treated as the purchase of intermediate goods. However, sometimes the households buy wheat in bulk from wholesale market. In such situation, purchase of wheat should be treated as purchase of final good.

4. What is national debt interest?

Ans. National debt interest refers to the interest payment accruing to residents of the country on account of borrowings by the govt. The government borrows money from the people (by issuing bond like National Saving Certificates in India).

5. What is meant by transfer payment?

Ans. Transfer payment (or transfer expenditure) are all those unilateral payment corresponding to which there is no value addition in the economy.

6. What is meant by nominal GDP?

Ans. Nominal GDP refers to market value of the final goods and services produced

Q. How will you treat the following in the calculation of gross domestic product of India? Give reasons for your answers.

(i) **Profit earned by a branch of foreign Bank in India.**

(ii) **Salaries of Indian employees working in embassy of Japan in India**

(iii) **Salaries of residents of Japan working in Indian embassy of Japan**

ANS. (i) Yes, it will be included in the gross domestic product of India as profits are earned within the domestic territory of India.

(ii) No, it will be not included in the gross domestic product of the India as the embassy of japan is not the part of domestic territory of India.

(iii) Yes, it will be included in the gross domestic product of India as the India embassy is the part of domestic territory of India.

Q. Classify the following expenditures as intermediates consumption expenditures and finals consumption expenditures.

- (i) Expenditure on research and development by TATA on Nano car.
- (ii) Insurance premium paid by a firm to an insurance company.
- (iii) Insurance premium paid by households to an insurance company.
- (iv) Expenditure on repairs and maintenance of plant and machinery.
- (v) Expenditure incurred by a firm on purchase of equipment.
- (vi) Advertising expenditure incurred by Airtel on promotion of its product.
- (vii) Business expenses of employees on tour and entertainment.

Ans: Intermediates consumption expenditure: (i), (ii), (iv), (vi), (vii); final consumption expenditure: (iii), (v).

TRUE & FALSE

1. Nominal GDP can never be less than real GDP.

FALSE: nominal GDP can be less than the real GDP, if price in the current year are less than the price in the base year.

2. Good produced for self-consumption will be included in national income.

TRUE: such goods contribute to the current output and their imputed value will be included in national income.

3. Increase in stock of goods held by a consumer will contribute to capital formation.

FALSE: any increase in goods of stock held by consumers does not contribute to capital formation as it is assumed that such goods are consumed, the moment are purchased.

4. Gross domestic capital formation is always greater than gross fixed capital formation.

FALSE: gross domestic capital formation can be less than gross fixed capital formation if change in stock is negative.

5. Productions of services for self-consumption are not included in national income.

TRUE: Such services are not included in national income as it is difficult to ascertain their market value and they are not rendered for earning income.

Q. From the information given below, calculate: 1. Value added by firm A and firm B; 2. GDPmp; 3. NVAfc

Particulars	in crores
i. Sales by firm B to general government	100
ii. Sales by firm A	500
iii. Sales by firm B to households	350
iv. Change in stock of firm A	20
v. Closing stock of firm B	40
vi. Opening stock of firm B	30
vii. Purchases by firm A	320
viii. Indirect Taxes paid by both the firms	75
ix. Consumption of fixed capital	120
x. Sales by firm A to B	200

Solution: Value added by firm A

$$= \text{Sales by firm A} + \text{Change in stock of firm A} - \text{Purchases by firm A from firm C}$$

$$= 500 + 20 - 320; = 200 \text{ crores Answer}$$

Value added by firm B=Sales by firm B to general government + sales by firm B to households + (Closing stock of firm B – Opening stock of firm B) – Purchases by firm B from firm A

$$= 100 + 350 + (40-30) -200; = 260 \text{ crores Answer}$$

Gross Domestic product at market price

$$= \text{value added by firm A} + \text{Value added by firm B}; = 200 + 260; = 460 \text{ crores Answer}$$

Net value added at factor cost

$$= \text{GDPmp} - \text{CFC} - \text{Indirect Taxes paid by both the firms}; = 460 - 120 -75; = 265 \text{ crores Answer}$$

Q. Calculate 'Sales' from the following data:

Particulars	Rs. lakhs
i. Net value added at factor cost	300
ii. Intermediate consumption	200
iii. Indirect tax	20
iv. Depreciation	30
v. Change in stocks	(-) 50

Solution:

Sales= Net value added at factor cost – Change in stocks + Intermediate consumption + depreciation + Indirect tax; =300 – (-) 50 + 200 + 30 + 20; =600 lakhs Answer

- Q.** Firm A buys from X inputs worth Rs.500 crores and sells to firm B goods worth Rs.1000 crores and to firm C goods worth Rs.700 crores. Firm B buys from Y inputs worth Rs.200 crores and sells to firm C goods worth Rs.1500 crores and finished goods worth Rs.2000 crores to households. Firm C buys from Z inputs worth Rs.150 crores and sells finished goods worth Rs.4,150 crores to households. Calculate value added by firms A, B and C and GDP_{MP}

Solution:

Firm	Value of output (VO)	Intermediate consumption (IC)	Value Added (VA = VO – IC)
A	Sales to B: 1,000 + Sales to C: 700	Purchase from X: 500	1,200
B	Sales to C: 1,500 + Sales to households: 2,000	Purchase from A: 1,000 + Purchase from Y: 200	2,300
C	Sales to households: 4,150	Purchase from A: 700 + Purchase from B: 1,500 + Purchase from Z: 150	1,800

$$\text{Value added by firm A} = \text{GVAMP of A} = \text{Rs.1,200 crores}$$

Value added by firm B = GVAMP of B = Rs.2,300 crores
 Value added by firm C = GVAMP of C = Rs.1,800 crores
 $GDPMP = \sum GDAMP = 1,200 + 2,300 + 1,800 = Rs.5,300 \text{ crores}$

Q: Calculate National Income by Income and Expenditure method.

Particulars	in crores
i. Final Consumption Expenditure	
Private Sector	350
Government Sector	100
ii. Mixed income of self-employed	35
iii. Gross domestic fixed capital formation	70
iv. Opening stock	15
v. Compensation of employees	250
vi. Closing stock	25
vii. Imports	20
viii. Rent	75
ix. Consumption of fixed capital	10
x. Net indirect taxes	25
xi. Interest	25
xii. Net factor income from abroad	-5
xiii. Exports	10
xiv. Profit	100

Solution:

National Income by Income method

= Mixed income of self-employed + Compensation of employees + Rent + Interest
 + Profit + Net factor income from abroad
 = $35 + 250 + 75 + 25 + 100 + (-5) = 480 \text{ crores}$

National income by Expenditure method

= Final consumption expenditure of Private sector + Final consumption expenditure of government sector + Gross domestic fixed capital formation + (Closing stock – Opening stock) + Net Exports – Consumption of fixed capital + Net Factor Income from abroad - Net Indirect Tax
 = $350 + 100 + 70 + (25 - 15) + (10 - 20) - 10 + (-5) - 25 = 480 \text{ crores}$

Q: From the following data, calculate (a) Gross Domestic Product at Factor Cost and (b) Factor Income To Abroad:

Particulars	in crores
i. Compensation of employees	800
ii. Profits	200
iii. Dividends	50
iv. Gross national product at market price	1,400
v. Rent	150
vi. Interest	100
vii. Gross domestic capital formation	300
viii. Net fixed capital formation	200
ix. Change in stock	50
x. Factor income from abroad	60
xi. Net indirect taxes	120

Solution:

(a) Gross Domestic Product at Factor Cost

$$\begin{aligned}
 &= \text{Compensation of employees} + \text{Profit} + \text{Rent} + \text{Interest} + \text{Depreciation}^* \\
 &= 800 + 200 + 150 + 100 + 50; = 1,300 \text{ crores}
 \end{aligned}$$

(b) Factor Income To Abroad

$$\begin{aligned}
 &= \text{Factor income from abroad} - \{ \text{Gross national product at market price} - (\text{Gross Domestic Product at Factor Cost} + \text{Net indirect taxes}) \} \\
 &= 60 - \{ 1,400 - (1,300 + 120) \}; = 80 \text{ crores}
 \end{aligned}$$

Q. The net domestic product at market price of an economy is Rs 4,500 CRORES. The capital stock is worth Rs 4,000 CRORES and it depreciates at the rate of 10% per annum. Indirect taxes amount to Rs 150 CRORES, subsidies amount to Rs 20 CRORES, factor income from the rest of the world is Rs 400 CRORES and to rest of the world is Rs 600 CRORES. Find out the gross national product at factor cost.

Solution: Gross National product at Factor Cost (GNP FC)

$$\begin{aligned}
 &= \text{Net Domestic Product at Market price} + \text{Depreciation} - \text{Net Indirect} \\
 &\quad \text{Net Factor income from abroad} \\
 &= 4,500 + 10\% \text{ of } 4,000 - (150 - 20) + (400 - 600) \\
 &= 4,500 + 400 - 130 - 200; = \text{Rs. } 4,750 \text{ CRORES}
 \end{aligned}$$

Q2. Calculate Private Income.

	PARTICULARS	RS IN CRORES
(1)	Net domestic product at factor cost	
	(a) Private sector	1,200
	(b) Government sectors	400
(2)	Net current transfers from the rest of the world	200
(3)	Current transfer from Government	100
(4)	Interest on national debt	500
(5)	Net factor income from abroad	50

Solution: = Net domestic Product at Factor cost Private Sector + Net factors income from Abroad+ Net current transfer from the rest of the world + Current transfer from Government+ Interest on national debt

$$= 1,200+50+200+100+500 = \text{RS } 2,050 \text{ CRORES}$$

Q. Calculate from the following data: (a) Net National Disposal Income ;(b) Private Income; (c) Personal Disposal Income.

	PARTICULARS	RS IN CRORES
(1)	National income	800
(2)	Indirect taxes	70
(3)	Subsidies	10
(4)	Saving of non-departmental enterprises	30
(5)	National debt interest	50
(6)	Net factor income from abroad	(-)20
(7)	Consumption of fixed capital	40
(8)	Current transfer from the rest of the world	45
(9)	Income from property and entrepreneurship accruing to government administrative departments	60
(10)	Direct taxes paid by Households	40
(11)	Profits	100
(12)	Saving of private corporate sector net of retained earnings of foreign companies	80
(13)	Current transfer from government administrative departments	90
(14)	Corporation tax	25

Solution:

$$(A) \text{ Net National Disposal Income} = (1) + \{(2) - (3)\} + (4); = 800 + \{70-10\} + 45 = \text{RS } 905 \text{ Cr}$$

$$(B) \text{ Private income} = (1) - (4) - (9) + (5) + (13) + (8); = 800 - 30 - 60 + 50 + 90 + 45; \\ = \text{RS } 895 \text{ CR}$$

$$(C) \text{ Personal Disposal Income} = \text{Private income} - (12) - (14) - (10) = 895 - 80 - 25 - 40 \\ = \text{RS } 750 \text{ CR}$$

Q. Calculate the Gross Domestic Product at Market Price.

	PARTICULARS	RS IN CRORES
(1)	Net Factors income from abroad	300
(2)	Subsidies	350
(3)	Saving of Private Corporate sector	940
(4)	Income from entrepreneurship and property accruing to government administrative department	2,100
(5)	Current transfer from rest of the world	1,885
(6)	Corporation tax	1,200
(7)	Personal Savings	15,500
(8)	Interest on national debt	1,600
(9)	Net indirect taxes	12,065
(10)	Net Private donation from abroad	150
(11)	Personal final consumption expenditure	56,565
(12)	Consumption of fixed capital	7,050
(13)	Direct taxes paid by households	2,000
(14)	Current transfers from government	2,500

Solution: Gross Domestic Product at Market Price

$$= (8) + (9) + (13) + (6) + (3) - (5) - (14) + (4) - (1) + (12) + (9)$$

$$= 15,500 + 56,565 + 2,000 + 1200 + 940 - 1,885 - 1,600 - 2,500 + 2,100 - 300 + 7,050 + 12,065 = \text{RS } 91,135 \text{ CR}$$

Q. Calculate NNP at MP and Personal Disposable Income.

	PARTICULARS	RS IN CRORES
(1)	Net Domestic Product at factor cost	15,480
(2)	Income from domestic product accruing to government	140
(3)	National debt interest	170
(4)	Transfers payments by government	240
(5)	Net private donations from abroad	30
(6)	Net earned income from abroad	80
(7)	Indirect taxes	1,330
(8)	Subsidies	100
(9)	Direct taxes on Non-corporate sector	335
(10)	Tax on corporate profits	222
(11)	Undistributed profits of corporation	105

Solution: NNP at MP= (1) + {(7) - (8)}+ (6); = 15,480 - {1,330 - 100}+ 80; = RS 16,790 CRORES

Personal Disposable Income=NDPFC - (2) + (3) + (4) + (5) + (6) - (10) - (11) - (9)

$$= 15,480 - 140 + 170 + 240 + 30 + 80 - 222 - 105 - 335; = \text{RS } 15,198 \text{ CRORES}$$

Q. Whether the following items will be included in National Income? Give reasons for your answer.

1. Payment of electricity bill by a factory.
2. Dividend on shares.
3. Increase in stock of consumer goods with households.
4. Bus fare of a passenger.
5. Gains from sale of shares.
6. Rent earned by Reliance from its building in USA.
7. Gifts from Abroad.
8. Retained earnings of resident companies from abroad.
9. Expenses of foreign visitors in India.
10. Gifts to a trust from Japan.

1. No, it is a part of intermediate consumption expenditure.
2. Yes, it was, as it is a part of profits.
3. No, as it is assumed that such goods are consumed, the moment they are purchased.
4. Yes, it is a part of private final consumption expenditure.
5. No, as it is a capital gain
6. Yes, it is a factor income from abroad.
7. No it is a transfer income,
8. Yes, it is a factor income from abroad.
9. Yes, it is a part of Net exports.
10. No, it is a current transfer from rest of the world

Q. In the determination of social welfare what matter is the quantum of output rather than the composition of output? Defend or refute.

Ans. The above statement is incorrect. Social welfare depends both on the quantum of output as well as the composition of the output. If goods are produced primarily for richer section of the society (ignoring the interest of poorer section of the society) social welfare is bound to remain low even when the quantum of output is rising.

Q. Why are exports included in the estimation of domestic income?

Ans. Exports are included in the estimation of domestic income because exports are the parts of domestically produced goods & services, or because exports are part of goods & services produced within the domestic territory of a country.

Q. Why are imports consider as a negative item in the estimation of domestics income?

Ans. Imports are consider as a negative item in the estimation of domestic income because imports are not an expenditure on the domestic produced goods and services in an accounting year. It is an expenditure on the goods produced aboard.

Q. Is brokerage paid to real estate agents only on the sale and purchase of new houses include in the

Ans. No, brokerage paid to real estate agent only on the sale and purchase of new as well as second – hand house should be included in the estimation of national income.

Q. In the estimation of GDP (using expenditure method), we focus only on expenditure by the resident of a country. Is it true?

Ans. No, it is not true. In the estimation of GDP we include all expenditure on the domestically produce goods both by the resident as well nonresidents of a country.

UNIT - VI

MONEY & BANKING

(Marks: 8)

KEY CONCEPTS

Money: - Money is anything that has the general acceptability as a common medium of exchange & as a common measure of the value of the commodities.

Barter system: - It refers to the exchange of goods for goods. In other words, it refers to the direct exchange of goods & services with another.

Money Supply: - It refers to the total stock of money in an economy at any point of time, held by the general public. $M = C + DD$

Commercial bank: - A Commercial bank is a financial institution which performs the function of accepting deposits from the public & advancing loans.

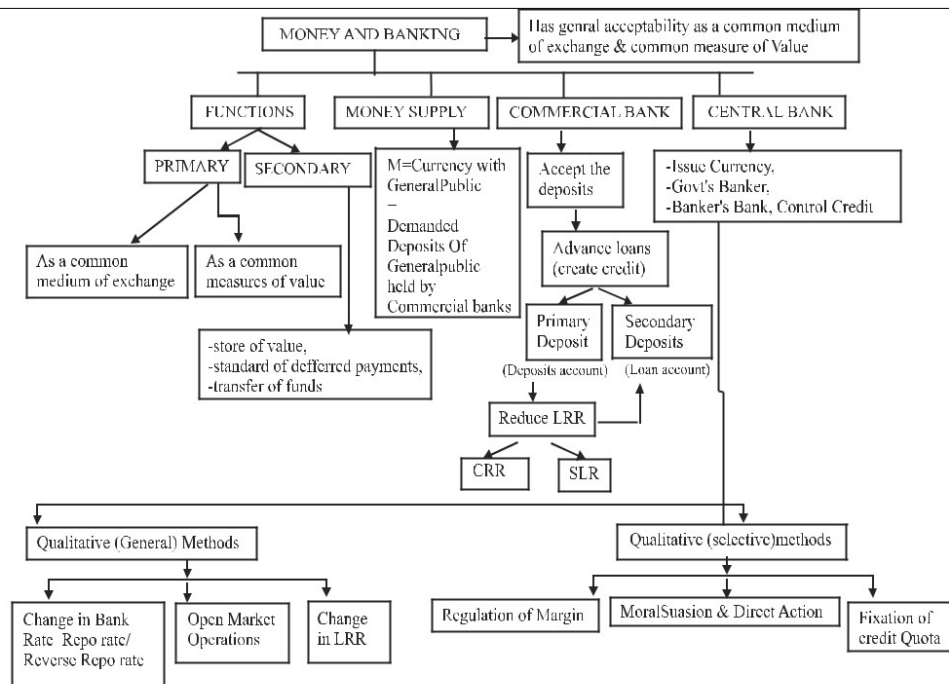
Legal Reserve Ratio: It refers to the minimum portion of total net demand & time deposits of Commercial Banks which have to be maintained with Central Bank & themselves as cash liquid assets.

Cash Liquidity Ratio: It refers to that minimum portion of total net deposits of Commercial Banks which have to be maintained with Central Bank.

Statutory Liquidity Ratio: It refers to that portion of total deposits which have to be maintained by the Banks themselves in the form of liquid cash assets against the securities of Govt. & RBI. **Repo rate** refers to the interest paid by the Commercial Banks to RBI against the loans & advances taken by them from RBI to meet the short term needs

Reverse Repo Rate refers to the interest received by the Commercial Banks from the Central banks against the parking of funds by the commercial banks.

Credit Multiplier refers to the amount by which the initial deposit multiplies into a larger amount of final deposits. It is equal to $1/LRR$. Thus, credit multiplier is inverse to LRR.



Q. What is Money?

Money is anything that has the general acceptability as a common medium of exchange & as a common measure of the value of the commodities.

Q. What is Barter system?

It refers to the exchange of goods for goods. In other words, it refers to the direct exchange of goods & services with another.

Q. Define the term Money Supply & state its constituents.

It refers to the total stock of money in an economy at any point of time, held by the general public i.e. the private individuals and business firms (money is in disposable form). In other words, it is the amount of money which is in circulation in an economy at a given point of time. The two constituents of money supply are currency held by the general public & demand deposits of general public held by the Commercial Banks. Thus, $M1 = C + DD + O$

Q. Define the term Commercial bank.

A Commercial bank is a financial institution which performs the function of accepting deposits from the public & advancing loans. These banks act as the financial intermediary between the idle resources & the productive sources of resources.

Q. What are the different types of deposits held by the Commercial Banks?

- a) Current account deposits or Chequeable deposits which are payable on cheques & the depositors can withdraw their deposits whenever they like. This account is generally maintained by the traders for day to day transactions. The banks pay no interest on this deposit.
- b) Saving Account deposits are those deposits on which the bank pays interest which is less than the interest paid on the fixed deposits. The bank imposes some restrictions on their withdrawal. The purpose of this deposit is to encourage & mobilize the small savings.
- c) Fixed or Time Deposits refers to the deposits which are accepted for the specified period & which are not payable on demand before the expiry of the period. The bank pays a relatively high rate of interest on this deposit.

The variant of this deposit is Recurring Deposit whose purpose is to encourage regular savings by the people. This deposit is based upon the installment payment for a fixed period of time on which the interest is paid after maturity of the account.

Define the term Central Bank & explain its functions.

A Central Bank is an apex institution which directs, controls, regulates & supervises the monetary system of a country. Central bank is the monetary authority which leads all banking & non – banking institutions. The name of the Central bank in India is Reserve Bank of India (RBI) which is established in 1935. The RBI occupies the highest position in the money & capital market.

Functions

1. *It has the monopoly of issuing currency notes.* It has the exclusive right to issue the currency notes in the country which leads to the uniformity of the currency throughout the nation. Moreover, this enables it to have a total control over the total money supply of the country which leads to the strengthening of the monetary policy during the crisis time.

2. *It act as a banker of the govt.* as it accepts the deposits of the govt. & makes payment on behalf of the it, gives financial advices, & advances the loans in the crisis times, remit the surplus funds of Govt., purchase & sell Govt. securities on its behalf.
3. *It acts as a banker's bank* in the form of lender of last resort, facilitate clearing house facilities & remit the surplus funds, supervise the banking activities & regulates credit-deposits of the Banks. Since RBI is the guardian of all the banks, the banks can get the benefit of easy & early credit during their financial requirements. As a facilitator of clearing, the RBI makes early settlement of financial claims & debts of the banks. As a result, the banks don't face any problem of cash liquidity, & thus they need not to remain depended on the bank credit or capital funds of the banks. As a regulator & supervisor, the banks are not in the position of any malpractice & the entire banking system remains transparent & accountable to public.
4. *It acts as a custodian of gold reserves* & the nation's stock of foreign exchange reserve. The purchase & sale of Gold & foreign exchange at the global level is done by RBI only. As a custodian, RBI is responsible for maintaining the stock of gold & forex reserves & the determination of their prices.
5. *It acts as a controller of credit* which is one of the most important functions. Since it is an apex institution, therefore can play an effective role to combat or correct the inflationary or deflationary pressures of an economy. The RBI controls credit by using Quantitative(General) & Qualitative(Selective) credit control methods. The tools under quantitative methods are Bank/Repo rate, Reserve repo rate, CRR & SLR, Open market operations. Under selective methods, RBI use Margin, credit quota & rationing, moral suasion & direct action etc.
6. *It promote the economic growth & development* of the country by erecting the financial institutions in the rural areas, providing direct loans to the farmers, framing the policies in favour of trade & industry, collect the economic information's & publish through its various journals which further helps the govt. & other institutions to adopt the correct policies etc.

Q. Explain how does a Commercial Bank creates credit(money supply).

Credit creation by the banks is determined by (i) the amount of initial deposits and ii) the legal reserve ratio (LRR). It is assumed that all the money that goes out of banks is redeposit into the banks, and LRR consists of CRR & SLR.

A Commercial Bank accepts deposits from general public & create a primary account deposit. This creates liability for the bank & asset for the depositor. It is also referred to as active deposit. From the active deposits the banks deduct the legal reserves to be kept in Central Bank (RBI), & the rest (excess reserves) are used in loans & investment. When a bank give loans & advances, it creates another deposit known as derivative deposits or secondary account deposits on the name of debtor. This leads to creation of new primary account, & thus the new primary deposits keeps on increasing until the credit multiplier stops working. Greater the LRR, smaller the amount of total final deposits, & vice versa.

An Illustration to explain the process of credit creation:

Let the LRR be 20% and there is a Fresh/Primary/Initial/Deposit Account of Rs 10000. The banks keep 20% ie Rs 2000 as cash and lend the remaining Rs 8000 to a borrower by opening a new account, called as Loan/Secondary/Derived Account.

ROUNDS	INITIAL DEPOSIT	LRR	SECONDARY DEPOSIT
1	10000	2000	8000
2	8000	1600	6400
-	-	-	-
-	-	-	-
-	-	-	-
TOTAL	50000	10000	40000

Here we assume that all the banking transactions will be through monetary instruments viz cheques etc.

As assumed, the amount of Rs 8000 will come back to the banks as fresh deposit from which once again the bank will keep 20% ie Rs.1600 as LRR and rest Rs 6400 will be lend to some other borrower. The bank now creates another secondary account which will once again become a primary account. This process continues and the money goes on multiplying till the sum of LRR and the fresh deposit amount is same or the new deposit becomes nil. Finally, when we add the total money creation, we get Rs 50000 as the total deposit creation.

Total credit creation = Initial deposit X 1/LRR = 10000 X 1/20% = 10000 X 100/20 = Rs 50000

Q. Define the terms LRR, CRR, SLR, Repo & Reverse Repo rate, Credit Multiplier. Legal

Reserve Ratio: It refers to the minimum portion of total net demand & time deposits of Commercial Banks which have to be maintained with Central Bank & themselves as cash liquid assets. There are two legal reserves viz. CRR & SLR.

Cash Liquidity Ratio: It refers to that minimum portion of total net deposits of Commercial Banks which have to be maintained with Central Bank. During inflation or deflation, the CRR is regulated by RBI to control inflation or deflation. During inflation, CRR is increased to restrict the credit by making it dearer, while it is reduced during deflation to expand the money supply in the economy by making it cheaper.

Statutory Liquidity Ratio: It refers to that portion of total deposits which have to be maintained by the Banks themselves in the form of liquid cash assets against the securities of Govt. & RBI.

Repo rate ie Repurchase rate of interest refers to the interest paid by the Commercial Banks to RBI against the loans & advances taken by them from RBI to meet the short term needs. By changing Repo rate, RBI can regulate the money supply. It is different to Bank Rate in a way that Bank rate is charged against the loans taken by commercial banks for long term needs.

Reverse Repo Rate refers to the interest received by the Commercial Banks from the Central banks against the parking of funds by the commercial banks. By increasing RRR, the RBI can encourage the Commercial Banks to park more funds so as to restrict the money supply in the economy. By reducing RRR, the RBI discourages the parking of funds which helps to induce more credit in the economy to resolve the issue of deflation.

Credit Multiplier refers to the amount by which the initial deposit multiplies into a larger amount of final deposits. It is equal to 1/LRR. Thus, credit multiplier is inverse to LRR.

Multiple Choice Questions

Select the correct answer of the following questions:

1. Which of the following is related to barter system of exchange?
 - a. Double coincidence of wants;
 - b. Common unit of value;
 - c. Limited exchange;
 - d. Both (a) and (c)

Ans: (d)

2. Out of the following, which is the primary function of money?
 - a. Store of value;
 - b. Transfer of value;
 - c. Measure of value;
 - d. Bases of credit

Ans: (c)

3. Which of the following systems governs note issuing in India?
 - a. Proportionate system;
 - b. Minimum reserve system;
 - c. Fixed fiduciary issue system
 - d. Simple deposit system

Ans: (b)

4. In India, suppliers of money are:
 - a. Government of the country;
 - b. Banking system of the country;
 - c. Both (a) and (b);
 - d. None of these

Ans: (c)

5. Which of the following is not concerned with banking organization?
 - (a) Bank rate;
 - b. Fiscal deficit;
 - (c) Credit creation;
 - d. Cash reserve ratio

Ans: (b)

HOTS QUESTIONS

Q. What do you mean by double coincidence of wants?

Ans. Double coincidence of wants means that goods in possession of two different individual are needed by each other at the same time.

Q. Define credit multiplier.

Ans. Credit multiplier refers to the ratio between change in demand deposit and change in cash reserves of the commercial banks with the RBI.

Credit multiplier = $\frac{\text{Change in demand deposit of the Commercial banks}}{\text{change in cash reserves of the commercial banks with the RBI}}$

Q. Define margin requirement.

Ans. Margin requirements refer to the difference between market value of the security offered for loans and the amount banks of loans offered by the commercial banks.

Q. How is quantitative credit control different from qualitative credit control?

Ans. Quantitative credit control refers to overall credit control in the economy, affecting all sectors of the economy equally and without discrimination. Qualitative credit control refers to selective credit control that focuses on allocation of credit to different sector of economy. Flow of credit is encouraged to the priority sectors, while it is discouraged to the non-priority sectors.

Q. How improvement in banking habits of the people pushes up credit availability from the commercial bank?

Ans. When banking habits of the people improve, they start holding less money as cash-in-hand. Instead more and more money is deposited with the commercial bank. Accordingly, cash reserves of the commercial bank start rising. Higher cash reserve of the bank enable them to deposits more funds with the RBI as CRR – deposits. If CRR remains constant higher CRR- deposits with the RBI gives the commercial bank the legal authority to create more credit by way of loans/credit. Accordingly, availability of credit from the commercial bank is increased.

Q. How can 'Jan-Dhan Yojana' used as an instrument to increase supply of money by the commercial banks?

Ans. A large section of the population in India does not have their bank accounts. 'Jan- Dhan Yojana' prompts people to open their bank accounts. When more and more accounts are open then some of the cash balances with the people (or idle cash lying with the people) are bound to reach the banking system as cash deposits or primary deposits. This increase enables commercial banks to increase their cash reserves with the central banks. If ΔCR (additional cash reserves with RBI) = Rs10,000 and if $CRR=4\%$ then the additional demand deposit the bank can create = $1/4\% * 10,000 = Rs 2,50,000$. This is how 'Jan-Dhan Yojana' may be used as an instrument to increase the supply of money by the commercial banks.

Q. Why has the government in India failed to combat inflation even when a series of monetary measures are available in the textbook of macroeconomics?

Ans. Monetary measures of combating/ controlling inflation focus largely on moderating/ lowering the demand for goods and services by making the availability of credit costlier and difficult. It does not address supply side of the problem. While the fact of the matter is that in India inflation has often been triggered by the low market supplies. Unless supplies are boosted (particularly the supply of farm output) we shall continue to wrestle with inflation without training it.

Q. How in your opinion, credit creation by the commercial banks accelerates the pace of economic growth? Write two observations.

Ans. Following observations may be noted in this regard:

Observation 1: Credit creation accelerates the process of growth by expanding the availability of credit for purpose of investment.

Observation 2: Credit creation contribute to the process of growth by expanding size of the market (or aggregate demand), as the availability of credit for the purchase of consumer durables increases.

Macro Economics

Determination of income & Employment (Marks: 12)

KEY CONCEPTS:

Aggregate Demand (AD)/ Aggregate Expenditure: -It refers to the sum total of demand made by all the economic units in the economy at a given point of time. It can be also defined as the total expenditure incurred by the household, government, & enterprises of the economy at a given point of time.

Marginal Propensity to Consume (MPC): It refers to the ratio of change in consumption by change in disposable income. The value of MPC always lies between 0 and 1 i.e. $0 < MPC < 1$. It is obtained by $\Delta C / \Delta Y$

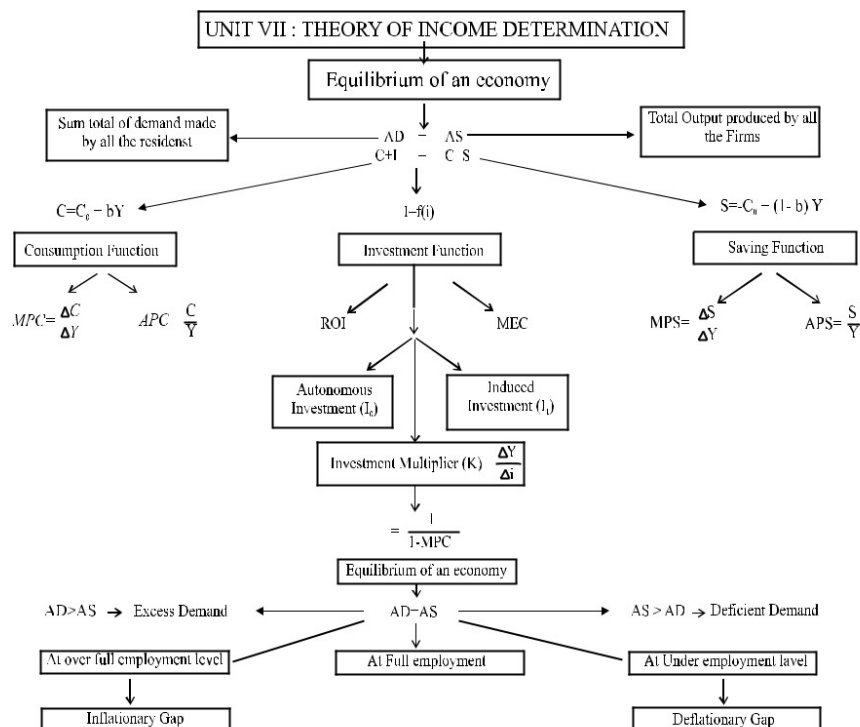
Average Propensity to consume: It refers to the ratio of total consumption by total disposable income. $APC = C/Y$

Aggregate Supply: -It refers to the total production of commodities in the economy at a given point of time which is measured in terms of value added or the total income generated. $AS = Y$, therefore, $AS = C + S$.

Excess demand/infation: -Excess of Money supply due to excess expenditure by the Government & excess credit creation by the Commercial Banks.

Regulation of Margin Requirements: The margin requirements refers to the difference between current value of the security offered for loans and the value of loans granted.

Rationing of Credit: The fixation of credit quota for different industries is called as rationing of credit. In order to restrict the flow of credit for speculative activities in a sector, the commercial bank will introduce rationing credit.



FULL EMPLOYMENT

- ALL ABLE AND WILLING TO DO THE WORK ARE EMPLOYED AT THE EXISTING WAGE RATE.

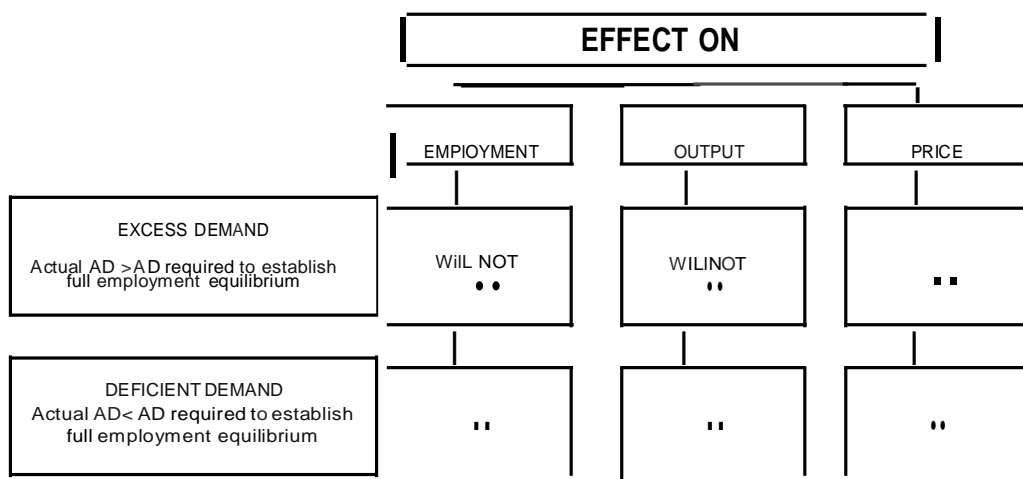
VOLUNTARY UNEMPLOYMENT

- NOT WILLING TO DO THE WORK EVEN THOUGH WORK IS AVAILABLE AT THE EXISTING WAGE RATE

INVOLUNTARY UNEMPLOYMENT

- ABLE AND WILLING TO DO WORK AT THE EXISTING WAGE RATE DO NOT FIND WORK

EXCESS DEMAND AND DEFICIENT DEMAND



TOOLS	EXCESS DEMAND (Inflationary Gap)	DEFICIENT DEMAND (Deflationary Gap)
FISCAL TOOLS		
i) TAXES		
ii) PUBLIC DEBT (INTERNAL)		
iii) PUBLIC EXP.		
iv) DEFICIT FINANCING	Should be restricted	Should not be restricted
MONETARY POLICY		
i) BANK RATE		
ii) CRR		
iii) SLR		
iv) REPO RATE		
v) MARGIN REQUIREMENT		
vi) MORAL SUASION	Request to contract credit	Request to expand credit
vii) DIRECT ACTION	Can be taken	Can be taken

Q. What is meant by determination of income & output?

Determination of income, output & employment is one of the core issues of the Macro Economics. The level of income, output and employment is determined by the Aggregate demand & Aggregate supply.

Q. Define the term Aggregate Demand (AD)/ Aggregate Expenditure.

It refers to the sum total of demand made by all the economic units in the economy at a given point of time. It can be also defined as the total expenditure incurred by the household, government, & enterprises of the economy at a given point of time.

Q. Explain the components of AD.

There are four components of AD viz. Household Consumption demand, Private Investment demand, Govt. demand, & Net Exports.

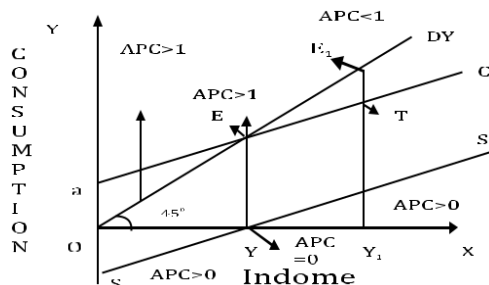
- 1. Household Consumption demand/Consumption expenditure** refers to the amount spent on durable & non-durable commodities by the consumer households at a given point of time. The consumption expenditure is influenced by the level of income of the households.

Q. Explain the concept of Consumption Function/ Propensity to consume.

It is an expression which establishes the functional relationship between consumption expenditure(C) & the level of income(Y). It describes that how the change in the level of income influence the consumption expenditure of the households. The rise in income level leads to rise in the consumption expenditure, & vice versa. According to Keynes, the rise in the level of income result into the rise in consumption expenditure but the rise is not as much as the rise in income because the rise in income is also accompanied with the rise in the savings of the households. This is also called as Keynes Psychological law of Consumption.

The consumption function or propensity to consume is represented by $C = f(Y)$ Or, $C = a + bY$, where, 'C' stands for Consumption expenditure, 'a' stands for autonomous consumption i.e. the consumption expenditure when the level of income is zero, 'b' for slope of the consumption curve, 'Y' stands for level of income. The consumption equation $C = a + bY$ shows the level of consumption for various levels of income. The consumption curve slopes upward from left to right and it originate from the Y- axis.

Fig: Consumption Function



The above figure shows the consumption function. Income curve is a 45 line originating from the point of origin. The Consumption curve is constantly rising from the point 'a' on the Y-axis which indicates the rise in consumption due to rise in income. The point 'a' refers to autonomous consumption i.e. the consumption expenditure incurred when the income is zero. The income curve intersects consumption at the

Q. Define the term break - even point.

The break-even point is defined as the point at which consumption is equal to income, & saving is zero.

Q. Define the term dissaving.

The saving curve SS intersect X-axis at OY level of income. Before this level the saving is negative, called as dissavings. It is the situation when the consumption is greater than income. The savings are positive when the consumption is less than income.

Q. Explain the two types of consumption function or propensity to consume.

- i) **Marginal Propensity to Consume (MPC):** It refers to the ratio of change in consumption by change in disposable income. The value of MPC always lies between 0 and 1 i.e. $0 < MPC < 1$. It is obtained by $\Delta C / \Delta Y$
- ii) **Average Propensity to consume:** It refers to the ratio of total consumption by total disposable income. $APC = C/Y$

Q. Define the term Saving Function or propensity to save.

It refers to the functional relationship between saving & level of income, $S = f(Y)$. In other words, it is the tendency of the households to save at a given level of income.

Q. Briefly explain the two types of Saving function or propensity to consume.

I) Marginal propensity to save (MPS):

It refers to the ratio of change in savings by the change in level of income, i.e. $MPS = \Delta S / \Delta Y$. The MPS lies between 0 & 1 i.e. $0 \leq MPS \leq 1$

AI) Average propensity to save (APS):

It refers to the ratio of total savings by total income, i.e. $APS = S/Y$.

Q. State the relationship between MPC & MPS.

$MPC + MPS = 1$; So, $MPC = 1 - MPS$; &, $MPS = 1 - MPC$

Similarly, the relationship between APC & APS is that, $APC + APS = 1$

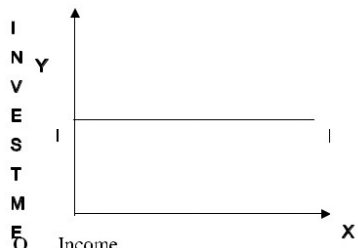
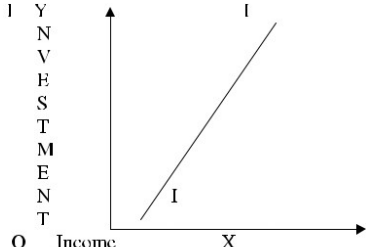
Q. Define the term Private Investment Demand.

It refers to the expenditure incurred by the enterprises on the creation of new capital assets viz plants, machineries, transport equipments, implements & tools, building etc.

Q. Differentiate between Investment is of two types.

1. Autonomous investment (I₀); 2. Induced investment (I₁)

Autonomous investment (I ₀)	Induced investment (I ₁)
1. It refers to the investment expenditure which is incurred by the Government with the motive to promote the level of growth & development. It is not influenced by the level of profits or income of an economy. 2. It is influenced by the change in population structure, natural calamities, change in technology & institution, war etc.	It refers to the investment expenditure which is incurred by the enterprises with the motive to make greater investments & receive higher returns. It is positively related to level of income. It is influenced by the level of income of an economy. Higher the income, greater is the induced investments, & vice versa.

<p>3. The I₀ curve is straight line parallel to income axis which shows that it remains same at all levels of income & output, & not influenced by change in income.</p> 	<p>The I₁ curve is a positive slope which shows the positive relation between induced investment & level of income.</p> 
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Q. Explain the determinants of Investment. There are three important determinants of Investment viz.

- i) **Revenue from Investment (ROI):** Revenue from investment or expected returns implies the prospective yield of the capital invested. The enterprises would undertake an investment project to increase the production capacity only when that generates the additional revenue.
- ii) **Cost of Investment:** Cost of investment implies supply price of capital asset, and the rate of interest on the loan money borrowed for the purchase of the asset. Higher the cost, lower will be the investment.
- iii) **Business expectations:** which implies the enterprises to speculate in the future gains which are uncertain, and is prompted by bullish expectations i.e. the expectation of prices to go up.

Q. Define the term investment/income multiplier & explain its working.

This concept has been developed by J. M. Keynes in 1936. This concept explains the resultant change in the level of income in an economy due to change in the investment. In other words, when an economy raises a certain amount of investment, the level of income rises by a certain amount i.e. the investment generates greater amount of income in the economy. The multiplier indicates by what times the level of income rises due to rise in the investment at a given point of time.

For example, if the investment increases by Rs. 100 crores, & the income rises by Rs. 200 crores, the multiplier will be $200/100 = 2$.

According to Keynes, “Investment multiplier tells us that when there is an increment of aggregate investment; income will increase by an amount which is K times the increment of investment.”

$\Delta Y = K \Delta I$; thus, $K = \Delta Y / \Delta I$, where K is the investment multiplier.

The multiplier can be defined as the ratio of change in income to the change in investment.

Working of the Multiplier: Multiplier process can be explained as the change in investment leads to change in income which further leads to change in consumption

expenditure. This again results into further change in income. This process continues till consumption expenditure becomes zero. The resultant increase in income depends upon the existing MPC which determines the value of K. **$K = 1/1-MPC$ or $K = 1/MPS$**

Q. Define the term Aggregate Supply.

It refers to the total production of commodities in the economy at a given point of time which is measured in terms of value added or the total income generated. It also refers to the disposable income which consist of two components viz, consumption & saving. Since $AS = Y$, therefore, **$AS = C + S$**

Q. Define the term Ex-ante savings & investment, & explain how they are different to ex-post savings & investment.

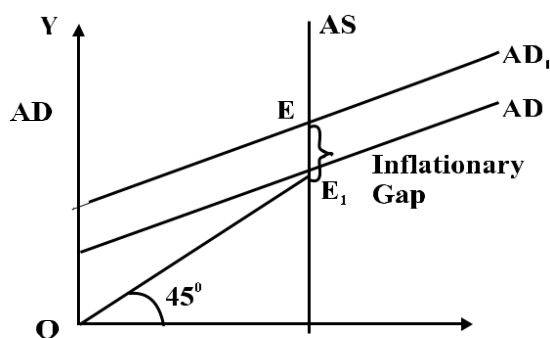
Ex-ante savings refers to the savings planned by the household for the given year, while **ex-ante investment** refers to the amount of investment planned by the producers towards the production of commodities in the given year. **Ex-post savings** refers to the realized or actual savings made by the households in a year, while **ex-post investment** refers to the actual amount of investment made by the producers towards the production of commodities in a year.

Q. Define voluntary & involuntary unemployment.

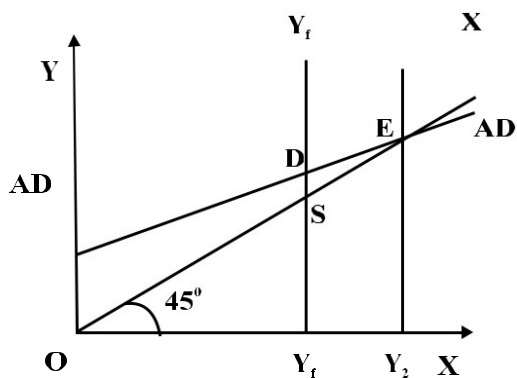
Voluntary unemployment refers to the situation when people are willing to remain unemployed in the production activities at the current factor prices. **Involuntary unemployment** refers to the situation when the willing & able bodied people remain unutilized in the economy due to lack of employment opportunities.

Q. Explain the concept of Excess Demand (Inflationary Gap) & Deficient Demand (Deflationary Gap).

Excess demand refers to that situation in an economy when the AD exceeds the AS at full employment level at a given point of time. In other words, the Excess demand refers to that situation when the Current (Actual) AD exceeds the required AD to maintain full employment equilibrium.

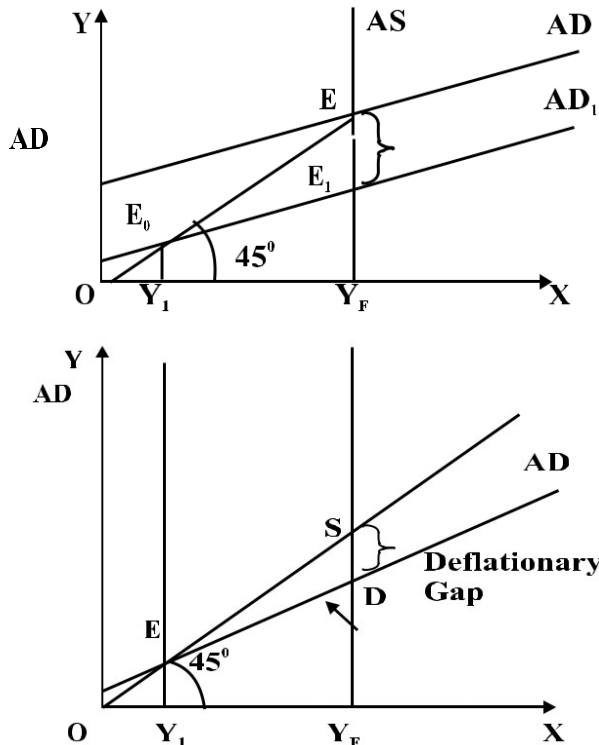


In the first fg, we see that AD_1 is the planned or actual AD curve & AD is the required AD to maintain full employment equilibrium. Y_1 is the full employment level where the AS becomes constant & maximum, and therefore it is a straight line prior to which AS is 45° line indicating proportionate rise in income and employment. The current equilibrium of the economy is at E which exceeds the required one i.e. E_1 to have full employment equilibrium. EE_1 refers to the inflationary Gap which leads to inflation in the economy.



In the second fig, which shows the conventional diagram of excess demand situation, the $AD=AS$ at point E which corresponds to overfull employment level, and at full employment level the AD (DY) exceeds AS (SY), Thus **ES is the inflationary gap**.

Deficient Demand refers to that situation in an economy when the AD falls short of AS at full employment level at a given unit of time. In other words, it is the situation when the planned or actual aggregate demand falls short of required aggregate demand to maintain full employment equilibrium. This situation is also referred to as underemployment equilibrium because the actual equilibrium in an economy takes place before the level of full employment, and there exist some amount of involuntary unemployment. This situation is more deteriorating in effect, as in this situation there is drastic fall in price level which leads to decline in income, employment & output. In this situation, the economy operates much below to its production capacity due to which many resources remain unutilized or underutilized. This defers the rate of economic growth & development.



In the first fig., we see that AD is the planned or actual AD curve & AD_1 is the required AD to maintain full employment equilibrium. Y_1 is the full employment level where the AS becomes constant & maximum, and therefore it is a straight line prior to which AS is 45° line indicating proportionate rise in income and employment. The current equilibrium of the economy is at E which fall short of the required one i.e. E_1 to have full employment equilibrium.

EE refers to the inflationary gap
Which leads to infection in the economy.

In the second fig, which shows the conventional diagram of deficient demand situation, the $AD=AS$ at point E which corresponds to under-employment level, and at full employment level the AD (DY) falls short of AS (SY), Thus **ES is the inflationary gap**.

Q. State the causes of excess demand/inflation.

1. Excess of Money supply due to excess expenditure by the Government & excess credit creation by the Commercial Banks.
2. Excess of Exports over Imports which leads to scarcity in the domestic supply of essential goods.
3. Hoarding & Black marketing of the essential goods by the traders.
2. Tax Evasion by the household & firms.
4. Due to low market rate of interest.
4. Due to Cyclical fluctuations.

Q. State the causes of deficient demand/deflation.

1. Lack of Money supply due to curtailed expenditure by the Government & less credit creation by the Commercial Banks.
2. Excess of imports over exports which leads to excess of availability of essential goods.
3. Excess of production by the enterprises due to improper planning and wrong estimation.
4. Due to high market rate of interest.
5. Due to depression prevailing in the economy.

Q. Explain the Measures to correct excess (inflationary gap) & deficient demand (deflationary gap).

The measures can be classified into two measures viz.

1. Fiscal measures/policy; 2. Monetary measures/policy
1. **Fiscal measures:** These measures are formulated & implemented by the Government to control inflationary or deflationary situation. The following tools are used to control & combat the inflationary & deflationary situation.
 - a) **Public Expenditure:** The govt. expenditure has a large impact on the creation of money supply & further on the rise/fall in AD. During the inflationary situation, the Govt. may curtail the unproductive expenditure to check expansion of money supply which may tend to reduce the AD. This will prevent in the inflow of excess money in the economy. During the deflationary situation, the govt. should raise the expenditure on the economy by funding various developmental projects. This will lead to induce the money supply in the economy & the AD too will rise.
2. **Monetary Measures:** These measures are adopted by the Central Bank of a country in order to control inflation or combat deflation. There are two methods or instruments of monetary policy viz.
 - i) **Quantitative Methods or General methods, which refer to the control of quantity of money supply through credit control.** The following instruments are used in quantitative method:
 - A) **Bank Rate Policy:** It refers to the rate of interest charged by the Central Bank on the loans & advances given to the Commercial Banks. The Bank Rate is determined by the Central Bank itself. The rise in BR leads to rise in rate of interest which affects the savings & demand for loans. During the excess demand situation, the CB raises the BR which leads to rise in rate of interest. This leads to raise the savings & reduce the demand for loans. Consequently, there is a fall in purchasing power & further fall in AD.
 - B) **Open Market Operations:** It refers to the process to sale & purchase of securities by the CB in the economy. During the excess demand situation, the CB sells the bonds &

securities in the market which is purchased by the banks, individuals and other financial institutions of the economy. This helps in wiping out the excess of money supply from the society & further there is a fall in purchasing power of the people. Consequently, the AD falls, this helps in reducing the price level. During the deficient demand situation, the CB purchases the securities of different institutions which induce the inflow of money supply in the economy. This further leads to rise in money supply & thus there is rise in AD.

C) Cash Reserve Ratio: The CRR is an important tool which is used to correct the inflationary & deflationary situation, as the rise in CRR leads to fall in the lending capacity of the banks. During the excess demand situation, the CB raises the CRR which leads to fall in the lending capacity of the banks. This results in fall in money supply & further fall in AD. The fall in AD leads to fall in price level. During the deflationary situation, the CB reduces the CRR which raises the lending capacity of the banks. The rise in lending capacity leads to rise in money supply & further rise in AD.

D) Repo & Reverse repo rate: During inflation, the RBI increases the repo rate to make the credit dearer in order to restrict its supply. Similarly, RBI increases the RRR to encourage the commercial banks to park more funds with RBI. This helps in restricting money supply in the economy.

Qualitative Measures:

- 1. Regulation of Margin Requirements:** The margin requirements refers to the difference between current value of the security offered for loans and the value of loans granted. In case of inflationary tendencies in an industry, the CB will raise the margin requirement so as to restrict the flow of credit, & vice versa in case of deflationary situation in an industry.
- 2. Rationing of Credit:** The fixation of credit quota for different industries is called as rationing of credit. In order to restrict the flow of credit for speculative activities in a sector, the CB will introduce rationing credit. The quota limits fixed in granting loans by the CB cannot be exceeded by the Commercial Banks.
- 3. Moral Suasion & Direct Action:** In case of inflationary or deflationary situations, the CB may issue directives with a view to control the flow of credit. The advices of the CB are generally accepted by the Commercial Banks for expanding or contracting credit. In case the commercial banks do not comply with the directives, the CB may initiate direct action against the member banks.

Q. Make a schedule to explain that when National Income rises, APC falls & APS rises.

This schedule proves that when income level of an economy rises, the APC falls & APS rises. When consumption falls short of income, savings are negative called as dissavings.

Let $C = 50 + 0.5Y$

Income	Consumption	Savings	APC	APS
0	50	-50	$\frac{50}{0}$	$-\frac{50}{0}$
100	100	0	1	0
200	150	50	0.75	0.25
300	200	100	0.67	0.33
400	250	150	0.62	0.38
500	300	200	0.6	0.4

Q. Make a schedule to explain the Keynesian Theory of Income & Output. Also show a numerical example that how the economy can reach full employment level of income & output.

Let $C = 25 + 0.75Y$, $I_o = \text{Rs } 50$ crores; Full employment level of income is Rs 400 cr.

Here all values are representing Rs crores.

Output	Consumption	Savings	Investment	AD	AS	
0	25	-25	50	75	0	AD>AS Economy expands
100	100	0	50	150	100	
200	175	25	50	225	200	
300	250	50	50	300	300	Equilibrium AD=AS
400	325	75	50	375	400	AD<AS Economy Contracts
500	400	100	50	450	500	

From the above schedule we can say that presently the economy is in equilibrium at Rs 300 crores level of income & output. Now, if economy wants to achieve equilibrium at full employment level ie Rs 400 crores, then it has to increase the autonomous investment in such a manner that the AD also reaches to Rs 400 cr to get in equilibrium. So, if $MPC = 0.75$, $K = 1/1-0.75 = 4$. So, change in investment (ΔI) should be = change in income (ΔY) / $K = 100/4 = \text{Rs } 25$ cr. So, if the economy raise its investment level to 75 cr, the AD will be Rs 400 cr & now it will be equal to AS. Thus, the economy attains full employment equilibrium.

Q. Make a schedule to explain the working of the multiplier.

Let $MPC = 0.5$, investment is Rs 100

Round	Change in investment	Change in income	Change in Consumption	Change in savings
Initial	100	100	50	50
1		50	25	25
2		25	12.5	12.5
3		12.5	6.25	6.25
-		---	---	---
-		---	---	---
Total	100	200	100	100

Here we see that initially the investment made in economy ie Rs 100, the immediately income should be Rs 100. Further, half of it is spend by the people & other half is saved since $MPC=0.5$. The amount of Rs 50 spend by one section of society will generate income of Rs 50. This process continues till the leverage effect of multiplier exist. As soon as the effect is over, the working of multiplier stops. Now, if we add the incomes generated at all the rounds, we get Rs 200. This means the fresh investment of Rs 100 crores leads to amplify the income to Rs 200 crores, as $MPC = 0.5$ so $K = 1/1-0.5 = 2$. So, change in income = $K \times \text{fresh investment}$ ie $2 \times 100 \text{ crores} = \text{Rs } 200 \text{ Crores}$.

Multiple Choice Questions

Select the correct answer of the following questions:

1. Consumption function is a functional relationship between:

- a. Income and saving;
- b. Price and consumption;
- c. Income and consumption;
- d. Income, consumption and saving

Ans: (c)

2. Average propensity to consume (APC) is equal to:

- (a) Y/C ;
- b. $\Delta Y / \Delta C$;
- c. C/Y ;
- d. $\Delta C / \Delta Y$

Ans: (c)

3. MPC being equal to 0.5, what will be, if income increases by Rs 100?

- a. Rs 60;
- b. Rs 50;
- c. Rs 40;
- d. Rs 70

Ans: (b)

4. Average propensity to save (APS) is equal to:

- b. Y/S ;
- b. $\Delta Y / \Delta S$;
- c. S/Y ;
- d. $\Delta S / \Delta Y$

Ans: (c)

5. If MPC is 40 per cent, MPS will be:


- a. 70 per cent;
- b. 60 per cent;
- c. 50 per cent;
- d. 40 per cent

Ans: (b)

NUMERICALS

Q1: The of income ,in an economy,increase from Rs 20,000 crores to Rs 70,000 crores ,and as a result the level of consumption increase from Rs 15,000 crores to Rs 45,000 crores. Calculate the MPC.

SOLUTION:

INCOME (Y) (RS)	CONSUMPTION (C) (RS)	CHANGE IN CONSUMPTION (ΔC) (RS)	CHANGE IN INCOME(ΔY) (RS)	MPC $MPC = \Delta C \div \Delta Y$
20,000	15,000	—	—	—
70,000	45,000	30,000	50,000	0.60 

ANSWER:0.60

Q 2: Complete the following table:

INCOME	SAVING	MPC	APS
0	-12	—	—
20	-6	—	—
40	0	—	—
60	6	—	—

SOLUTION:

INCOME (RS)	SAVING(RS)	CONSUMPTION(RS)	MPC= $\Delta C \div \Delta Y$	APS= $S \div Y$
0	-12	12	—	—
20	-6	26	0.70	-0.30
40	0	40	0.70	0.00
60	6	54	0.70	0.10

Q 3: From the following schedule, compute APC, APS, and MPC AND MPS:

INCOME (Y)(RS)	50	100	150	200
SAVINGS (RS)	10	40	75	120

SOLUTION:

(Y)(RS)	(S)(RS)	(C)(RS)	APC	APS	MPC	MPS
50	10	40	0.80	0.20	—	—
100	40	60	0.60	0.40	0.40	0.60
150	75	75	0.50	0.50	0.30	0.70
200	120	80	0.40	0.60	0.10	0.90

Formula used: $C=Y-S$; $APC=C \div Y$; $APS=S \div Y$; $MPC=\Delta C \div \Delta Y$; $MPS=\Delta S \div \Delta Y$

Q 4: Using the equation of consumption function: $C = c + b(Y)$, calculate consumption expenditure at the income level of Rs 500 crores, if autonomous consumption is Rs 40 crores and 40% of additional income is saved.

SOLUTION:

Given: $MPS = 0.4$ (as 40% of additional income is saved);

MPC OR $b = 1 - 0.4 = 0.6$ [$MPC = 1 - MPS$]; given autonomous consumption (c) and y in the consumption function, we get:

$C = 40 + 0.6 \times 500 = \text{RS } 340 \text{ crores}$

Q 5: In an economy, income generated is four times the increase in investment expenditure. Calculate the value of MPC and MPS?

SOLUTION:

Multiplier = 4 {as increase in income (ΔY) is 4 times the increase in investment (ΔI)}

$$\text{Multiplier (K)} = \frac{1}{1-\text{MPC}}; \quad \frac{1}{4} = \frac{1}{1-\text{MPC}}; \quad 1-\text{MPC} = \frac{1}{4};$$

$$\text{MPC} = 0.75; \quad \text{MPS} = 1 - \text{MPC} = 1 - 0.75 \quad \text{MPS} = 0.25; \quad \text{ANS. MPC} = 0.75; \quad \text{MPS} = 0.25$$

HOTS

Q. Define investment.

Ans. Investment refers to the expenditure incurred on creation of capital assets.

Q. Define involuntary unemployment.

Ans. 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.

Q. What is full employment?

Ans. Full employment refers to a situation in which all those people, who are willing and able to work at the existing wage rate, get work.

Q. What are Ex-ante savings?

Ans. Ex-ante savings refers to the amount of savings which savers plan to save at different levels of income in an economy.

Q. Define Ex-ante investments.

Ans. Ex-ante investments refers to the amount of investments which investors plan to invest at different levels of income in an economy.

Q. “Marginal propensity to consume falls with successive increase in the level of income.” It is always true?

Ans. This may be true if there is equitable distribution of income. A rational consumer always attempts to save more as his income increases, but if bigger part of national income is concentrated in a few hands, the marginal propensity to consume will be high for a poor person as he needs to spend more to fulfill his basic requirements.

Q. Define under-employment equilibrium.

Ans. Under-employment equilibrium refers to a situation when aggregate demand is equal to the aggregate supply at a level where the resources are not fully employed.

Q. What is meant by effective demand?

Ans. The level of aggregate demand required to achieve full employment equilibrium is called effective demand.

Q. What is the impact of excess demand?

Ans. Excess demand leads to inflation without any increase in output and employment as economy is already operating at the full employment level.

GOVERNMENT BUDGET & THE ECONOMY

(Marks: 8)

KEY CONCEPTS:

Govt. Budget: - The term budget has been derived from the French word 'Bougett' which refers to 'a small bag'. A govt. budget is an annual statement of estimated receipts & expenditure of the govt. during a financial year.

Revenue receipts: -It refers to those money receipts which do not create any liability & do not reduce assets. These are non – redeemable receipts of the govt.

Revenue deficit: - it refers to the excess of revenue expenditure over revenue receipts.

Fiscal deficit: - it refers to the excess of total expenditure over the sum of revenue receipts and capital receipts excluding borrowings.

Primary deficit: - it is defined as fiscal deficit less interest payments.

Balanced budget: - it refers to the budget when the public receipts are equal to the public expenditure.

Surplus budget: -Surplus budget is the one in which public receipts exceeds the public expenditure.

Deficit budget: -Deficit budget is the one in which the govt. expenditure exceeds its receipts.

Q. What is Govt. Budget?

Ans : The term budget has been derived from the French word 'Bougett' which refers to 'a small bag'. **A govt. budget is an annual statement of estimated receipts & expenditure of the govt. during a financial year.**

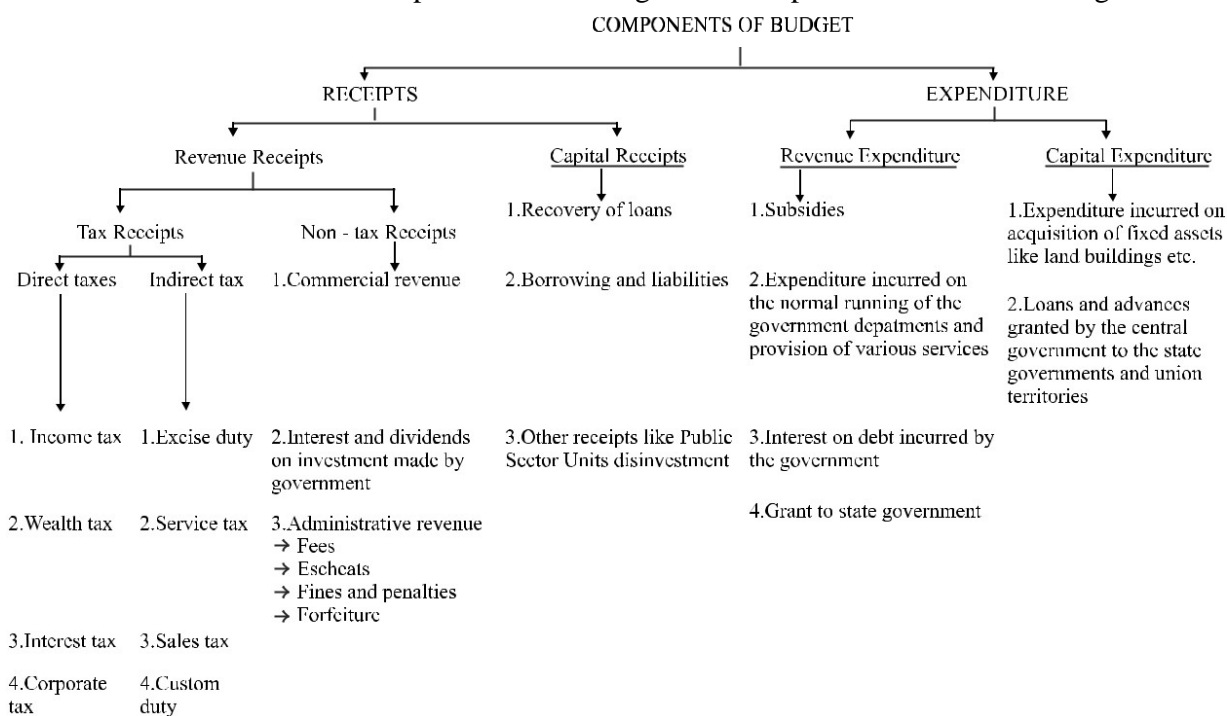
Q. Explain the objectives of Govt. Budget.

Ans : The govt. prepares budget with the following objectives:

1. **Proper Allocation/Reallocation of resources** is one of the important objectives of govt. budget. The govt. makes a proper allocation of resources through its budgetary policy so as to make a balance between the goals of profit maximization & social welfare. In other words, there is a justifiable allocation of resources which can promote the welfare of the common mass.
2. **Economic Stability** is another objective of budgetary policy of the govt. During the period of depression & inflation, govt. adopts the policy of deficit & surplus budgeting respectively. The govt. adopts certain policies through budget to save the economy from the clutches of business cycles. The economic stability is indispensable for the stimulation of savings & investment which further raises the level of economic growth & development.
3. **Economic Growth** is one of the important objectives of the govt. budget. Government prepares such a favorable budget which can create conducive conditions to raise the level of savings & investment on which the economic growth of a country depends.
4. **Economic Equality** is another important objective of govt. budget as economic disparity is inherent in any economic system which is politically & socially

undesirable for a healthy nation. In order to curb the economic inequality to a socially acceptable level, fiscal policy play as an effective instrument through which the govt. exercise, with the help of taxation & expenditure, in redistribution of income & wealth in the economy. This helps to bring social & economic justice which is an important element of any welfare state.

5. **Management of Public Enterprises** has been also one of the objectives, so as to increase the growth of these enterprises as these are established in social interest in the form of natural monopolies where a single firm can produce at a lower average cost.



The govt. budget consists of two parts viz. Receipts & Expenditures.

Receipts refer to estimated revenue of the govt. from various sources in a fiscal year. The receipts are classified as Revenue Receipts and Capital Receipts.

Q. Explain the sources of Public Expenditure.

Ans : This refers to the expenditure to be incurred on various heads during the fiscal year. Public Expenditure is been classified into Plan & Non-Plan expenditure since 1987-88 budget which are further classified into Revenue & Capital Expenditure. Further this Plan revenue & capital, and Non- Plan revenue & capital expenditure are classified into Developmental & Non-Developmental Expenditure. This can be understood by the help of the above flow chart.

Plan expenditure refers to the amount to be spent on the heads which are prescribed under the current five year plan. Thus it shows the central plan outlay for various projects, programmes schemes & the central assistance for the state & union territories. **Plan Revenue expenditure** includes the expenditure on central plans viz. agriculture, rural development, irrigation & flood control, energy, industry & minerals, transport, communication, science & technology, environment & others, and the central assistance for state and union territories. **Plan Capital Expenditure** includes the expenditure on economic development, social & communal development, defence & general services etc., and loans to states and union territories for financing plan projects.

Non-Plan expenditure includes the expenditure on the items which are not included in the current five year plan but are included in the current fiscal year budget. **Non-Plan Revenue Expenditure** includes interest payments; defence revenue expenditure; subsidies in food, sugar, export promotion, market development, interest subsidy etc; grants to states and UTs; pensions and economic services, social services, general services; postal deficit; grants to foreign govt. & others. Non-Plan Capital Expenditure includes defence capital; loans to states, UTs & foreign govts.

Revenue expenditure includes the expenditure on those heads which do not create any assets or reduce the liabilities. These expenditures are incurred on the normal functioning of the govt. and the maintenance of the law & order. For example, compensation of employees, pensions, interest payments, subsidies, grants expenditure on central plans etc. **Capital expenditure** refers to the amount to be spent on those heads which leads to the creation of the assets or reduction in liabilities. For example, expenditure on defence capital; purchase of assets viz. land, buildings & shares; loans to state govt. & union territories etc.

Developmental expenditure refers to the expenditure on those items which are directly related to economic and social development of the economy. For example, expenditure on capital assets, infrastructure, railways, posts, telecommunication, education, health, social welfare, scientific research etc. This expenditure directly contributes to the flow of goods and services.

Non-Developmental expenditure includes the expenditure on those heads which are not productive & give any returns to the economy viz. defence & administrations, natural calamity, interest payments, tax collections, old age pensions & unemployed allowances etc. Although, it does not contribute to the national income but it is not to be considered as unimportant as it lubricates the wheels of economic development i.e. it creates the conducive conditions in the functioning of the process of economic development.

Q. Explain different types of Budget.

Ans : Govt. budget can be classified into Balanced, Surplus & Deficit Budget.

Balanced budget refers to the budget when the public receipts are equal to the public expenditure.

Surplus budget is the one in which public receipts exceeds the public expenditure.

Deficit budget is the one in which the govt. expenditure exceeds its receipts.

Q. Explain different types of budgetary deficit.

Ans : The budgetary deficit is classified into Revenue, Fiscal & Primary deficit.

Revenue deficit refers to the excess of revenue expenditure over revenue receipts. It is the difference between the (Plan revenue expenditure and Non-Plan revenue expenditure) and (Tax revenue + Non-tax revenue). **Fiscal deficit** refers to the excess of total expenditure over the sum of revenue receipts and capital receipts excluding borrowings. Thus, **Fiscal Deficit = total Expenditure – Total Receipts (net of Borrowings)**. **Primary deficit** is defined as fiscal deficit less interest payments. Thus, **Primary Deficit = Fiscal Deficit – Interest Payments**.

Q. Define the term Deficit Financing & state its sources.

Ans : It refers to the financing of the budgetary deficits. The **sources** are expansion in money supply, i.e. the Central Bank may print money equal to the deficit against of treasury bills of the govt., & secondly by borrowing from the public through market loans. It is a very common instrument to finance the deficit if the govt. budget. Usually it is used by the govt. in India, as every year the budgetary deficit is on rise. The deficit financing can be also done by borrowing from the abroad, which may be burdensome in the future. It is used as the best alternative in the less developed countries because in these countries the people cannot be highly taxed.

Multiple Choice Questions

Select the correct answer of the following questions:

1. Which of the following are the objectives of government budget?
 - a. Redistribution of income and wealth;
 - b. Economic stability;
 - c. Both (a) and (b);
 - d. None of these

Ans: (c)

2. Which of the following is a non-tax receipt?
 - a. Gift tax;
 - b. Sales tax;
 - c. Gifts and grants;
 - d. Excise duty

Ans: (c)

3. Which one of the following is indirect tax?
 - a. Wealth tax;
 - b. Excise duty;
 - c. Income tax;
 - d. None of these

Ans: (b)

4. Which of the following are capital receipts of the government?

- a. Recovery of loans; b. Borrowings; c. Disinvestment;
- d. All of these

Ans: (d)

5. Fiscal deficit =

- (a) Total expenditure - total receipts other than borrowing
- (b) Revenue expenditure- revenue receipts
- (c) Capital expenditure- capital receipts
- (d) Revenue expenditure+ capital expenditure- revenue receipts

Ans (a)

NUMERICALS:

Q . Calculation Revenue deficit, fiscal deficit, primary deficit from the following data.

ITEM	RUPEES (Crores)
(1) Revenue expenditure	22,250
(2) Capital expenditure	28,000
(3) Revenue receipts	17,750
(4) Capital receipts	20,000
(5) Interest payments	5,000
(6) Borrowings	12,500

Ans. Revenue deficit = Revenue expenditure – Revenue receipts
= 22,500 crore – 17,750 crore;
= 4,500 crore

Fiscal deficit = Revenue expenditure + Capital expenditure – Revenue receipts – Capital receipts = Borrowing = 12,500 crore

Primary deficit = Fiscal deficit – Interest payments
= 12,500 crore – 5,000 crore;
= 7,500 crore

Q. Find borrowing by Government if payments of interest is estimated to be of 15,000 crores which is 25% of primary deficit.

Ans. Here, Interest payment = 25% of primary deficit; Primary deficit = $100/25 \times 15,000 = 60,000$

We know, Primary deficit – Interest payment;

Fiscal deficit = Primary deficit + Interest payment = 60,000 crore + 15,000 crore; = 75,000 crore

TRUE OR FALSE

Q . Comment on the following statement true or false, with reason

- (1) Construction of school building is revenue expenditure of the government.**
- (2) Gift tax is capital receipt.**
- (3) Dividends on investment made by government is a revenue receipt.**

Ans. (1) False, it is a capital expenditure because it creates asset for the government.
(2) False, Gifts tax is revenue receipts, because it neither creates liability nor leads to reduction in asset of government
(3) True, Dividends on investment made by government is a revenue receipts, as it does not add to liability

Q. Categories the following government receipts into revenue and capital receipt. Give reason for your answer.

- (1) Receipt from sale of shares of public sector undertaking.**
- (2) Borrowing from public.**
- (3) Profit of public sector undertaking.**
- (4) Income tax received by government.**

Ans. (1) Receipt from sale of shares of a public sectors undertaking is a capital receipt, as it causes reduction in assets of government.
(2) Borrowing from public is a capital receipt, as it creates liability for the government.
(3) Profit of public sector undertaking is revenue receipts, because it neither creates liability nor leads to reduction in asset of government.
(4) Income tax received by government is revenue receipt, because it neither creates liability nor leads to reduction in asset of government.

SHORT ANSWER QUESTIONS

1. What is revenue budget?

Ans. Revenue budget contains the details of the current receipts (or called revenue receipts) and current expenditure (also known as revenue expenditure) of the government.

2. What is capital budget?

Ans. Capital budget contains the details of the capital receipts and capital expenditure of the government.

3. What is tax?

Ans. A tax is a compulsory payment imposed by the government on public or firms.

4. Define a direct tax. Give two example of direct tax?

Ans. When liability to pay a tax and the burden of that tax lies on the same person, it is called direct tax. e.g., income tax and corporate tax.

5. Define indirect tax. Give two examples of indirect taxes?

Ans. When liability to pay a tax is on one person and the burden of the tax falls on same other person, it is called indirect tax e.g., sales tax and excise duties.

6. Give example of non-tax revenue receipts?

Ans. Fees, License and Permit, special assessment, escheat etc.

7. What does zero primary deficit mean?

Ans. Zero primary deficit means that the government has to resort to borrowings only to make interest payments of previous years.

8. Are fiscal deficits necessarily inflationary?

Ans. Fiscal deficits are not necessarily inflationary. However, if output is less because of lack of demand and high fiscal deficit is accompanied by higher demand and greater output and therefore it would not be inflationary as it is covering the gap required for smooth functioning of the economy by raising the level of aggregate demand.

9. There carefully planned, government budget reflects deficit because its expenditure exceeds revenue. How can this deficit be reduced?

Ans. Government should increase its revenue by controlling tax evasion; ii. Government should reduce unproductive expenditure like subsidies, financial assistance to all even when some of them may not require it.

10. There has been constant rise in price of sugar overtime. What measure would you support to bring down the prices?

Ans. Using measures of budgetary policy, government can try to fix prices at a lower level by incurring expenditure through subsidies which would reduce cost of production and hence the prices. If the government does not want to add to its expenditure on subsidies, then it should ensure availability of sugar at reasonable prices through its fair price shops. In the situations of emergency, buffer stocks may also be used.

11. How can government budget be a useful instrument in reducing inequalities in the distribution of income and wealth?

Ans. Government uses budgetary policies to reduce inequalities in the distribution of income and wealth by: i). Imposing new taxes and increasing the rates of existence taxes; ii) Spending more on education, health care and housing for the poor; iii) Strengthening public distribution system(through fair price shops)

12. What is the relationship between the revenue deficit and the fiscal deficit?

Ans. Fiscal deficit is a wider concept than revenue deficit. Revenue deficit is defined as the excess of government's revenue expenditure over revenue receipt. Thus, Revenue deficit= Revenue expenditure (RE)-Revenue receipt(RR). Where as fiscal deficit is defined as the excess of total expenditure over total receipts excluding borrowings. It does not take into account borrowings. Fiscal deficit= (total budgetary expenditure)-(total budgetary receipt-borrowings)

BALANCE of PAYMENTS

(MARKS: 7)

KEY CONCEPTS

Balance of Payments: - It is a systematic record of all economic transactions between the residents of a country & rest of the world during a financial year.

Balance of Trade: - It refers to the systematic record of visible items in a financial year. In other words, it is the value of imports and exports of commodities.

Autonomous items refer to those items which are taken with the motive of profit maximization. These transactions are not related to the country's BOP position. It is, therefore, these items are called as autonomous items.

Accommodating items refer to those items which are undertaken by the govt. to keep the BOP balanced. These items are transacted when a country faces disequilibrium in the BOP. Through these transactions, the govt. or monetary authorities settle the deficit or surplus in the BOP.

Q. What is Balance of Payments?

Ans : It is a systematic record of all economic transactions between the residents of a country & rest of the world during a financial year. In other words, it is a summary record of all international economic transactions of a resident country with the rest of the world during a given period of time.

Q. Define the term Balance of Trade.

Ans : It refers to the systematic record of visible items in a financial year. In other words, it is the value of imports and exports of commodities i.e. merchandise. If the exports exceed imports, the BOT is said to be favourable, and unfavourable in case of vice versa. Thus, Favourable BOT = Exports receipts > Import payments.

Q. Differentiate between BOP & BOT.

Ans: The term 'Balance of Payments' refers to the account of both visible items & invisible items while 'Balance of Trade' refers to the record of visible items only. BOT is only one of the components of BOP while the BOP is a wider concept & therefore offers a more comprehensive picture of economic transactions of a country with the rest of the world. Moreover, the BOT may be balanced, deficit or surplus, while BOP as a whole always remain balanced. BOT is a simple statements related to the foreign trade of the country while BOP presents a classified record of all receipts on account of goods exported, services rendered and capital received, and payments made on account of goods imported, services rendered from, and capital transferred to abroad.

Q. State the Items included in BOP account.

- Ans :
1. **Visible Items** include all merchandise imports and exports i.e. the items which are recorded at the port & made of some material.
 2. **Invisible Items** include receipts & payments for the services viz. shipping, banking, insurance, travel etc.; receipts and payments of income on foreign investments; interest on foreign loans & remittances of NRI's etc; govt's current expenditure in abroad viz. expenditure on embassies etc.; transfer payments & receipts.
 3. **Capital transfers** include the capital receipts & capital expenditure of a resident country.

Q. Explain the Structure of BOP: BOP account is categorized into Current Account & Capital Account.

Ans: **BOP on Current Account** refers to transactions related to goods, services, income on investments & unilateral transfers. BOP on current account reveals the net income of the country generated in abroad. Both visible & invisible items include constitute the current account of BOP. It need not always be in balance. It may show a surplus or deficit. It represents the difference between payments & receipts of currently produced & consumed goods & services. A deficit in current account indicates lowering down the level of income, creating problem of the payments to the foreigners & have adverse impact on country's exchange reserves, & may increase external borrowings.

The components of BOP on current account are:

- 1) Visible trade includes the export and import of the physical goods
 - 2) Invisible items include cost of non-factor services; investment income, & unilateral transfers.
- (i) **The non-factor services** include transportation, finance, tour & travel etc. The services rendered by the resident country to the ROW are recorded on the credit side, while the services rendered by the foreigners for the resident country are recorded on the debit side.

- (ii) Income on investment includes interest payments on foreign loans & credits, transfer of profits & miscellaneous for patents, royalties etc. The interest & dividend payments made by the foreigners are recorded on the credit side, and vice versa.
- (iii) **Unilateral Payments** includes foreign gifts & grants, donations, military aid, technical assistance etc. These are also referred to as unrequired transfers. These refer to those receipts or payments which take place without getting anything in return. These transfers are further classified into Official & Private transfer payments. Official unilateral transfers are the foreign donations & aids, while Private transfers refer to the gifts & donations from foreign residents to the domestic residents & vice versa. Payments of these transfers are recorded as debit & receipts are recorded as credit.

Thus, the balance of visible trade, invisible trade & unilateral transfers is recorded as BOP on current account.

BOP on Capital Account: It refers to the international transactions in financial assets viz. bonds, equities, loans, bank account etc.; fixed plants & equipment's, and direct investments. It is a record of those transactions which leads to change in assets or liability of the resident country. In other words, it is record of capital transactions i.e. the private & the official capital transfers as well as the banking capital flows. BOP on capital account deals with payments of debts and claims. The components of BOP on capital account are:

- (i) **Private Capital Transactions** which refer to those transactions which affect assets or liabilities of the resident country.
- (ii) **Official Capital Transactions** refer to the transactions which affect assets & liabilities of the govt. It includes loans, repurchase & resale of securities sold to foreign residents, debt service, gold & foreign exchange reserves, & miscellaneous receipts & payments.
- (iii) **Banking Capital Transactions** includes movement in the external financial assets and liabilities of those banks which are authorized to deal in the foreign exchange.

Q. Differentiate between BOP on current account & capital account.

Ans: The current account deals with the receipts & payments for those goods which are currently produced, while the capital account deals with debts & claims. Secondly, the BOP on current account has a direct influence on the level of income of a country, while the capital account influences the volume of assets of the country.

Q. Briefly explain the other items in the BOP.

Ans: There are certain items which do not form the part of current & capital account. These items are kept for balancing the BOP. These items are as follows:

- I. Errors & Omissions** are the balancing items in the BOP accounts which are used for correcting the BOP as it is difficult to keep an accurate record of all the transactions which may be due to sample of transactions, dishonesty of traders, smuggling etc.
 - AI. Official Reserve Transactions** refer to those transactions which are carried out by the govt. and the Central bank on behalf of govt. with regard to certain economic policy & their effect on BOP, & the exchange rates. It includes the Country's Official Reserve Assets & Foreign official Assets in the country.
-

The Official Reserves are held in the form of foreign currency or foreign securities, gold & Special Drawing Rights (SDR) with the IMF. Reduction in these reserves implies purchase of foreign exchange which is taken as credit items in the BOP since it causes inflow of foreign exchange. On the contrary, an increase in these reserve assets is taken as a debit in the BOP as it causes outflow of foreign exchange.

The Foreign Official assets in the country are in the form of rupee reserves of foreign central banks. Increase in these rupee reserves of foreign banks is taken as a credit item as it causes inflow of foreign exchange in the resident country (India), while decrease in these reserves is taken as debit as it causes outflow of foreign exchange.

Q. Differentiate between Autonomous & Accommodating Items.

Ans: Items in the BOP account can be also classified into two categories viz. Autonomous or above the line items and Accommodating or below the line items.

Autonomous items refer to those items which are taken with the motive of profit maximization. These transactions are not related to the country's BOP position. It is, therefore, these items are called as autonomous items. These items are taken as first items before calculating deficit or surplus in BOP account, therefore these items are called as above the line items. If the receipts from autonomous items exceed the payments for autonomous items; the BOP is called to be as surplus, and vice versa. It implies that the resident country has net claims against the ROW. On the other hand, if the payments for these items exceed the receipts from these items, it implies that the ROW has some net claims against the resident country.

Accommodating items refer to those items which are undertaken by the govt. to keep the BOP balanced. These items are transacted when a country faces disequilibrium in the BOP. Through these transactions, the govt. or monetary authorities settle the deficit or surplus in the BOP.

Q. What is meant by Disequilibrium in the BOP?

Ans: It refers to such a situation when the BOP of the country is deficit or surplus. In other words, it is a situation when the net balance of all receipts & payments is not zero. If the net balance is in (+), it is surplus; while the negative (-) balance is deficit. In both of the situation, the BOP is in disequilibrium.

Q. State the causes for disequilibrium in BOP.

Ans: Disequilibrium in BOP may be due to the following reasons:

Economic Factors viz. Cyclical fluctuations, huge public expenditure on development projects, hike in inflation which induces large imports of essential goods, development of import substitutes, change in cost structure of the trading partner countries etc; Demonstration effect which implies the effect of developed countries on the lifestyle & consumption pattern of the less developed countries which leads to rise in imports; Political instability which may lead to large scale capital outflow; **Social factors** viz. changes in the social structure & norms which may affect the propensity to consume, comforts & exports; etc.

Q. State the measures to correct adverse BOP:

Ans: Dear money policy, depreciation of the external value of domestic currency, devaluation of the currency, exchange control restrictions, tariff & import duties, fixing of import quotas, export promotion measures, import substitution etc.

FOREIGN EXCHANGE RATE

KEY CONCEPTS:

Foreign Exchange Rate: - It refers to the rate at which one unit of currency of a country is exchanged for the currency of other country. In other words, it is the price of one currency in terms of another currency.

Foreign Exchange Market: - It refers to the rate at which one unit of currency of a country is exchanged for the currency of other country. In other words, it is the price of one currency in terms of another currency.

Fixed exchange rate: - Fixed Exchange Rate System refers to the system in which the rate of exchange is determined by govt. or monetary authorities. It can be classified into Gold Standard System or Mint Parity of Exchange & Adjustable Peg System.

Flexible Exchange Rate System: - Flexible Exchange Rate System refers to such a rate of exchange which is determined by the demand for & supply of the foreign exchange in the foreign exchange market. Under this system, the govt. or central bank does not intervene in the determination of exchange rates.

Depreciation: - Depreciation means decline in external value of a domestic currency in relation to a foreign currency.

Q. Define the term Foreign Exchange Rate.

Ans : It refers to the rate at which one unit of currency of a country is exchanged for the currency of other country. In other words, it is the price of one currency in terms of another currency.

Q. Define the term Foreign Exchange Market.

Ans : It refers to the place where foreign currencies are bought & sold. It acts to transfer the purchasing power between the countries (transfer function); provides credit for international trade (credit function); make provision for hedging facilities i.e. protection against the risk related to variations in forex rate (hedging function).

Q. Explain the determination of foreign Exchange Rate.

Ans : The exchange rate is the price of a currency in terms of another currency. It depends upon the different foreign exchange regimes which are Fixed Exchange Rate System & Flexible Exchange Rate System.

Fixed Exchange Rate System refers to the system in which the rate of exchange is determined by govt. or monetary authorities. It can be classified into Gold Standard System or Mint Parity of Exchange & Adjustable Peg System.

The fixed exchange rate system had certain merits viz. it ensured stability & fluctuations had been avoided; encouraged international trade due to low risk & lesser uncertainty & coordinated the macroeconomic policies across the different countries. **But it had certain shortcomings** viz. need of huge international reserves of gold; restriction in movement of capital due to the need of huge reserves of gold; discouraged venture capital; & rigid in resource allocation.

Flexible Exchange Rate System refers to such a rate of exchange which is determined by the demand for & supply of the foreign exchange in the foreign exchange market. Under this system, the govt. or central bank does not intervene in the determination of exchange rates. The exchange rate is determined by the free play of two forces viz. demand & supply of concerned foreign currencies. The rate of exchange is determined when both demand & supply of foreign exchange are equal to each other.

Q. State the sources of demand for foreign exchange.

Ans : These are import of goods & services; investment in other countries; gifts & grants to abroad; direct purchase made in abroad; other payments involved in international transactions etc. The demand for foreign exchange is made for the purpose of payments of foreign loans, import of products, making investments & giving loans to other countries, tour & travel in abroad etc. The demand for foreign exchange is inversely related to the exchange rate.

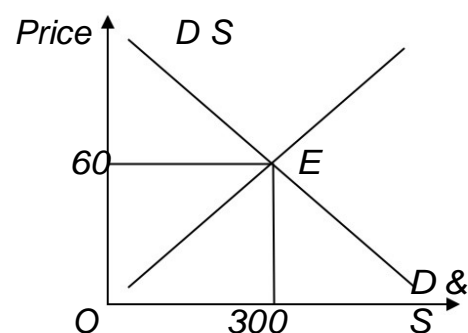
Q. What are the Sources of Supply of foreign exchange?

Ans : These are the export of goods & services; investments by ROW in the resident country; receiving gifts, donations & grants from the ROW; remittances by the non-residents from the ROW; direct purchase made by the non-residents in the domestic country; other receipts involved in international transactions etc. The supply of foreign exchange is directly related to the exchange rate.

Q. Explain how the Equilibrium rate of exchange is determined?

Ans : It refers to the rate at which demand for & supply of foreign exchange is equal to each other. It can be explained with the help of following example:

Price of US \$ (in Rs.)	Demand for US \$	Supply for US \$
40	500	100
50	400	200
60	300	300
70	200	400
80	100	500



Here, the equilibrium exchange rate is 1 US dollar = Rupees 60, because at this price the demand for dollars is equal to its supply.

Q. Explain the role of Central Bank during depreciation.

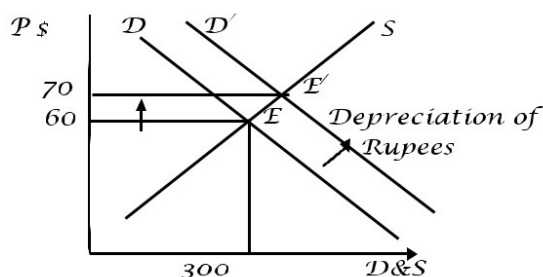
Ans : Due to depreciation, the price of imports rises due to which the price of essential products viz crude oil rises which leads to increase in petroleum prices & further which leads to inflation in the economy. The central Bank can resolve this under the managed floating system. The Central Bank will release more of dollars in the market & reduce the supply of INR. Consequently, the supply of dollars rises which leads to reduce its price, & on the other hand, the value of INR rises due to decline in availability. This process leads the

exchange rate back to its original one later. Due to this act, the managed floating is also known as dirty floating.

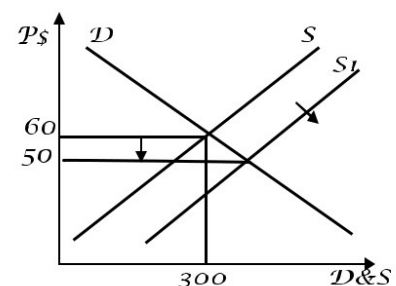
Q. Differentiate between Depreciation and Devaluation.

Ans : **Depreciation** means decline in external value of a domestic currency in relation to a foreign currency, while the term **devaluation** also mean the same. But the **difference** is that depreciation takes place due to the outcome of changes in the market forces i.e increase in demand or decrease in supply of foreign exchange, while devaluation means a deliberate action taken by the Govt. in order to correct its deficit BOP by discouraging imports & encouraging exports which will increase the inflow & reduce the outflow of foreign exchange. Thus, depreciation is the part of flexible exchange rate system while devaluation is the part of fixed exchange rate system.

Q. Differentiate between depreciation of currency & appreciation currency.



Here, due to increase in demand, the thus the price of dollars rises & the value of INR declines. This is depreciation of INR. In this situation, the imports become dearer & exports cheaper. Thus, the exports rise & imports fall. As a result, the inflow of foreign exchange increases



Here, due to increase in supply the demand curve shifts right, & the supply curve shifts right & thus the price of dollars falls, & the value of INR increases. This is Appreciation of INR. In this situation, the exports become dearer & imports cheaper. Thus, the imports rises & exports fall. As a result, the outflow of foreign exchange falls.

Multiple Choice Questions

Select the correct answer of the following questions:

- The exchange rate at which demand for foreign currency becomes equal to its supply, is called:
 - Equal rate of exchange;
 - Unequal rate of exchange;
 - Equilibrium rate;
 - All of these
- What is the relationship between demand for foreign exchange and exchange rate?
 - Inverse;
 - Direct;
 - One to one;
 - No relationship

Ans: (a)

3. What is the relationship between supply of foreign exchange and exchange rate?

- a. Inverse;
- b. Direct;
- c. One to one;
- d. No relationship

Ans: (b)

4. If Rs 150 are required to buy \$ 2, instead of Rs100 earlier, then:

- a. Domestic currency has depreciated;
- b. Domestic currency has appreciated;
- c. Rupee value of import bill will increase;
- d. Both (a) and (c) (d)

Ans:

5. In which of the following categories are economic transactions of balance of trade recorded?

- a. Visible items;
- b. Invisible items;
- c. Capital items;
- d. All of the above

Ans: (a)

Q. Estimate the following related to Current Account BoP from the data given below:

1. Trade Balance; 2. Goods & Services Balance; 3. Balance of Invisibles; 4. Current Account Balance

Item	US million \$
Export	1,66,974
Import	2,40,188
Invisibles(net)	55,272
(a) Non-factor	36,069
(b) Income	-13,554
(c) Transfers	32,757

1. Trade Balance

$$\begin{aligned} &= X - M \\ &= 1,66,974 - 2,40,188 \\ &= (-)73,214 \text{ Trade deficit} \end{aligned}$$

2. Goods and Service Balance

$$\begin{aligned} &= \text{Trade balance} + \text{Balance on account of non- factor service} \\ &= (-)73,214 + 36,069 \\ &= (-)37,145 \end{aligned}$$

3. Invisible balance

$$\begin{aligned} &= \text{Balance of non-factor service} + \text{Balance on income} + \text{Balance of transfers} \\ &= 36,069 - 13,554 + 32,757, \Rightarrow 55,272 \end{aligned}$$

4. Current Account Balance

$$\begin{aligned} &= \text{Trade balance} + \text{Invisible balance} \\ &= (-) 73,214 + 55,272 \\ &= (-) 17,942 \end{aligned}$$

Q. Calculate the value of imports when the balance of trade is (-) Rs 800 crore and the value of exports is Rs 500 crore .

Ans. Balance of trade = Value of exports – Value of import; $(-)\text{800 crore} = 500 \text{ crore} - \text{value of import}$

Value of imports = $500 \text{ crore} + 800 \text{ crore}; = \text{Rs } 1,300\text{crore}$

HOTS QUESTIONS

1. How do we finance the deficit on current account BOP in case official reserves with the RBI are not moved?

Ans. We are left with on two alternatives only: 1. We borrow from rest of the world; 2. We sell our assets (financial assets like stock and bonds, and physical assets (like plant and machinery) to rest of the world.

2. What is depreciation of rupee? What is its likely impact on Indian imports and how?

Ans. Depreciation of rupee is the fall in the value of Indian currency in relation with foreign currency. More rupees are now required to buy a unit of foreign currency. This will make foreign goods expensive to the buyers in India. As a result, imports are likely to fall.

3. How is depreciation of Indian rupee likely to affect Indian export? Explain.

Ans. Depreciation of the domestic currency implies that the domestic currency (rupee) loses its value in relation to foreign currency (say US Dollar). Now, more rupee are required to buy a dollar, or a dollar can now buy more goods in domestic in the domestic economy. Accordingly, exports are expected to rise.

4. Will you always appreciate a rise in exchange rate as a means to boost our exports?

Ans. No. Because a rise in exchange rate may not always lead to a rise in our export earnings. A rise in exchange rate is beneficial only if elasticity of demand for our exports is greater than unity. Because, it is only then that the total expenditure on our exports will rise in response to a fall in prices of domestic goods (in terms of the foreign currency) yields greater revenue only when the elasticity of demand for our exports is greater than unity.

5. How does decrease in FDI in India act as a supply shock for foreign exchange?

Ans. Decrease in FDI leads to a decrease in a supply of foreign exchange, for reasons other than change in exchange rate. It is a supply shock that causes a backward shift of supply curve of foreign exchange for the Indian economy. Consequently, equilibrium exchange rate will rise. More rupee are to be paid for buying a unit of foreign currency.

6. How do the deficit BoP and surplus BoP impact the exchange rate?

Ans. (i) Deficit Balance of Payment: If the balance of payment of a country shows deficit, demand for foreign currency will increase. Accordingly, exchange rate is expected to rise. Domestic currency will depreciate in relation to foreign currency. (ii) Surplus Balance of Payment: If the balance of payment of a country shows surplus, availability of foreign currency will increase. Accordingly, exchange rate is expected to fall. Domestic currency will appreciate in relation to foreign currency.

COMMON ERRORS COMMITTED BY CHILDREN AND REMEDIAL MEASURES

S.NO	Errors committed by children	Remedial measures
1	Not going through the questions properly.	Apart from 15 minutes browsing time, the students must go through the questions at least twice very carefully and with calm mind before attempting it.
2	Reaching the examination late which adds fuel to the already built up tension.	Must reach the examination hall well in time meditate for 2-3 minutes before browsing the question paper.
3	Not writing the question numbers correctly.	Must be very careful in writing the question numbers.
4	All parts of an answer to a question are not written at one place.	Should write all parts of a question at one place. In case if it is felt that some points couldn't be recollected, leave some space and proceed to the next question and whenever recollected come back to it.
5	Presentation of answer not up to the mark and in a confused manner.	Adequate practice of different types of questions and revision of the topic to be done to avoid it.
6	Drawing incomplete and incorrect diagrams.	Sufficient practice in drawing diagrams is required to present it correctly and quickly on the paper.
7	Solution to numerical questions done in a haphazard manner.	Sufficient practice of numerical questions required to present the solution in a systematic manner.
8	Inability to present the answer as requested due to language problem	Should daily practice at home learning and writing the answers without seeing the book.
9	Not revising the answer sheet before submitting it to the invigilator	Proper distribution of time to solve the question paper and keeping 5-10 minutes for revision of the answer sheet.
10	Taking the subject very lightly	Devote time for studying Economics so as to present the answer as required by the CBSE board.
11	Not attempting all the questions due to lack of time or not knowing the answer correctly.	Must attempt all the questions even if answer is not known correctly/perfectly. Solving previous years papers and writing mock tests will help in proper time-management.
12	Feeling giddiness or losing confidence on seeing the question paper resulting in leaving the exam hall before the ending of time.	1. Should have healthy breakfast in the morning before proceeding to the exam centre. 2. If tensed up on seeing the question paper, go for deep breathing technique and positive thinking which help in relieving tension and gaining confidence.

HELPFUL TIPS FOR EXAMINATION

1. Go through the syllabus well and allocate time for important chapters which carry more weightage. Also specify the content that will be covered during these study hours.
2. Prepare effective notes of terms, definitions and important points chapter wise which will suffice for final revision.
3. Comprehend the relationships between different economic variables with the help of a schedule and a diagram. Evaluate your understanding by doing exercises. It will strengthen your learning process.
4. Practice diagrams and illustrations after reading each topic to avoid wasting time, prepare new illustrations at the time of examination. Diagrams should be supported by appropriate headings and arrow marks. For example, illustration and diagrams showing relationship between AC and MC, AP and MP, AR and MR should be learnt by heart.
5. Numerical problems of 15-20 marks are an important component of the economics exam. Prepare a list of formulas for quick reference before the examination. Practice national income accounting numerical of the three methods of measuring national income ie value added, income and expenditure method. Also practice numerical on cost, product, revenue, producer's equilibrium and theory of income, output and employment.
6. High-order-thinking-skills questions are tough if you don't understand them. So, practice questions from various books. Revise from past papers as it is best to familiarize yourself with the format of the exam so that you can complete your paper in three hours.
7. Avoid common errors made by students while attempting the economics paper such as not writing the formulae while attempting numerical and writing incomplete definitions. For eg, while stating law of demand students usually forget to write 'keeping other factors constant'.
8. Do not get stressed and get enough sleep: Avoid negative interactions with your peers. Stay motivated and aim for excellent results.
9. Revise all the notes, descriptions and short formula's learned by you all through the year. Memorize only the crisp definitions along with its explanation.
10. A flow chart preparation for every chapter will help shorten your toll of time and would inversely help in the detailed understanding of the subject Give special attention to diagrams and graphs, along with its labeling as they hold the key to full marking.
11. Care is needed while preparing for the numerical, as a small mistake of figures can lead to loss of marks.
12. Find for new questions on the similar context from Previous Year Question paper, Sample paper and other Model test paper.
13. Always time yourself while answering the sample papers as it will help you manage time during the exam.
14. Try and finish chapters which you find easy to understand as it will boost your confidence.
15. Practice the syllabus as prescribed by the CBSE. CBSE board exam question papers are completely based on the syllabus provided.
16. Extra Questions are available through refresher books. Refer them only after when you are through with your syllabus.
17. Do not start a new topic at the last minute. Revise the topics which you have already completed.

INDIAN ECONOMIC DEVELOPMENT

Chapter 1: DEVELOPMENT POLICIES AND EXPERIENCES (1947-1990) INDIAN ECONOMY ON THE EVE OF INDEPENDENCE.

KEY CONCEPTS:

1. **Agrarian economy:** An economy in which about 85% of the country's population lived mostly in villages and earned their livelihood from agriculture (Either directly or indirectly).
2. **National income:** It is the total value of the final goods and services produced within a country plus net factor income from abroad.
3. **Economic drain :** During the British rule , the government incurred:
 - (a) Huge administrative expenses to manage their colonial rule in India.
 - (b) Huge expenses to fight wars in pursuit of their policy of imperialism.
5. **Agricultural stagnation:** Slow rate of economic growth in the agricultural sector.
6. **Export surplus :** During the British regime, India exports exceeded its imports, which lead to a situation of “: Export Surplus”.
7. **Commercialization of agriculture:** The production for sale rather than for self – consumption.
8. **Demographic transition:** It is a concept developed in 1945 to describe the typical pattern of falling death rate and birth rates in response to better living conditions associated with economic development. It consists of the following phases.
 - a. Pre-industrial societies.
 - b. Developing societies.
 - c. Modern industrialized societies/Developed societies.
9. **Infrastructure:** It includes banking, means of transport and communication, Educational, health, housing facilities etc.
10. **Life expectancy:** It refers to the number of years that a person can expect to live.
11. **Occupational structure:** IT is the distribution of working persons as per their occupation across different industries and sectors of the economy.
12. **Infant Mortality Rate(IMR) :** It refers to the number of deaths of infants before reaching the age Of one, in a particular year (per 1,000 live births during that year).

10 MARK QUESTIONS AND ANSWERS:

1. Whose estimate of national income was considered very significant?

Answer: (D) VKRVRAO

a. Dadabhai Naoroji (b) William Digby (c). RC Desai (d) VKRV Rao.

2. Major contribution to the GDP of the country on the eve of independence was from: **Answer (B)**

(a) Tertiary sector (b) Primary Sector (c) Secondary sector (d) both Primary and secondary sector.

3. The main interest of the Zamindar was: **Answer: (A)**

(a) To collect rent (b) To improve the condition of agriculture
(c) To produce food crops (d) To produce cash crops.

4. Details about the population of British India were first collected in: **ANSWER: (B)**

(a) 1871 (B) 1881 (C) 1891 (D) 1901.

5. Initially, the industrial development was confined to the setting up of: **ANSWER: (C)**

(a) Cotton textile mills (b) Jute textile mills (c) Cotton and jute textile mills (d) Capital goods industry.

6. In the history of demographic transition, which year is regarded as the year of great divide?

(a) 1901 (b) 1902 (C) 1921 (d) 1923.

7. What are capital goods industries?

A. Capital goods industry refer to those industries which can produce machine tools which are, in turn, used for producing articles for current consumption.

8. Mention the most important infrastructure developed during British period.

A. It was the "Railways", which were introduced by them.

9. Give the meaning of life expectancy at birth.

A. Life expectancy at birth indicates the number of years a new born infant is expected to live.

10. Which airlines inaugurated the aviation sector in India?

A. It was Tata Airlines, Which inaugurated the aviation sector in India.

11. When did British introduce Railways in India?

A. Railways were introduced in India by the British in 1850.

12. Give the meaning of Gross Domestic product(GDP).

A. GDP is the market value of all officially recognized final goods and services produced within a country during a given period of time.

II SHORT ANSWER TYPE QUESTIONS OF 3/4 MARKS

1. What was the effect of the systematic de-industrialization policy followed by the British?

A.) The effects of the policy of de-industrialization followed by the British were:

- (a) De-industrialization
- (b) decline of the traditional handicraft
- (c) The fall in supply of locally made goods.

(Explanation required.)

2. How did the construction of railways affect the structure of the Indian economy?

A.) The British introduced the railways in India in 1850. Though the motive behind the setting up of railways by British in India was selfish, it is considered as one of their most important contribution. It affected the structure of the Indian railways in many ways:

- (1) It enabled people to undertake long distance travel and thereby break geographical and cultural barriers.
- (2) It fostered commercialization of Indian agriculture which adversely affected the self-sufficiency of the village economies in India.
- (3) The volume of India's export trade undoubtedly expanded.

2. Explain the objectives of British government for promoting the railways in India.

- (1) The railways were developed in India by the British to promote commercialization of Indian agriculture. This adversely affected the self-sufficiency of the village economy in India.
- (2) Railways were introduced to protect and promote the British economic interests of transforming India into supplier of raw materials and consumer of finished industrial products from Britain.

3. Explain any three positive contributions made by the British in India.

A. Some of the positive contributions made by the British in India were:

- (1) Introduction of railways enabled the people to undertake long-distance travel. This facilitated the breaking of the geographical and cultural barriers.
- (2) British rulers also developed water transport and introduced the air transport in 1932 by way of

establishing Tata airlines in 1932 and thereby inaugurated the aviation sector in India.

(3) In 1837, the British introduced the modern postal system. The Expensive electric telegraph

System was introduced in India, Which was useful for the purpose of maintaining law and order.

Thus, the postal services served a useful public purpose.

4. What is vicious circle of poverty?

A. Vicious circle of poverty is the occurrence of low incomes leading to low savings, Which results in low productivity and further lower levels of income. This further perpetuates poverty in the economy.

5. How can India be described as a depleted economy on the eve of independence?

A. India was left with a large debt, mostly owed to the British Empire. This debt had increased over time because of the large expenditure that the British incurred in ruling over India. They maintained the army and the administrative staff to rule over India. India had also paid high taxes for import of raw material and other goods used in the making of roads, railways and coaches. All this drained the Indian treasury.

III LONG ANSWER TYPE QUESTIONS AND ANSWERS:

1. Explain the challenges for the Indian economy on the eve of Independence.

Ans. 1. Vicious cycle of poverty

2. Backward technology

3. Negligible industrial growth

4. conditions of living

5. Partition of India.

6. Unemployment and underemployment

7. Rural economy

8. Limited size of market

9. High growth rate of population

(Explanation required).

2. State the features of Indian Economy at the time of Independence.

Ans. 1. Stagnant Economy

2. Lopsided economy

3. Depleted economy

4. Backward economy

5. Dependent economy

6. Colonial economy

7. Semi feudal economy

(Explanation required).

3. Explain four main causes of India's agricultural stagnation during colonial period.

1. Land revenue system

2. Low level of productivity

3. Commercialisation of agriculture

4. Starvation in the field of agriculture sector.

5. Lack of technology and resources.

(Explanation required).

4. Was there any economic drain during the colonial period? Explain.

Ans. 1. Large export surplus

2. Introduction of railways

3. Competition from machine-made goods

4. Commercialisation of agriculture **(Explanation required).**

5.What was the state of primary sector in the time of Independence.

- Ans. 1. Forced Commercialization of agriculture
2. Land Revenue system under the British Raj
3. High Degree of Vulnerability
4. A wedge between owners of the soil and Tillers of the soil
5. Low Level of Productivity

(Explanation required).

6. Briefly explain about industrial sector at the time of independence.

- Ans. 1. Very few Modern Industries
2. Dominance of Trading and money lending class.
3. Agriculture-based industries
4. Lack of capital goods industries

(Explanation required).

7. What was the state of foreign trade at the time of independence.

- Ans. 1. Composition
2. Terms of trade
3. Direction
4. Volume of trade.

(Explanation required).

8.What is occupational structure ? Briefly explain about it during British period ?

Ans. Occupational structure is the distribution of labour force in three main sectors of the economy –agriculture, industry and service.

- 1.Primary sector 2. Secondary sector 3. Tertiary sector

(Explanation required).

9.What was the state of infrastructure at the time of independence.

- Ans. 1. Roads
2.Railways 3.Water transport
4. Banking and Financial services
5.Communication
6.Education and Health.

(Explanation required).

10.Briefly explain about Demographic Conditions on the eve of independence.

- Ans. 1.Water and airborne diseases
2. Birth rate
3. Poverty
4. Illiteracy
5.Mortality rate
6.Life expectancy
7.Bengal famine

(Explanation required).

Chapter2

INDIAN ECONOMY 1950-1990

KEY CONCEPTS

1. A Plan sells out how the resources of a nation should be put to use.
 2. **Purchasing power** refers to the value of money.
 3. **Market economy**: In a market economy, also known as "Capitalism", only those goods will be produced that can be sold profitably either in the domestic or in the foreign market.
 4. **Tariff**: A tax on imports, which can be imposed either on physical units, e.g., per tonne or on value.
 5. **Land reforms** primarily refer to change in the ownership of landholdings, so as to bring about equity in agriculture.
 6. **Marketed surplus**: The portion of the agricultural produce which is sold in the market by the farmers.
 7. **Equity** refers to every Indian being able to meet his or her basic needs and the inequality in the distribution of wealth should be reduced.
 8. **Structural composition** refers to the contribution made by each of the sectors, i.e. the agricultural sector, the industrial sector and the service sector of the economy.
 9. **World Trade Organization (WTO)** was founded in 1995 to establish a rule-based trade regime, to ensure optimum utilization of world resources.
 10. **Quotas** specify the quantity of goods which can be imported.
 11. **Land ceiling** refers to fixing the maximum size of land which could be owned by an individual.
 12. **Policy of protection**: is the policy based on the notion that industries of developing countries are not in a position to compete against the goods produced by more developed countries. So, it is assumed that if the domestic industries are protected they will learn to compete in the course of time.
 13. **Green Revolution**: A rapid and sudden increase in agriculture output in a short period of time with the use of new technology.
- Subsidy**: A grant or benefit given by the government to a producer as an encouragement to produce more. Subsidy is given to consumers as well, for eg., Subsidy on LPG. In New Delhi subsidy was provided to domestic consumers with monthly consumption up to 200 units.

I ONE MARK QUESTIONS AND ANSWERS:

1. **Self-reliance means avoiding:** ANSWER (B)
 (a) Exports (b) imports (c) Both (a) and (b) (d) None of the above.
2. **A good indicator of growth is steady increase in the :** ANSWER: (A)
 (a) Gross Domestic Product (b) Net Domestic Product (c) Population
 (d) National income.
3. **Which factor led to the breaking up of the stagnation of agriculture?**
 (a) Land reforms (b) Green Revolution (c) Buffer stocks (d) Land ceiling.
4. **The planning commission was set up in :** Answer (b)
 (a) 1948 (b) 1950 (c) 1951 (d) 1956
5. **Who is known as the architect of "Indian Planning"? Answer:**
 (c) (a) Jawaharlal Nehru (b) Dr. B.R. Ambedkar (c) P.C. Mahalanobis (d) Sardar Vallabhbhai Patel
6. **When was the first five-year plan introduced? Answer (b)**
 (a) 1st April, 1950 (b) 1st April, 1951 (c) 1st April, 1952 (d) 31st March, 1950
7. **The common goals of the five year plans are :** Answer: (d)
 (a) Modernisation (b) Growth (c) Self-reliance (d) All of the above.

8. Long- term objectives to be achieved over a long period of time formulated with reference to common goals of plans are called: Answer (d)

(a) Objectives of plans (b) Objectives of planning (c) Perspective plans (d) Both (b) and (c)

9. Under which system the goods are distributed among people not on the basis of what people need but on the basis of what people need but on the basis of purchasing power? Answer : (a)

(a) Capitalistic system
(b) Socialistic system
(c) Mixed system
(d) Dual system

10. Green Revolution introduced during the planning process was restricted mainly to :Answer: (a)

Wheat and rice (b) Cereals and pulses (c) Cotton and jute (d) Jowar and bajra.

11. What is a planned democracy?

Ans. A Planned democracy is the one in which people elect their representatives who take decisions as to how to use the nation's resources with the help of planning.

12. Why should plans have goals?

Ans. While a plan specifies the ways and means to allocate scarce resources to achieve proposed targets, goals are the ultimate targets, the achievement of which ensures the success of plans.

13. In which year NitiAayog initiated ?

II SHORT QUESTIONS AND ANSWERS (3 marks and 4 marks)

1. Explain “growth with equity” as planning objective.

Ans. Growth refers to the increase in GDP over a long period of time Equity refers to an equitable distribution of GDP so that the benefits due to higher economic growth are shared by all sections of population. Growth in itself does not guarantee the welfare of people. Hence, growth with equity is a rational and desirable objective of planning. This is not only leads to reduction of inequality of income but also enables everyone to be self-reliant.

2. Are self –Reliance and self-sufficiency the same? Explain.

Ans. No. Self-reliance is the ability to meet one's own –development needs. An economy must have enough resources or foreign exchange to purchase all inputs required for production. If they are not available within the country. This is so because an economy can be self-sufficient, i.e. produce everything within the country, as costs may be high. It may be cheaper and better to purchase certain inputs from other countries, For this , an economy needs to have enough foreign exchange. This is self-Reliance. So, while it is good to be self- sufficient, it is not the best way to develop. It is more desirable to be self- reliant.

3.What has been the impact of Self-reliance on Indian economy?

Ans. Impact of self-reliance on the Indian economy:

Self –sufficiency in food grains.
Decline in foreign aid and reduced dependence on imports owing to growth in domestic production .
Progress in exports.
Rise in contribution of industries to GDP.

3. Explain the policy of “land to the tiller” and its benefits

Ans. The ownership of land provides incentives to the tiller of the land to invest in making improvements, provided sufficient capital is made available to them. They take more interest since they make profit from the increased output which is not shared by anyone. The importance of ownership in providing incentives to farmers is illustrated by the carelessness with which farmers in the former Soviet Union used to pack fruits for sale. Rotten fruits were packed along with fresh fruits in the same box since it did not affect them if the goods were not sold

4. Why was there a need for reform of economic policy in 1990? Explain.

ANS. The need for reform of economic policy in 1990 was widely and strongly felt in the context of the changing global economic scenario. The new economic policy was initiated in 1991, in order to enhance the efficiency of the country's economy.

5. “Subsidies provide an incentive for wasteful use of resources”. Do you accept/reject? Justify your answer.

Ans. Yes, Subsidies provide an incentive for wasteful use of resources, if they are provided free or at a subsidized rate, then they will be used wastefully i.e. without any concern for the scarcity of say water/ Electricity. Fertiliser and pesticide subsidies lead to overuse of resources like land. This in turn can be harmful to the environment. So in this way provision of subsidies may cause more than benefit, if not properly used.

6. Why are HYV seeds called “miracle seeds”?

Ans. High Yielding Variety of seeds were developed by the Nobel Laureate Dr. Norman Borlaug in Mexico. These seeds are more productive and need regular and adequate irrigation facilities along with greater use of fertilizers and pesticides. HYV seeds grow faster than the normal seeds and crops can be harvested in a much shorter time-period.

7. What is import substitution policy? Why it was introduced in India?

Ans. Import substitution policy aimed at replacing or substituting imports with domestic production. For example, instead of importing vehicles from abroad, the industries were encouraged to produce them in India itself.

It was introduced in India because the government wanted to protect the domestic industries from foreign competition. It was assumed that if domestic industries are protected, they will learn to compete in the course of time.

8. Explain how tariffs and quotas protect the domestic industry? Ans.

Tariffs are tax imposed on imported goods. They make imported goods more expensive, thus, discouraging their use. Quotas specify the quantity of goods which can be imported, thus restricting the import of foreign goods.

III LONG QUESTIONS AND ANSWERS (6 MARKS)

1. Mention the period covered under different plans.

Ans

First Plan	1951-1956
Second plan	1956-1961
Third plan	1961-1966
Annual plans	1966-1969
Fourth plan	1969-1974
Fifth plan	1974-1978
Annual plans	1978-1980
Sixth plan	1980-1985
Seventh plan	1985-1990
Annual plans	1990-1992
Eighth plan	1992-1997
Ninth plan	1997-2002
Tenth plan	2002-2007
Eleventh plan	2007-2012
Twelfth	2012-2017
Nityi Aayog/Thirteenth Plan	2017 onwards

2. What are achievements of plans and failures of Economic planning?

Ans. (I) Increase in national income (ii) increase in per capita income, (iii) increase in the rate of capital formation (iv) institutional and technological reforms in agriculture (v) Growth and diversification of industry (vi) Economic infrastructure, (vii) Social infrastructure.

(II) Failures of Economic Planning: (i) Abject Poverty (ii) Mounting inflation, (iii) Unemployment crises, (iv) Deficient infrastructure, (v) Skewed distribution.

3. What is Economic planning ?

Ans. Economic planning is the determination of a suitable way to utilize the resources of the country to achieve the goals or objectives. It is the assessment, allocation, mobilisation and utilization of available resources to benefit the people.

4.State the common goals of Five –Year plans.

Ans. 1. High rate of growth

2.Social justice

3. Self –reliance

4. Modernisation

(Explanation required).

5. Explain the various land reforms introduced post-independence in India in the agricultural sector.

Ans.(1) Abolishing the intermediaries

(2) Consolidation of Holdings

(3) Redistribution of land

(4) Co-operative farming

(5) Tenancy reforms

(6) Ceiling on land holdings

(Explanation

required).

6. Why was the Green Revolution implemented?

Ans. (1)Low irrigation facility

(2) Conventional and Traditional approach

(3) Lack of Finance

(4) Lack of Self-sufficiency

(5) Marketing agriculture produce

(6) Frequent occurrence of famines

(Explanation required).

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.

Ans. The following arguments are given in favour of subsidy:

- a. Subsidy is generally provided to the poor farmers with the motive of reducing inequality of income between rich and poor farmers.
- b. Subsidy was basically an incentive for the farmers to adopt modern techniques and vital inputs like fertilizers, HYV seeds etc. The subsidy was provided so that the farmers might not hesitate to use modern techniques.
- c. Subsidy is very important for marginal land holders and poor farmers who cannot avail the essential farm inputs at the ongoing market rate.

The following arguments are given against subsidy:

- a. Subsidies are also given to the farmers who do not need them. This often leads to the misallocation of the scarce resources.
- b. It is generally argued that subsidy favours and benefits fertilizer industries more than the farmers.
- c. Subsidies may lead to the wastage of precious resources.

Hence, we can conclude that although subsidies are useful and necessary for poor farmers they put an excessive burden on the scarce finances of the government. Allocation of subsidies to the farmers who need it most is required.

8. How were the industries classified according to the industrial policy Resolution,1956?

Ans. (1) Category A

(2) Category B

(3) Category C

(Explanation required).

9. How did Green Revolution benefit the farmers?

Ans. (1) Increasing income of the farmers.
(2) increase in productivity of land.
(3) Self sufficiency
(4) Promotion of Science and technology
(5) Promotion of infrastructural development
(6) Increase in National income.
(7) Increase in Rural employment.
(Explanation required).

10.What were the disadvantages of the Green Revolution?

Ans.(1) Confined to food crops
(2) Limited coverage
(3) Undesirable social effects
(4) Inequality among farmers
(5) Social unrest.
(6) Regional disparities.
(Explanation required).

11. Explain the importance of industrial sector in economic growth and development of the Indian economy.

Ans. (1) Source of Employment
(2) Industrialization is a sine-qua-non of growth.
(3) Source of mechanized means of farming
(4) Imparts Dynamism to Growth process
(5) Growth of civilization
(6) Infrastructural Growth
(7) Structural Transformation
(Explanation required).

CHAPTER :III

ECONOMIC REFORMS SINCE 1991

KEY CONCEPTS

1. Economic crisis: A situation wherein the expenditures are much more than the revenues and there is no source (such as world Bank) to lend (as the borrower already has a large outstanding loan to repay with interest)
2. Public sector undertakings (PSU's): Government-owned enterprises that produce and sell various goods in the market, to earn profit.

3. Remittances: These are foreign currencies transferred by those working outside the country to their families and friends in their own countries.
4. Delicensing: Removal of controls, especially on industries.
5. Dereservation: Taking off certain industries from the sole domain of public sector by allowing Private capital investment, such as in coal, medicine etc.
6. Devaluation: It is the fall in the value of domestic currency with respect to foreign currency under the fixed exchange system (Presently, the synonymous term is depreciation-under flexible exchange system).
7. Outsourcing: Contracting another agency to conduct a process during production of services Foreign. Contract for maintaining software, customer services etc.
8. Quantitative restrictions: Restrictions in the form of total quantities or quotas imposed on imports to reduce Balance of Payments (BoP) deficit and protect domestic industry.
9. Import Licensing: Permission required from the government to import goods into a country.
10. Foreign Direct investment(FDI) : refers to the investment of foreign assets into domestic structures, equipment and organizations. It does not include investment into the stock markets.

10 MARK QUESTION AND ANSWER

1. **International Bank for Reconstruction and Development (IBRD) is popularly known as :** **Answer (A)**
 (a) World Bank (b) Bank of Tokyo (c) American Express (d) HSBC Bank
2. **IMF stands for :** **Answer (c)**
 (a) International Monetary Foundation (b) Internal Monetary Fund
 (c) International Monetary Fund (d) International money foundation
3. **What was the one major proposal of new industrial policy (1991)?** **Answer (d)**
 (a) NRI's will not be allowed for capital investment in India.
 (b) Facility of FDI upto 51 percent in high priority industries
 (c) Import restrictions on technical know how for one year
 (d) Abolition of industrial licencing except for six industries.
4. **Objectives of privatization policy are :** **Answer (a)**
 (a) To improve the government's financial position
 (b) To improve the performance of an enterprise
 (c) To reduce the burden on public administration.
 (d) All the above.
5. **Rate of which tax was reduced as per the tax reforms:** **Answer (b)**
 (a) Income tax (b) corporation tax (c) value –added tax (d) property tax
6. **Which is the latest tax introduced by the government of India?** **Answer (a)**
 (a) Goods and services tax (b) Value –added tax (c) service tax (d) corporation tax

7. Privatization of the public sector undertakings by selling off part of the equity of PSU's to the private sector is known as _____ answer:(disinvestment)
8. SGST stands for _____ answer (State Goods and Services Tax)
- 9. What is privatization?**
Ans. It implies shedding of the ownership or management of a government – owned enterprise.
- 10. Define disinvestment.**
Ans. Disinvestment refers to a deliberate sale of a part of the capital stock of a company to raise resources and change the equity and /or management structure of a company.
- 11. What is meant by globalization?**
Ans. Globalization is an outcome of the set of various policies aiming at transforming the world towards greater interdependence and integration.
- 12. What is meant by demonetization?**
Ans. De monetization is the economic policy wherein the legal status of a currency unit is cancelled and new one comes into circulation.
- 13. When was de monetization implemented in India?**
Ans. On November 8,2016 , demonetization was implemented in India with its announcement by the Prime Minister Narendra Modi's address to the nation at 20:15 IST.

II SHORT QUESTIONS AND ANSWERS(3 OR 4 MARKS)

1. State the features of new economy policy.

- Ans. 1. Liberalization
2. Privatization
3. Globalization

(Brief Explanation required)

2. What are Fiscal policy reforms? Explain.

Ans. Fiscal policy reforms were undertaken to improve the expenditure and revenue policies of the government. The following steps were undertaken:

- (a)** Tax Reforms: Tax rates were reduced, tax evasion was plugged and procedures were simplified.
- (b)** Government expenditure was curtailed by cutting down on unnecessary expenses. Borrowings were reduced and all loss-making PSU's were shut down.
- (c)** Disinvestment in PSU's was undertaken to plug the budgetary deficit.

3. Explore the industrial policy Reforms under NEP 1991.

Ans. Industrial Policy Reforms were aimed at reducing government control and opening up the industrial sector to private participation. The reforms were:

- (i) Delicensing of industries
- (ii) Deregulation of industries
- (iii) Dereservation of industries by withdrawal of reservation in public sector.
- (iv) Foreign capital was also encouraged by increasing the share of foreign investment.

4. Write a short note on Niti Aayog.

Ans. Its constitution comprises the following:

1. Chair person (The Prime Minister)
2. Vice-Chairperson
3. Full Time members(four)
4. Chief Executive officer(one)

Formed via a resolution of the union Cabinet on January 1, 2015. NITI Aayog is the premier policy "Think-Tank" of the government of India (GOI), providing both directional and policy inputs. While designing strategic and long-term policies and programmes for the GOI, it also provides relevant technical advice to the centre and states.

5. Give any three aims of demonetization.

Ans. The three aims of demonetization are:

- (a) To Curb corruption
- (b) To curb counterfeiting
- (c) To curb the use of high denomination notes for terrorist activities.

5. What do you understand by GST? How good is a system of GST as compared to the old tax system? State its categories.

Ans. GST is the "single comprehensive indirect tax" on supply of goods And services right from manufacturer or service provider to the consumer.

The system of GST as compared to the old tax system.

- 1. Has simplified the multiplicity of taxes on goods and services.
 - 2. The laws, procedures and rates of taxes across the country are also now standardized.
 - 3. It has also facilitated the freedom of movement of goods and services.
 - 4. It has created a common market in the country.
- The two categories of GST are CGST and SGST.

7. Give the list of navaratna companies

Ans. (a) Bharat Electronics Ltd.

(b) Bharat petroleum Corporation Ltd.

(c) Hindustan Aeronautics Ltd.

(d) Hindustan Petroleum Corporation Ltd.

(e) Mahanagar Telephone Nigam Ltd.

(f) National Aluminium Company Ltd.

(g) National mineral Development Corporation Ltd.

(h) Neyveli Lignite Corporation Ltd.

(i) Oil India Ltd.

(j) Power Finance Corporation Ltd.

(k) Power Grid Corporation of India Ltd.

(l) Rashtriya Ispat Nigam Ltd.

(m) Rural Electrification Corporation Ltd.

(n) Shipping Corporation of India Ltd.

8. What are the objectives of WTO?

Ans. Objectives of World Trade Organization(WTO) are:

- (a) Reduction of trade barriers to liberalize world trade.
- (b) Serves as a platform for countries to raise their concerns regarding the trade policies of their trading partners.
- (c) To enlarge production and trade of services.
- (d) To ensure optimum utilization of world resources.
- (e) To protect the environment.
- (f) To provide greater market access to all member countries.

LONG QUESTIONS AND ANSWERS: (6 MARKS)

1. Explain the reasons for introduction of New Economic policy.

- Ans. (1) Poor performance by the public sector undertakings
(2) Inflationary pressures

- (3) Increasing debt burden
- (4) Fragile balance of payments position.
- (Briefly explanation required)

2. Explain financial sectors reforms under Liberalisation.

- Ans. 1. Freedom to determine own interest
 2. Private banks granted permission
 3. Permission for foreign investment

3. Do you think outsourcing is good for India. Why are developed countries opposing it ?

- Ans. (1) Employment
 (2) Higher standard of living
 (3) Contributes to human capital formation
 (4) Encourages other sectors
 (5) Greater infrastructural investment
 (6) International worthiness
 (7) Foreign Exchange
 (Briefly explanation is required)

4. What are the major factors responsible for the high growth of the service sector?

- Ans. (1) Cheap labour and reasonable degree of skill in India.
 (2) Advanced technology and growth of IT
 (3) Structural transformation
 (4) High demand for services as final product
 (Briefly explanation is required)

5. Explain the main objectives of Globalization.

- Ans. Following are the main objectives of globalization are as follows:
1. Reduction of trade barriers to liberalize world trade.
 2. Serves as a platform for countries to raise their concern regarding the trade policies of their trading partners.
 3. To enlarge production and trade of services.
 4. To protect the environment
 5. To provide greater market access to all member countries.
 6. To ensure optimum utilization of world resources .

CHAPTER 4

POVERTY

KEY CONCEPTS:

- ☐ Meaning of Poverty
- ☐ Poor in Urban Areas
- ☐ Poor in Rural Areas
- ☐ Common characteristics of the poor people
- ☐ Measures of Poverty
- ☐ Relative Poverty
- ☐ Absolute Poverty
- ☐ Causes of Poverty
- ☐ Poverty Alleviation Programmes
- ☐ Government's approach to Poverty reduction

IMARKQUESTIONANDANSWERS

1) Poverty data collected officially by...

- (a) National Sample Survey Organization (b) National Rural Development Programme
- (c) National Statistical Department (d) National Census Survey

2) In which year “National Food for Work” programme was launched?

- (a) 2008 (b) 2004 (c) 1999 (d) 2010

3) Minimum calorie requirement in rural areas for per day is ____

- (a) 1400 calorie (b) 2100 calorie (c) 2400 calorie (d) 2800 calorie

4) Self Employment programmes include...

- (a) Prime Minister Rojgar Yojana (PMRY)
- (b) Sampoorna Grameen Rojgar Yojana (SGRJ) (c) National Social Assistance Programme (NSAP)
- (d) National Food for Work Programme (NFWP)

5) The earlier “Food for Work Programme” has now been converted into

- (a) Intensive Area Development Programme
- (b) Integrated Rural Development Programme
- (c) Mahatma Gandhi National Rural Employment Programme
- (d) Minimum Needs Programme

6) Who introduced the concept of “Jail Cost of Living”?

- (a) Mahatma Gandhi (b) Dadabhainaraji (c) Jawaharlal Nehru (d) Sardar Vallabhai Patel

7) Which standard is used by the concept of absolute poverty to measure number of poor people?

- A) Poverty Line

8) What is meant by H.C.R (Head Count Ratio) ?

- A) When the number of poor is estimated as the proportion of people below the poverty line, it is known as Head Count Ratio.

9) Mention two wage employment programmes initiated by the government?

- A) 1. Sampoorna Grameen a Rojgar Yojana
- 2. National Food for Work Programme

10) Name the programme initiated by the Government to help the elderly people, poor and destitute woman. (HOTS)

- A) National Social Assistance Programme (NSAP)

11) Under MNERGA, What is the minimum number of days of employment in a year guaranteed? (HOTS)

A) 100 days in a year

12) Name the two measures of poverty

A) 1. Absolute Poverty 2. Relative Poverty

Answers

1. a 2. b 3. c 4. a 5. c 6. b

II. Short Answer Questions 3/4Marks

1) What is the difference between Relative and Absolute Poverty?

A) 1. **Relative Poverty:**

(a) It refers to poverty of people in comparison to other people, regions or nations.

(b) Relative poverty helps in understanding the relative position of different segments of the population.

2. **Absolute Poverty:**

(a) It refers to the total number of people living below poverty line.

(b) Absolute poverty helps to measure the number of poor people.

2) Name some of the Poverty Alleviation Programmes initiated by the government of India

A) There are two types of Poverty Elevation Programmes in India.

3. Self-Employment Programmes

- Rural Employment Generation Programme (REGP)
- Prime Minister Rozgar Yojana (PMRY)
- Swarna Jayanti Shahri Rozgar Yojana (SJSRY)
- Swarn jayanti Gram Swarozgar Yojana (SGSY)

4. Wage Employment Programme

- Sampoorna Grameena Rozgar Yojana (SGRY)
- National Food for Work Programme (NFFWP)

3) Write a short note on “Minimum Needs Programme”

- It has been initiated from the fifth five year plan
- It aims to provide minimum basic amenities to the people
- To create employment opportunities and bring improvements in health and education
- Three major Programmes that aim at improving the food and nutrition status of the poor
 - Public Distribution System (PDS)
 - Integrated Child Development Scheme (ICDS)
 - Mid-Day meals Scheme

4) Explain “Mahatma Gandhi National Rural Employment Guarantee Act 2005”

- It aims at enhancing the livelihood security of people in rural areas by guaranteeing hundred days of wage employment in a financial year to a rural household whose adult members volunteer to do unskilled manual work.
- The poor who are ready to work at the minimum wage can report for work in areas, where this programme is implemented.
- Nearly 5 Crore household got employment opportunities under this Act

5) Briefly discuss the “Swarnjayanti Gram Swarojgar Yojana”

- It aims at promoting micro enterprises and to bring the assisted poor families above the poverty line, by organizing them into Self Help Groups (SHGs)
- People who wish to benefit from this scheme are encouraged to form Self Help Groups (SHGs)
- They are encouraged to save some money and lend among themselves as small loans.
- The government provides partial finance assistance to SHGs
 - This has now been restructured as National Rural Livelihood Machine (NRLM)

III LONG ANSWER QUESTIONS 6 MARKS

1) What are the causes of poverty in India?

A) These below 8 are the causes of poverty in India:

- Population Explosion
- Low level of economic development
- Agriculture backwardness
- High Illiteracy rate
- High Un-Employment
- High level of Indebtedness
- Income inequalities
- High Inflation

With Brief Explanation

2) What are the steps taken by the government to remove poverty in India?

A) The government’s approach to poverty reduction has three dimensions:

- Growth Oriented Approach
- Poverty Alleviation Programmes
- Minimum Needs Programme

With Brief Explanation

3) Write a short notes on (i) National Food for Work Programme (ii) National Social Assistance Programme

A) (i) **National Food for Work Programme (NFFWP):**

- It was launched in 2004
- The objective of Intensifying the generation of supplementary wage employment

- It was initially implemented in 150 most backward districts of the country
- The Programme was implemented as a 100 percent Centrally sponsored scheme
- This programme was incorporated in Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) in 2005

(ii) National Social Assistance Programme (NSAP):

- It was initiated by the central government on 15th August 1995 to help a few specific groups
- Under this Programme, elderly people who do not have anyone to take care of them are given pension to sustain themselves
- Poor woman who are destitute and widows are also covered under this scheme

4) What is the criticism against the Poverty Alleviation Programmes (PAPs)

- A) The Poverty Alleviation Programmes have been found unsatisfactory because of the following reasons
- Lack of Resources
 - Un-equal distribution of income and wealth
 - Improper implementation
 - Lack of active Participation of poor people

CHAPTER 5

HUMAN CAPITAL FORMATION

KEY CONCEPTS:

- **Physical Capital:** It includes all those inputs which are required for further production.
Examples: Plant and Machinery, Factory, Buildings, Raw Materials etc.
- **Human Capital:** It refers to the stock of skill, ability, expertise, education and knowledge embodied in the people.
- **Human Capital Formation:** It refers to development of abilities and skills among the

population of the country.

IMARKQUESTIONANDANSWERS

- 1) _____ five year plan recognized the importance of Human Capital
(a) Seventh (b) Third (c) Eight (d) Sixth

Ans: a

- 2) In India, which of the following organizations regulate the health sector?
(a) ICMR (b) UGC (c) AICTE (d) None of these

Ans: a

- 3) In the year _____ Indian Government made free and compulsory education for age group of 6 to 14 years?
(a) 2001 (b) 2009 (c) 2003 (d) 2007

Ans: b

- 4) Which one of the following is a reason for poor human capital formation in India? (HOTS)
(a) Brain drain (b) Insufficient resources (c) High Growth of Population
(d) All of these

Ans: d

- 5) Which of the following is **not** a source of Human Capital Formation?
(a) Expenditure on Infrastructure (b) Expenditure on Education
(c) Expenditure on On-the-job training (d) Expenditure on Migration

Ans: a

- 6) _____ refers to the stock of skill, ability, expertise, education and knowledge embodied in the people
(a) Human Resource (b) Physical Capital (c) Human Capital (d) None of these

Ans: c

- 7) **What is the full form of ICMR?**
(a) International Council of Medical Research
(b) India Council of Medical Resources
(c) International Council of Medical Resources
(d) Indian Council for Medical Research

Ans: d

8) Give the meaning of Human Capital?

- A) It refers to the stock of skilled, ability, expertise, education and knowledge embodied in the people.

9) Name the various forms of health expenditure.

- A) Preventive medicine, curative medicine, social medicine, provision of clean drinking water and good sanitation are the various forms of health expenditure.

10) How is on-the-job-training a source of human capital formation?

- A) On-the-job-training is a source of human capital formation as it increases the skill and efficiency of the workers and leads to an increase in production and productivity.

11) Why has India not been able to achieve 100 percent literacy even till today? (HOTS)

- A) India has not been able to achieve 100 percent literacy because of its failure to provide free and compulsory education for all children up to the age of 14 years.

12) Which five year plan recognized the importance of human capital?

- A) The Seventh Five year Plan

13) What do the differences in male and female literacy rates indicate?

- A) The differences in male and female literacy rates indicate that education in India is gender biased.

14) How much educational cess was imposed by the government to all union taxes?

- A) 2 per cent

II. Short Answer Questions 3/4 Marks

1) What are the sources of Human Capital Formation?

- A) These below 5 are the sources of Human Capital Formation:

- Expenditure on Education
- Expenditure on Health
- On-the-job training
- Expenditure on Migration
- Expenditure on Information

With Brief Explanation

2) Name the two government organizations that regulate the Health and Education sector.

- A) **Health Sector:**

- Ministries of Health at the Central and at State level
- Indian Council for Medical Research (ICMR)

Education Sector:

- Ministries of Education at the Union and State level
- National Council of Educational Research and Training (NCERT)

3) What is the difference between Human Capital and Human Development?

- A) **Human Capital Vs Human Development:**

- It considers education and health as a means to increase the labour productivity, while according to human development, education and health are integral to human well-being.
- Human Capital treats human beings as a means to increase in productivity, while according to human development, human beings ends in themselves.

4) What are the various forms of Health Expenditure?

- A) These five are the forms of Health Expenditure:

- Preventive medicine ☐ Vaccination
- Curative medicine ☐ medical intervention during illness
- Social Medicine ☐ spread of health literacy

- Provision of clean drinking water
- Good Sanitation facilities

5) How Education contributes to economic growth of a country? (HOTS)

- Education confers higher earning capacity on people
- It gives better social standing and pride
- It enables one to make better choices in life
- It provides knowledge to understand the changes taking place in society
- It also stimulates innovations
- It facilitates adaptation of new technologies

6) What is the difference between Physical Capital and Human Capital?

A) Physical Capital:

- It can be easily sold in the market
- It depreciates with the passage of time.
- It is more mobile between countries
- It can be separated from its owner
- It can be built through imports

Human Capital:

- It cannot be sold in market
- Depreciation in Human Capital can be reduced by making continuous investments in education and health
- It is less mobile between countries
- It cannot be separated from the owner
- Human Capital formation is to be done through conscious policy formulations.
-

III LONG ANSWER QUESTIONS 6 MARKS

1) What is the importance/role of Human Capital Formation in India?

A) There are 7 importance of Human Capital Formation:

- Effective use of Physical Capital
- Higher Productivity and Production
- Inventions, Innovations and Technological improvement
- Modernization of attitudes
- Increases life expectancy
- Improves quality of life
- Control of population

With Brief Explanation

2) What are the various forms of Human Capital Formation?

A) These below 7 are the forms of Human Capital Formation:

- Insufficient resources
- Serious inefficiencies
- Brain-drain
- High Growth of Population
- Several Imbalances
- Lack of proper Man-power planning
- Weak Science and Technology

With Brief Explanation

3) Why the need for on-job-training for a person?

- Such training has the advantage that it can be provided fast and without much cost.
- It increases the skill and efficiency of the workers.
- It increases the Production and Productivity of the workers.
- Workers may be trained in the firm itself under supervision of a skilled worker.
- Workers may be sent for off-campus training.

With Brief Explanation

CHAPTER 6 RURAL DEVELOPMENT

KEY CONCEPTS:

- ⌘ **Rural Development:** It refers to continuous and comprehensive socio-economic process, attempting to improve all aspects of rural life.
- ⌘ **Rural Credit:** Growth of Rural economy depends on timely inclusion of Rural Capital
- ⌘ **Agricultural Marketing:** It is a process that involves assembling, storage, processing, transportation, packaging, grading and distribution of different agricultural commodities across the country. **Ans: a**
- ⌘ **Organic farming:** It is the form of agriculture that lies on techniques such as crop rotation, green manure, compost and biological pest control.

IMARK QUESTION AND ANSWERS

- 1) **Why is minimum support price fixed by the government?**
 - (a) For government own benefit
 - (b) To safeguard the interest of farmers
 - (c) To safeguard the interest of consumers
 - (d) None of these**Ans: b**
- 2) **_____is the apex body which coordinates the functioning of different financial institutions working for expansion of rural credit**
 - (a) NABARD (b) Self-Help Groups (c) Regional Rural Banks
 - (d) Commercial Banks
- 3) **Organic Farming is beneficial because:**
 - (a) It generates income through international exports
 - (b) It is produced in an environmentally sustainable way
 - (c) It provides healthy food
 - (d) All of these
- 4) **The scheme of “Micro Finance” is extended through:**
 - (a) Self-Help Groups (b) Land Development Banks
 - (c) NABARD (d) Regional Rural Banks

Ans: a

5) Which one of the following is not a non-institutional source of credit?

- (a) Money lenders (b) Relatives (c) Traders and commission agents (d) Land development bank

Ans: d

6) Name the state which is held as a success story in the efficient implementation of milk cooperatives

- (a) Maharashtra (b) Jammu and Kashmir (c) Gujarat (d) Andhra Pradesh

Ans: c

7) Which states are major producers of Marine products (HOTS)

- A) Kerala, Gujarat, Maharashtra and Tamil Nadu

8) What is Cooperative Marketing?

- A) It refers to a system in which marketing societies are formed by farmers to sell the **output** collectively and to take advantage of collective bargaining.

9) What is the main aim of Cooperative marketing societies?

- A) The main aim of Cooperative marketing is to realize fair price for farmers products.

10) Name the three institutional sources of agricultural credit

- Co-Operative credit societies
- Commercial Banks
- Regional Rural Banks

11) Why is Minimum Support Price (MSP) fixed by the government?

- A) To safe guard the interest of farmers.

12) What do you mean by "Operation Flood"?

- A) Operation Flood is a system, whereby all the farmers can pool their milk produce according to different grading and the same is processed and marketed to Urban **centers** through co operatives.

13) What is Micro Finance?

- A) It is credit scheme extended to the poor through Self-Help Groups (SHGs)

14) Why have Self-Help Groups been set up?

- A) It have been set up to promote the thrift in small proportions by a minimum contribution from each member. From the pooled money, credit is given to the needy members to be re payable in small installments at reasonable interest rates.

II. Short Answer Questions 3/4Marks

1) Explain the process of Rural development.

- Development of Human resources
- Development of Infrastructure
- Land reforms
- Alleviation of Poverty
- Development of productive resources of each locality

With Brief Explanation

2) Name the important institutional sources of agricultural credit in India.

- A) There are 6 important institutional sources of agricultural credit in India
- Co-Operative credit
 - Land development banks
 - Commercial banks
 - Regional Rural banks
 - The Government
 - National Bank for Agricultural and Rural Development (NABARD)

With Brief Explanation

3) Name the alternate marketing channels.

- A) The concept of "Farmers Market" was started, to give boost to the small farmers by providing them direct access to the consumers and eliminating the middlemen.

Some Examples of these Channels:

- Apni Mandi in Punjab, Haryana and Rajasthan
- Hadaspar Mandi in Pune
- Rythu bazars in Andhra Pradesh and
- Uzhavar Sandies (in Tamil Nadu)

- A) **What are the policy instruments initiated by the government to protect the farmer's interests?**

These below 3 instruments initiated by the government:

- Minimum Support Price (MSP)
- Maintenance of buffer stocks
- Public Distribution System (PDS)

With Brief Explanation

4) Define Agricultural Marketing and what are the problems faced by the farmers?

- A) Agricultural Marketing: It is a process that involves assembling, storage, processing, transportation, packaging, grading and distribution of different agricultural commodities across the country.

Problems faced by the farmers:

- Manipulation by big traders
- Lack of market information
- Lack of storage facilities

With Brief Explanation

5) What measures to be taken to improve agricultural marketing?

- Regulated markets
- Infrastructural facilities
- Co-Operative marketing
- Minimum Support Price (MSP)
- Maintenance of buffer stocks
- Public Distribution System (PDS)

With Brief Explanation

III LONG ANSWER QUESTIONS 6 MARKS

1) What are the sources of Rural credit?

A) There are two main sources of Rural credit:

- Institutional sources
- Non Institutional sources

Institutional Sources:

- Co-Operative credit
- Land development banks
- Commercial banks
- Regional Rural banks
- The Government
- National Bank for Agricultural and Rural Development (NABARD)
- Self Help Group bank linkages programme for micro finance.

Non Institutional sources:

- Money lenders
- Relatives
- Traders and commission agents
- Rich land lords

With Brief Explanation

2) What is the criticism against Rural banking system in India?

A) Some of the problems faced in Rural banking system are

- In sufficiency
- In adequate coverage of institutional sources
- In adequate amount of sanction
- Less attention to poor/ marginal farmers
- Growing over dues

With Brief Explanation

3) Explain the Non farm areas of employment in India.

- Information Technology
- Animal Husbandry
- Dairying
- Horticulture
- Fisheries

With Brief Explanation

4) What are the benefits and challenges before Organic Farming?

A) **Benefits:**

- Economical farming
- Provides healthy food
- Generates income to exports
- Safety of environment
- Source of employment

Challenges:

- Less popular
- Lack of Infrastructure
- Lack of marketing facilities
- Low yield
- Shorter food life
- Limited choice of crops

With Brief Explanation

CHAPTER – 7

EMPLOYMENT: GROWTH, INFORMALISATION AND OTHER ISSUE

I LEARNING OBJECTIVES:-

- 1 Introduction
 - a Distribution of employment by gender
 - b Distributions of employment by region
 - c Distributions of employment in different sectors
 - d Distributions of rural-urban employment in different sectors
- 2 Growth of employment and Gross Domestic Product(GDP)
- 3 Changing structure of employment
Casualization Concepts:- Meaning of worker - Labour force and work force
Meaning of employment
Wage employment -Regular workers (Regular Salaried employees) - Casual Workers
- 4 Participation of people in employment
- 5 Participation of people in employment
 - e Worker-population ration on the basis of region
 - a Di of work force.
- 6 Informalization of *Indian workforce*
 - a *Formal or Organized sector.* B. Informal or unorganized sector.
Worker: A worker is an individual who is involved in some productive activities to earn a living.
- 7 Participation of people in employment
Formal or Organized sector.
- 8 Informalisation of *Indian workers*

KEY CONCEPT:

1. **A worker:** a person who is working in a productive activity and causes flow of goods and services in the economy.
2. **Casual Workers:** workers who are not regular and will not get the benefits like pension, gratuity etc.
3. **Regular Workers:** Employees who are employed on regular basis and get social security benefits including pension provident fund etc.
4. **Formal Sector:** It includes all government departments, public enterprises and private establishments which hire 10 or more workers.
5. **Informal Sector:** it refers to unorganized sector of the economy. It includes all those private enterprises who hire less than 10 workers.
6. **Labour Force:** The labour force of an economy consists of the following :
 - i) People who are engaged in some economic activity and contribute to the generation of national product and income.
 - ii) People who are able and willing to work but do not find any job that generates income.

7. **Workforce:** Iworkers who participate in economic activity to produce goods and services.
8. **Unemployed:** An able bodies person who is ready to work but could not find the job at current wage rate.
9. **Casualization of Workforce:** It refers to a situation when the percentage of casually hired workers in the total work force tends to rise over the time period.
10. **Informalization of Workforce:** the percentage of work force in the formal sector decline and increase their percentage in informal sector.
11. **Public Sector Establishments:** These Enterprises owned and controlled by the government .
12. **Private Sector Establishments:** These enterprises owned and controlled by the private individual .
13. **Trade Union:** In order protect the interest of worker they form an organization for the common cause.
14. **Labour Laws:** in order to protect labour from exploitation, laws are framed by the Government.
15. **Disguised Unemployment:** Engaging more number of workers than required for a job. It means even if some of the labour force is withdrawn, the marginal product remains the same.

MCQ/ OTQ OF 1 MARK QUESTIONS

1. Most of the disguised unemployed persons in India are found in
A) Agriculture B) Industry C) Trade D) Transport (Ans: A)
1. Unemployment refers to people:
A) Who are not willing to work
B) Who are willing but not get work (Ans: B)
C) Who leave their jobs in search of better ones
D) Who have been dismissed because of incorrect practice
2. The major cause of unemployment in India can be classified as
A) Under development C) Defective planning (Ans: D)
B) Rapid population growth D) All of these
3. Supply of labour corresponding to different wage rates is referred as:
A) Labour supply B) Labour force C) participation rate D) Work force
(Ans: A)
4. Those who do not get any pension or gratuity benefits are known as:
A) Self-employed workers C) regular workers
B) Casual workers D) unemployment (Ans: B)
5. In which type of unemployment do the marginal productivity of the workers is zero?
A) Disguised unemployment C) seasonal unemployment (Ans: A)
B) Involuntary unemployment D) structural unemployment
6. Jobless growth leads to unemployment because:
A) Labour refuses to migrate b) labour is very expensive
c) GDP growth is slow d) Growth is due to technology (Ans: D)
7. Krishna has his own -land on which he grows only one crop in a year. He works only for 5 to 7 months in a year. The kind of unemployment he faces in the remaining pars of years is called.
A) Disguised unemployment C) Frictional unemployment
B) Seasonal unemployment D) Cyclic unemployment (Ans: B)

8. Unemployment is defined as

- A) The section of the population that is not capable of being employed.
- B) The section of population willing to work but unable to find employment.
- C) The section of population that is waiting to be employed. (Ans: B)
- D) The section of population that are without the skills needed by employers

9. The formula to calculate workforce participation ratio is

- A) $(\text{workforce} / \text{total population}) \times 100$
- B) $(\text{Number of unemployed persons} / \text{Labour force}) \times 100$
- C) $\text{Workforce} + \text{Numbers of people who are willing to work but are unemployed}$
- D) $(\text{workforce} / \text{Labour force}) \times 100$ (Ans: A)

10. What is dependency ratio?

Ans: Ratio of working population to total population.

11. Is India experiencing jobless growth ? why ?

Ans: Yes. More and more goods and services are being produced and there by achieving growth of GDP rate but it is not leading to generation of employment opportunities.

12. Can these be called as workers – a beggar, a thief, a smuggler, a gambler ? why?

Ans: No. none of them involved in legal production activities.

13. Who all are included in labour force?

A: All persons, who are working (have job) and though not working, are seeking and are available for work, are deemed to be in the labour force.

14. Give the meaning of work force.

A: The number of persons, who are actually employed at a particular time are known as work force.

15. Define worker – population ratio.

A : Worker- population ratio is the percentage of total population engaged in work.

16. what is meant by labour force participation rate?

A : The ratio of labour force to total participation is called labour rate

17. What is meant by Casualization of work force?

A : The process of moving from Self- Employment and regular salaried employment to casual wage work is known as Casualization of Workforce.

18. Name the two kinds of urban unemployment.

- A:
- 1. Industrial unemployment
 - 2. Educated unemployment.

19. What do you mean by industrial unemployment?

A : It refers to the unemployment among the illiterates. Who wish to work in industrial establishment.

20. Give the meaning of educated unemployment.

A: Educated unemployment refers to the unemployment among the Educated people.

21. What is meant by wage employment?

A: An arrangement in which a worker sells his labour and earns wages in Return

22. What is meant by seasonal unemployment?

A: Unemployment that occurs at certain seasons of the year is known as Seasonal unemployment.

23. Give the meaning of disguised unemployment.

A : Disguised unemployment refers to a state in which more people are engaged in work than are really needed.

24. What do you mean by full employment?

A: Full employment refers to a situation in which all the workers who are capable of working and willing to work get an Employment in prevailing wage rates.

3/4 MARKS QUESTIONS

1) Why do we differentiate between Economic activity and production activity?

A: We differentiate between Economic activity and production activity to calculate the number of workers. People engaged only in production activities are to be included in the category of workers.

2) What do you mean by formal sector establishment?

A: 1. All the public enterprises and private establishments, which Employ 10 or more hired

workers are called formal sector establishments.

2. They get all types social benefits.

3) What do you mean by Informal sector Establishment?

A: All those private enterprises which hire less than 10 workers are called Informal sectors.

Eg: Workers who work in farms, owners of Small Enterprises, Agriculture labourers. Here they do not get regular income. No protection or regulation by government can be dismissed at any time. Live in slums, use outdated technology, do not maintain accounts.

4) Why are regular salaried employees more in urban areas than in rural areas?

A:i) Because of availability of educational institutions regular salaried employees are more in urban areas than rural areas. As such they get better opportunities for their skill.

ii) Whereas ,in rural areas, majority of the people are illiterate and lack skills, which are needed for regular employment.

5) What is meant by frictional unemployment?

A) Temporary unemployment, which exists during the period, wherein workers leave

one role and join some other, are called frictional unemployment.

6) How can we calculate number of unemployed people and employed people ?

Unemployed people = labour force – Work force.

Meaning of Employment:-Employment is an activity which enables a person to earn his living.

Total number of workers in India

$$WPR = \frac{\text{Total number of workers in India}}{\text{No. of work population In India}} \times 100$$

No. of work population In India

It helps in knowing the proportion of population that is actively contributing to the production of goods and services of a country.

7) Why is worker population ratio is higher in males than in females in India ?

A: According to 1981 census, a worker is defined as one who worked in an economic activity over a period of six months or more.

Consequently the worker

Population ratio among females reduced considerably.

- In India, women are discouraged to work out of homes.
- Males are having more skills than females.

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10) How are the economic activities into different industrial divisions ?

Ans: The economic activities are distributed into eight different industrial divisions:

- a) Agriculture b) Mining and quarrying c) Manufacturing d) electricity, gas and water supply e) construction f) Trade g) Transport and Storage h) Services

LONG ANSWER QUESTIONS OF 6 MARKS:

1) Give the causes of increasing unemployment in India ?

Ans: 1. Low employment creation capacity
2 Low productivity in Agriculture sector
3 Inappropriate education system
4 Inadequate growth of infrastructure

(with brief explanation)

2) What are the major factors responsible for the high growth of service sector in India ?

Ans: 1. India has become a leading country among other economies because of having growing service sector especially in financial services, software services.
2 Imparting education, training, coaching has become a viable business proposition for professionals.
3 Availability of skilled professionals
4 India has become of a hub for Outsourcing business.

3) Analyse the recent trends in sectoral distribution of workforce in India.

Ans: 1 . Occupational structure refers distribution of workforce among different Sectors of the economy.



2. Primary sector is the main source of employment and as such it absorbs major work force.

3 Percentage of work force still low in Industrial sector

4) The tertiary sector is taking a lead over the secondary sector as a source Of employment.

5) You are residing in a village. If you are asked to advise the village panchayat, What kinds of activities would you suggest for the improvement of your village

which would also generate employment.

Ans: The following are the suggestions.

1. Non-agricultural employment opportunities are to be created.
2. Creating awareness about the programmes initiated by the Govt among the rural people.
3. Development of small – scale and cottage industries.
4. Imparting technical knowledge to the rural people. (with brief explanation)

6) Explain various types of unemployment

Three main types of unemployment prevailing in our economy are;

- (i) Open unemployment: It refers that an able bodied persons, who is willing to work but could not find the job at current wage rate.
- ii) Disguised Unemployment: It is common in rural areas in India especially in agriculture sector. It refers that even if a certain amount of labour is withdrawn, the marginal product remains the same. It also means engaging that more number of people than required.
- iii) Seasonal unemployment: it is found mostly in rural areas because the work in Agriculture is seasonal. When there is no job to do on farms during off-season, rural people migrate to urban areas in search of jobs.

6). Do you think that the last 50 years, employment generated in the country is commensurate with the growth of GDP in India?

No. In the last 50 years employment generation in the country is not commensurate with the growth of GDP.

- i) During the period 1950-2010, GDP of India grew positively and was higher than the employment growth.
- ii) Employment growth started declining and the gap between growth of GDP and employment widened. It means India has been able to produce more number of goods and services without corresponding increase in the generation employment opportunities

7) What activities would you suggest to generate employment in rural areas ?

- i) employment can be generated by developing the non-farm activities like reclamation of work, machine repairs, rural transport services, creation of public assets, construction etc.
- ii).. Diversification of activities.
- iii) Development of village handicrafts and cottage industries as these have a larger potential for absorbing labour force.
- iv) Encouraging the informal sector.

Chapter 8

Infrastructure

LEARNING OBJECTIVES

Introduction
Meaning of Environment
Functions of the Environment
Reasons for Environmental Crisis
Pollution
Air Pollution
Water Pollution
Noise Pollution
Global Warming and Ozone depletion
Global warming
Ozone depletion
Environmental Degradation
Degradation of forest or Deforestation
Land Degradation
Causes of Environment Degradation

Measures to Control Environmental Degradation
Sustainable development
Strategies for Sustainable Development

(I) Key Terms:

1. **Meaning of Infrastructure:** Infrastructure covers all those supporting services that help the growth of directly productive activities like agriculture and industry. It includes power, transport, health services, education facilities, etc.
2. **Economic Infrastructure:** It refers to all such elements of economic change which serves as a foundation for the process of economic growth. It includes power, transport, communication, etc.
3. **Social Infrastructure:** It refers to the core elements of social change which serves as a foundation for the process of social development of a country. It focuses on human resources development. It comprises of education and training, health, services, housing facilities, etc.
4. **State of Infrastructure in India:** Traditionally, infrastructure was under the government or public sector because after independence in order to boost industrial development, it was thought to develop it in the public sector only.
Private sector was not in a position to make huge investment in the development of infrastructure as there was no immediate return.
Now private sector is strongly contributing in the development of infrastructure in joint partnership of public sector.
India has vast scope to boost its infrastructure which is still very low as compared to other countries of the world
5. **Energy:** It is a basic input required to sustain economic growth and to provide basic amenities of life to the entire population of the country. It is a dividing line between a subsistence economy and a highly developed economy. It helps in promoting industrial production.
6. **Morbidity:** Refers to the proneness of the people to fall ill in various major diseases.

(II) MCQ/OTQ of 1 mark

1. Which of the following serve as a driving force of production activity in the economy?
(a) Population (b) Economic Infrastructure (c) Literacy (d) None of these
2. Which of the following is not a component of social infrastructure?
(a) Road (b) Communication (c) Electricity (d) All of these
3. Which of the following is not a component of economic infrastructure?
(a) Health (b) Power (c) Communication (d) Transport
4. Which of the following is an example of non-commercial energy?
(a) Firewood (b) Agricultural waste (c) Cow-dung (d) all of these
5. Which of the following is a conventional source of energy?
(a) Solar Energy (b) Wind Energy (c) Petroleum (d) Biomass
6. Which of the following is not a non-conventional source of energy?
(a) Solar Energy (b) Wind Energy (c) Petroleum (d) Biomass
7. The Principal Consumers of coal are?
(a) Thermal power station (b) Steel plants (c) Cement factories (d) All of these

8. Which of the following is a component of social infrastructure?
(a) Health (b) Sanitation (c) Both (a) and (b). (d) None of these.
 9. Which of the following is a challenge in Power Generation sector?
(a) Inadequate generation (b) Losses of electricity boards (c) Less capacity utilization (d) All of these
 10. Plant Load Factor =
(a) Electricity generated x Production capacity
(b) Electricity generated ÷ Production capacity
(c) Electricity generated + Production capacity
(d) Electricity generated - Production capacity
- (f) 3/4 SHORT ANSWER QUESTIONS**

1. Explain the importance of energy .

- A. Power is the most convenient and versatile form of energy. Commonly called electricity power plays a very important role in the industrial, agriculture and commercial sectors of the economy electricity is generated from three sources:
- (i) Thermal power that is power produced by coal and natural gas.
 - (ii) Hydel power: produced from rivers or canals
 - (iii) Atomic Power: power produced at nuclear plants.

2. What is economic infrastructure?

Ans. It refers to all such elements of economic change like- power, transport, communication etc. which serve as a support system to the process of economic growth.

It fosters economic growth which results in increase in the standards of living of the people.

Q3. What is social infrastructure?

Ans. It refers to core elements of social change like- schools, colleges, hospitals, banking etc. which serve as a support system to the process of social development of a country.

social infrastructure focuses on human resource development, implying the development of skilled personal as well as healthy & efficient human beings. It accelerates the process of human development.

Q4. Mention the importance of infrastructure in economic development.

- i Infrastructure enhances productivity
- ii Infrastructure induces investment.
- iii Infrastructure generates linkages in production.
- iv Infrastructure enhances size of the market
- v Infrastructure enhances ability to work.
- vi Infrastructure facilitates outsourcing.
- vii Infrastructure induces FDI.

Q5. What is energy? Mention the sources of energy.

Ans. Energy is the life line of entire production activity. Infact any type of production activity cannot take place without energy.

There are mainly two sources of energy:-

- i Conventional sources of energy:- these are those energy which are known to us & which are popularly in use since a very long time.
For eg. Coal, petroleum, natural gas & electricity.
- ii Non-conventional sources of energy:- these are those energy which have been discovered or explored in the recent past & which are yet to gain popularity for their use.

For eg. Solar energy, wind energy, bio-mass etc.

Q6. Mention the emerging challenges of power generation in India.

Ans. i. Inadequate generation of electricity

iii Less capacity utilization iv . Losses of electricity boards.

Q7. undertaken to meet the challenges Mention the measures of power generation in India.

Ans. i. Increase in production capacity.

ii. improvement in plant load factor.

iii. minimisation of transmission & distribution

losses. iv Improve the supply of inputs to power plants

v Participation of private sector & encouragement to FDI in power generation.

Q8. What is health? Mention the development of health services in India after independence.

Ans. It is a state of complete physical, mental & social well-being. A persons ability to work depends largely on his good health. It enhances the quality of life.

Development of Health services in India after Independence:-

i Decline in death rate from 27.4 per thousand in 1951 to 7.4 per thousand in 2006-07.

ii Reduction in Infant mortality rate from 146 per thousand in 1951 to 55 per thousand in 2007.

iii Rise in expectancy of life from 50 years in 1951 to 63.5 years in 2006-07.

iv Deadly diseases like malaria, TB, cholera & small pox have been brought under control.

v Reduction in child mortality rate from 57 per thousand in 1951 to 17 per thousand in 2006.

Q9. Mention the emerging challenges of health services in India.

Ans. i. Unequal distribution of health services.

ii. Control of communicable diseases.

iii. Poor management of health care.

i Privatization of health care services.

ii Poor upkeep & maintenance.

iii Poor sanitation level.

III) 3/4 MARKS QUESTIONS

1) What is social infrastructure and give its importance?

Ans. It refers to core elements of social change like- schools, colleges, hospitals, banking etc. which serve as a support system to the process of social development of a country. social infrastructure focuses on human resource development, implying the development of skilled personal as well as healthy & efficient human beings. It accelerate the process of human development.

2) Mention the importance of infrastructure in economic development.

A:a Infrastructure enhances productivity

b) Infrastructure induces investment.

- c) Infrastructure generates linkages in production.
- d) Infrastructure enhances size of the market
- e) Infrastructure enhances ability to work.
- f) Infrastructure facilitates out sourcing.
- g) Infrastructure induces FDI.

3) What is energy? Mention the sources of energy.

A: Energy is the life line of entire production activity. Infact any type of production activity cannot take place without energy.

are mainly two sources of energy:-

Conventional sources of energy:- these are those energy which are known to us & which are popularly in use since a very long time.

eg.Coal, petroleum, natural gas & electricity.

Non-convential sources of energy:- these are those energy which have been discovered or explored in the recent past & which are yet to gain popularity for their use.

For eg.Solar energy, wind energy, bio-mass etc.

4) Mention the emerging challenges of power generation in India.

Ans. i. Inadequate generation of electricity

ii. Less capacity utilization iii .Losses of electricity boards.

5) Mention the measures undertaken to meet the challenges of power generation in India.

A: i. Increase in production capacity.

ii. improvement in plant load factor.

iii. minimisation of transmission & distribution losses.

iv. Improve the supply of inputs to power plants

v. Participation of private sector & encouragement to FDI in power generation.

6) What is health? Mention the development of health services in india after independence.

Ans. It is a state of complete physical, mental & social well-being. A persons ability to work depends largely on his good health. It enhances the quality of life.

Development of Health services in Independence:

-i) Decline in death rate from 27.4 per thousand in 1951 to 7.4 per thousand in 2006-07.

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7) Mention the emerging challenges of health services in India.

Ans. i. Unequal distribution of health services.

ii. Control of communicable diseases.

iii. Poor management of health care.

iv. Privatization of health care services.

v. Poor upkeep & maintenance.

vi. Poor sanitation level. (With brief explanation)

8)What is Global Burden of Deceases ? Explain.

Ans: i) Global Burden of Deceases (GBD) is an indicator used by the experts to measure the number of people dying prematurely due to a particular decease.
 ii This also includes the number of years spent by them in a state of disability due to various deceases. India bears a frightening 20% of the GBD
 i) More than half of the GBD accounted by communicable deceases such as diarrhea, malaria and Tuberculosis.

9) What do you mean by transmission and distribution losses ? How can they be reduced ?

Ans: Power transmission and distribution losses refer that occur in transmission between sources of supply and points of distribution.

The following measures should be taken to reduce losses on this account.

- i) Improved technology of transmission and distribution should be used
- ii) Electricity distribution network should be privatised to increase efficiency.
- iii) Theft cases of electricity should be handled strictly by imposing penalties.

LONG ANSWER QUESTIONS OF 6 MARKS

1.. Explain the three-tier system of health infrastructure in India.

A PRIMARY HEALTH CARE:

a) Primary health care includes education concerning prevailing health problems and methods of

Identifying , preventing and controlling them.

b). promotion of food supply and proper nutrition and adequate supply of water and sanitation.

c). SECONDARY HEALTH CARE: includes hospitals which have better health care facilities such as

Surgery and diagnostics .

d). TERTIARY HEALTH CARE: Includes medical centres and hospitals which give advanced medical

Care and solve critical medical problems.

2. Discuss energy crisis in India .

A. i) Initially industrial development was based on coal and gradually switched over to petroleum

Products which was controlled by OPEC countries. This leads cost escalation.

ii) The coal industry is not able to supply quality and quantity of coal supplies

iii) Due to industrial and agriculture development , the gap between demand and supply for

is widening.

iv) Energy needs are mostly dependent on Balance of Payments.

3. Discuss the reforms recently initiated to meet energy crisis in India .

In India, power generation and distribution has been monopoly of the government.

i) Since 1991' India has been inviting private investment in power sector.

ii) Non-conventional source of energy are being exploited especially solar and wind.

iii) It was decided to reduce imports gradually

iv) National Energy Efficiency Programme is made to conserve energy

v) Investing more by the Government and Private sector in Ultra Mega Projects.

vi) Privatization of private sector in distribution of the power to various utilities

4) Is infrastructure a supporting structure ? How does it contribute to Economic development ?(HOTS)

- i) It ensures easy movement of goods and raw materials and leads efficient use of resources.
- ii) It makes Agriculture and industry complimentary for each other.
- iii) It provides an environment conducive to investment.
- iv) It widens size of the market (With brief explanation)

5) Discuss main drawbacks of our healthcare system ?

Ans: the following are some of the deficiencies in our health care system.

Ans: i) Unequal distribution of Health care services

ii) communicable diseases

iii) Lack of skilled personnel in rural areas

iv).. Lack of modern techniques and methods. (with brief explanation)

CHAPTER : 9

ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

CONCEPT:

1. **Environment:** It comprises all the resources and the space available to human, animal and plant life.
2. **Renewable resources:** Resources that can be renewed or replaced. They do not get exhausted with use. For e.g. sun, wind, tidal energy. etc.
3. **Biotic resources:** The living resources in the environment. For e.g. man, animals, insects, birds and plants.
4. **Abiotic resources:** The non-living resources in the environment such as the sun, water, air, space and mineral wealth.
5. **Carrying Capacity:** It is the rate of assimilation at which the environment can maintain itself.
6. **Absorptive capacity:** absorbing degradation by the environment without getting adversely affected.
7. **Water pollution:** Deterioration in quality of water due to presence of waste, toxic chemicals. etc.
8. **Air pollution:** Contamination of air leading to a fall in its quality and purity because of unwanted gases and suspended particles are present in air.
9. **Hazardous waste:** Waste which can release poisonous chemicals, gases or radiation in the environment.
10. **Soil degradation:** Fall in quality of soil caused by mixing of chemicals and cutting of trees.
11. **Deforestation:** Cutting down of forests to make land available for farming or industrial activities or for dwellings.
12. **Ozone depletion:** It refers to the destruction of the stratospheric ozone layer which shields the earth from ultra-violet radiations that are harmful to life.
13. **Bio-diversity loss:** It refers to the extinction of plants, animals and microorganisms due to deforestation and pollution.
14. **Global warming:** It is an increase of the Earth's temperature resulting in an increase in the volume of water which leads to a rise in the sea level.
15. **Sustainable Development:** Sustainable development seeks to meet the needs and aspirations of the present generations without compromising the ability of the future generations to meet their own needs.
16. **Clean technology:** It is that technology which uses environmentally friendly resources and treats any waste or effluents before releasing it into the environment.
17. **Green capital:** It refers to assets created by using environmentally friendly resources. It is also that capital which is concerned with or is relating to the conservation of the world's resources and improvement of environment. It can also be the total natural wealth of a nation or any entity.
18. **Urbanisation:** It is the expansion of a metropolitan area over time. It is the rate at which the urban proportion of the population increases.
19. **Poaching:** Killing of animals for their valuable body parts and organs..

I. MCQ/OTQ 1 MARK

1. When was the Environment (Protection) Act passed?
 - a) 1984
 - b) 1986
 - c) 1988
 - d) 1990Ans. b)
2. Which of the following is a biotic component of environment?
 - a) Bacteria
 - b) Animal
 - c) Humans
 - d) MineralsAns. d)
3. Economic development includes:
 - a) Economic growth
 - b) Economic welfare
 - c) Both (a) and (b)
 - d) None of these.Ans. c)
4. Environment includes:
 - a) Biotic elements only
 - b) Abiotic elements only
 - c) Both biotic and abiotic elements
 - d) None of these.Ans. c)
5. Which of the following is a biotic component of environment?
 - a) Plant
 - b) Soil
 - c) Water
 - d) LightAns. a)
6. Absorptive capacity is defines as:
 - a) Ability of the environment to absorb degradation.
 - b) Resource generation within the assimilating capacity of the environment.
 - c) Average number of organisms living in a given environment
 - d) The minimum population surviving in the world as a whole.Ans. a)
7. Which of the following statement is correct?
 - a) Global warming is entirely a natural phenomenon.
 - b) Global warming is simply an another term used for greenhouse effect.
 - c) Global warming is the rise in average temperature at earth's surface.
 - d) Global warming is caused by ozone depletion.Ans. C)
8. In 1997, a UN conference on climate change was held in:
 - a) Japan
 - b) India
 - c) Germany
 - d) ChinaAns. a)
9. _____ is defined as the total planetary inheritance and the totality of all resources.

Ans. Environment
10. _____ are those resources which get exhausted with extraction use.

11. _____ observed and projected increase in the average temperature of earth's atmosphere and oceans. Ans. Non-renewable resources
Ans. Global warming
12. _____ refers to the destruction of ozone in the ozone layer, due to presence of chlorine from man-made chlorofluorocarbons and other factors. Ans. Ozone depletion
13. Hepatitis disease occurs due to _____ pollution. Ans. Water

14..Define 'Environment'.

Ans. Environment is defined as the total planetary inheritance and the totality of all elements-biotic and abiotic.

15...Give two examples of biotic elements.

Ans. Birds and forests.

16.. Give two examples of abiotic elements of environment.

Ans. Rocks and sunlight

17. State one function of environment.

Ans. Environment assimilates waste.

18...What are renewable resources?

Ans. Renewable resources are those resources that can be replenished or renewed naturally over time. Air, water, wind, solar energy etc. are all renewable resources.

19..What are non-renewable resources?

Ans. Non-renewable resources are those natural resources that are available in limited quantity. These resources cannot be renewed or replenished in short duration. Therefore they are also known as exhaustible resources.

20.. .What is 'carrying capacity'?

Ans. "Carrying capacity" implies that the resource extraction is not above the rate of regeneration of resources and the waste generated are within the assimilating capacity of the environment.

SHORT ANSWER QUESTIONS OF 3 / 4 MARKS

1. What does the environment constitute?

Ans i) .Environment includes all resources-biotic and abiotic factors that influence each other. While biotic resources include all living element such as birds animals, plant Forests, fisheries etc.,.

ii) the abiotic elements include air, water, land, etc. Rocks and sunlight are all examples of abiotic elements of the environment.

2. .Give the four vital functions of environment.

Ans.The four vital functions of environment are:

- (a)It supplies resources both renewable and non-renewable resources.
- (b)It assimilates waste.
- (c)It sustains life by providing genetic and bio- diversity.
- (d)It provides aesthetic services like scenery etc.

3. Why is it that the environmental problems did not arise before?

Ans. In earlier times, the demand for environmental resources and services was much less than their supply. Due to rapid urbanisation, increased demand for goods and services has led to advanced industrialisation. This has caused pollution, which is more than the absorptive capacity of the environment. The rate at which the resources are extracted by man has been more than the rate of regeneration of the resources, thereby causing serious environmental problems.

4. Give some of the long-term results of global warming.

Ans. The long-term results of global warming are:

- (a)melting of polar ice caps leading to a rise in the sea level and coastal flooding.
- (b)Disruption of drinking water supplies dependent on snow melts.

- (c) extinction of species.
- (d) Frequent tropical storms and tropical diseases.

5. What has been the result of Ozone depletion?

Ans. Due to the depletion of ozone layer, the ultra violet radiation is coming to earth directly and causing damage to the living organisms, e.g.,

- (a) It causes skin cancer in humans.
- (b) It lowers the production of phytoplankton and affects other aquatic organisms.
- (c) It influences the growth of terrestrial plants.

6. Why has environment depletion led to high opportunity costs?

Ans. The nation has to pay heavily on damages to human health (fatal and non-fatal effects), effects on crops and materials, damages caused by global warming provoked by greenhouse gases, cost for correcting global warming impacts. Health of people which is affected due to increased levels of pollution also requires more investment on health facilities.

7. Classify the following into renewable and non-renewable resources

(i) trees (ii) fish (iii) petroleum (iv) coal (v) iron-ore (vi) water.

Item	Resources
(i) Trees	Renewable
(ii) Fish	Renewable
(iii) Petroleum	Non-renewable
(iv) Coal	Non-renewable
(v) Iron-ore	Non-renewable
(vi) Water	Renewable

8) How can wind power and Biopest control – help to achieve sustainable development?

Ans: **Wind Power:** i) wind is a clean fuel. Wind power produces no air and water pollution

because no fuel is burned to generate electricity.

ii) Wind power generation produces zero carbon dioxide emissions.

iii) Wind power also renewable source of energy.

Bio-pest control:

i) Biopest control is natural way of controlling that harms plants and crops.

ii) Natural enemies are used to check population of pests by using various Animals and birds.

9) How do thermal and hydro electric cause pollution ?

Ans: Both thermal and hydro electric sources of energy have adverse environmental impacts.

i) Thermal plants emit large quantities of carbon dioxide which is a green house gas.

ii) It also produces fly ash which causes pollution of land, water etc.,

iii) Hydro electric power projects inundate forests and restrict the natural flow of Water in catchment areas.

10) Explain the relevance of inter-generational equity to the definition of sustainable development .

Ans: Sustainable development implies that all future generations should have average quality of life that atleast as high as that being enjoyed by present generation

.It is known as inter-generational equity. We have moral responsibility to hand over

The planet earth in good order to future generation.

11) What kind of development strategy must the present generation adopt to promote sustainable development?

Ans. The present generation must promote development in such a way that it enhances the

natural and built-in environment with:

- (a) conservation of resources.
- (b) preservation of the regenerative capacity of the world's natural ecological system.
- (c) avoiding the added costs or risks on future generation.

12) Give some of the long-term results of global warming.

Ans. The long-term results of global warming are:

- (a) elting of polar ice caps leading to a rise in the sea level and coastal flooding.
 - (b) isruption of drinking water supplies dependent on snow melts.
 - (c) Extinction of species.
- it leads to the situations of environmental crises.

13. Give the Reasons for Environmental Crises.

- i) Population explosion and Industrial revolution has increased the demand for environmental resources, but their supply is limited due to misuse and overuse. li) The intensive and extensive extraction of both renewable and non-renewable resources has exhausted some of the vital resources.
- ii) Extinction of many resources and continuous rising population has also resulted in environmental crisis.

14)What is Carrying Capacity ?explain

- i) Resources extraction should remain below the rate of resource generations.
- ii) Generation of wastes should remain within the absorption capacity of the If these two conditions are not fulfilled, then environment fails to perform its vital functions of life sustenance and standard of developed world, the waste generated is beyond the absorptive capacity of the environment.

15) What has been the result of Ozone depletion?

Ans.Due to the depletion of ozone layer, the ultra **violetradiation** is coming to earth directly and causing damage to the living organisms,e.g.,

- (a)It causes skin cancer in humans.
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16) Why has environment depletion led to high opportunity costs?

Ans.The nation has to pay heavily on damages to human health(fatal and non-fataleffects),effects on crops and materials,damages caused by global warming provoked by greenhouse gases, cost for correcting global warming impacts. Health of people which is affected due to increased levels of pollution also requires more investment on health facilities.

17).Why does the present world stand at the threshold of an environmental crisis?

Ans. I) The world today stands at a threshold of serious environmental crisis.

i) The rising population of the developing countries and the affluent consumption and production standards of the developed nations have put a huge stress on the environment in terms of its functions of supplying resources and assimilating wastes

ii) Many resources are becoming extinct since their use is beyond the carrying capacity of the environment, leading to an environmental crisis. In earlier times, the demand for environmental resources and services was much less than their supply

iii) increased demand for goods and services has led to advanced industrialisation. This has caused pollution which is more than the absorptive capacity of the environment.

18) Which are the important mineral reserves in India?

Ans. Iron-ore, coal and natural gas are found in large quantities in India. India alone accounts for nearly 20 per cent the world's total iron-ore reserves.

Other mineral

Reserves bauxite, copper, chromate, diamond, gold, lead, lignite, manganese, zinc, uranium, etc.

LONG ANSWER QUESTIONS OF 6 MARKS

01) .What are the factors responsible for land degradation?

Ans. The factors contributing to land degradation are:

- (a) Loss of vegetation due to deforestation
 - (b) Unsustainable fuel wood and fodder extraction
 - (c) Shifting agriculture
 - (d) encroachment into forest lands
 - (e) Forest fires and overgrazing
 - (f) Non-adoption of adequate soil conservation measures
 - (g) Improper crop rotation
 - (h) Indiscriminate use of agro-chemicals such as fertilizers and pesticides
 - (i) Improper planning and management of irrigation systems
 - (j) extraction of ground water in excess of the recharge capacity
 - (k) Poverty of the agriculture-dependent people.
- (any six points with brief explanation)

03) What is sustainable development? Suggest any four strategies for sustainable development.

Ans. 'Sustainable development' is development that meets the need of the present generation without compromising the ability of the future generations to meet their own needs.

The four strategies for sustainable development are:

(a) use of non-conventional sources of energy. In India the use of LPG and go-bar gas in rural areas

and the use of CNG as fuel in urban area, wind power, solar power along with the mini hydel power plants which are environment-friendly can generate enough power to meet local demand.

(b) Traditional knowledge and practices have been more a component of the environment and not its controller. With the sudden onslaught of the western system of treatment, the traditional treatment systems like Ayurveda, Unani, Tibetan and folk systems were ignored. But now these are in gr demand again for treatment of chronic health problems.

(c) Biocomposting. Farmers had over a period of last five decades totally neglected the use of compost and completely switched over to chemical fertilisers, which adversely affected the productive land and water bodies. But now in large numbers, the farmers have again started using compost made from organic wastes of various kinds. Earthworms can convert organic matter into compost faster.

(d) Biopest Control Due to the green revolution more and more use of chemical pesticides for higher yield led to the contamination of food products like milk, meat and fish, soil, water bodies and even ground water were polluted with pesticides. But now efforts are being made to bring in better methods of pest control like the ones based on plant products like neem trees are proving quite useful.

3) Give benefits and limitations of solar and wind power.

Ans. **Solar Power:**

Benefits:

- (a) Virtually maintenance free.
- (b) Relatively easy to install.
- (c) Solar panels can provide plentiful power during the long hours of summer sun.

Limitations: (a) In areas that experience a lot of overcast or low light days, the output is not that good, though still considerable.

(b) It is not available at night or when there is a dense cloud cover. This makes it unreliable.

(c) solar power is currently significantly more expensive and requires action by consumers
e.g., installing solar panels.

Wind Power:

Benefits:

(a) In high wind areas (at least 12 mph), wind generators produce power, more cost effectively than solar. Wind's long-term technical potential is believed to be 5 times current global energy consumption or 40 times the current electricity demand.

(b) A moderate proportion of wind generation can be connected without the need for a storage. The cost of maintenance and storage is comparatively lower compared to any other source of energy-renewable or non-renewable.

(c) Power output from wind varies though it can be predicted with a fair degree of confidence many hours ahead.

Limitations:

(a) Repair (even under warranty) can be quite costly, especially on freestanding towers because of crane costs, labour for taking a wind generator down and putting it back up, shipping costs to the retailer or manufacturer etc.

(b) Wind generators require foundation work such as concrete anchors, good wires etc. Depending on the chosen tower design.

(c) The trees might have to be cleared, a practice against the conservation of resources. The birds killed by wind turbines could also cause concern.

04) What is pollution? Explain how water pollution and noise pollution are harmful.

Ans i).Pollution refers to the degraded environmental quality on account of rising population of the developing countries

ii) As a result the extinction of many resources and the wastes generated being beyond the absorptive capacity of the environment.

iii)Rising population rapidly growing industrial sector and pollution from affluence have led to degraded environmental quality by way of water contamination(70% of water in India is polluted), air pollution and noise pollution have led to an increase in the incidence of water- borne diseases and respiratory problems along with hearing loss.

CHAPTER 10
DEVELOPMENT EXPERIENCE OF INDIA, PAKISTAN AND CHINA
- A COMPARATIVE STUDY

IMARKQUESTIONANDANSWERS

- 1) One child policy was adopted by China in the year**
(a) 1972 (b) 1975 (c) 1979 (d) 1982
Ans: c
- 2) Which of the following countries has shown the brighter signs of Urbanization**
(a) India (b) China (c) Pakistan (d) Both b and c
Ans: d
- 3) In China, commune system is related to**
(a) Agriculture (b) Industry (c) Services (d) None of these
Ans: a
- 4) Great Leap Forward (GLF) was the campaign launched in China in**
(a) 1956 (b) 1958 (c) 1962 (d) 1968
Ans: b
- 5) In comparison to China, Indian economy has been relying more on**
_____sector for GDP growth
Ans: Tertiary
- 6) China has _____density of population than India**
Ans: Lower
- 7) _____has achieved better results as regards access to improved water resources.**
Ans: Pakistan
- 8) HDI rating of India is higher compared with China**
Ans: False
- 9) India adopted a mixed economy model of growth**
Ans: True
- 10) As a basic element of the strategy of growth in china, all the national resources were put under the control and command of the government.**
Ans: True
- 11) What do you mean by Demographic profile?**
A) It means study of population on the basis of its some parameters such as its growth rate and density.
- 12) What is meant by human development?**
A) It includes such elements of change as per capita GDP, life expectancy, literacy rate, access to safe drinking water etc.
- 13) What do you mean by GDP growth rate?**
A) It refers to increase in the flow of goods and services produced in the economy during an accounting year.
- 14) What is meant by infant mortality rate?**
A) It refers to the death rate of children (per thousand) after giving birth to a new born
- 15) What do you mean by Maternal mortality rate?**
A) It refers to the death rate of a woman (per thousand) after giving birth to a newborn.

16) What is commune system of farming?

A) It means collective cultivation of land by the farmers.

II. Short Answer Questions 3/4Marks

1) Compare the structure of growth in India, Pakistan and China

- India and Pakistan adopted a mixed economy model of growth while China adopted statism as a model of growth.
- India and Pakistan have relied more on tertiary sector while China on the secondary sector for the GDP growth rate.
- In China contribution of secondary sector to GDP is much more than in India and Pakistan.

2) Write three observations related to growth story of India, Pakistan and China.

- China has outpaced both India and Pakistan with regard to GDP
- India has performed better than Pakistan but compared with China, India is way behind.
- The relative success of China is credited to political stability in China. GDP growth is not the availability of resources but good governance by the state and good compliance by the citizens.

3) Why Poverty reemergence in Pakistan?

- Lack of institutional reforms in agriculture.
- Lack of political stability.
- Huge public expenditure on the maintenance of law and order
- Allocation of huge funds to build a strong defend system at the cost of developmental expenditure.

4) What are the basic components of New Economic Policies (NEP) of India?

- A massive shift towards privatization
- A transformation towards liberalization
- Greater reliance on export promotion rather than import substitution
- Greater reliance on FDI rather than the domestic investment

5) Explain the demographic profile of India, Pakistan and China

- Density of population is much lower than in China as compared with India and Pakistan.
- Growth rate of population in China has shown a much deeper decline than the growth rate of population in India and Pakistan.
- Both China and Pakistan are showing brighter signs of urbanization than in India.
- Sex ratio is found to be biased against females in all the three countries.

6) What are the features of strategy of growth adopted by India and Pakistan?

- It was a mixed economy model of growth
- The strategy of growth underlined the significance of both primary and public sectors.
- Public sector was assigned the key role of kick starting the process of growth.
- Private sector was assigned the secondary role of pushing the process of growth.

7) Write four observations on the common success story of India and Pakistan?

- India and Pakistan both have succeeded in more than doubling their per capita income.
- The incidence of poverty has also been reduced.
- Self sufficiency in food grains has been achieved
- A well developed modern sector has emerged in both the countries

III LONG ANSWER QUESTIONS 6 MARKS

1) What are the important parameters of Human development?

- Life expectancy
- Adult literacy rate
- Percentage of population below the poverty line
- Infant mortality rate
- Maternal mortality rate
- Percentage of population having access to improved water sources.
- Percentage of under nourished population

With Brief
Explanation

2) Name the areas where India has edge over Pakistan

- Skilled man power and research and development institutions in India are far more superior than in Pakistan.
- Indian software exports are more than Pakistan
- Human capital formation in India has emerged as a significant determinant of growth than in Pakistan
- India also has better record of investment in education

- Growth of population in India has been managed
- Health care facilities and infant mortality are better in India than Pakistan

brief explanation

With

3) Name the areas where China has edge over India

- China has focused on pro-poor reforms
- Rural poverty has declined much faster in China than India
- In India, agricultural reforms have been far less effective than in China
- Export manufacturing has been more significantly grown in China than in India
- Global exposure of the economy has been more wider in China than India
- China is far ahead of India in terms of HDI (Human Development Index)

With brief
explanation

4) Compare the development of India, China and Pakistan with respect to some salient human development indicators.

- China has performed better than India and Pakistan
- China HDI rank in the world is 86, India 130 and Pakistan 150
- China has performed better in the area of nourishment
- China has also performed better with regard to infant mortality rate and maternal mortality rate
- China shows better performance in improved sanitation than India and Pakistan.

With brief
explanation

LONG ANSWER QUESTIONS OF 6 MARKS

Q1. Compare between India, China, & Pakistan in terms of GDP growth rate.

Ans: After the Independence in 1947, India & Pakistan adopted planned development programmes which relied on public sector to spearhead the process of growth and development.

- China adopted more rigorous model of growth in 1949 and it decided to bring all critical areas of production activity under government control.
- The great leap forward (GLF) campaign was launched in 1958, focusing on widespread Industrialization of the Economy. People were encouraged to launch household Industry in the country yards.
- China adopted Commune system of agricultural production which was a system of collective cultivation.

- Great Proletarian Cultural revolution launched in 1965 and making it mandatory for the students and professionals to go to the countryside to work and learn from the countryside.

- **China's** Export driven manufacturing is the key parameter of its success story in economic growth.
- Till about 1980, the economies of India, China, & Pakistan did not show much divergence in the GDP growth rate and it was around 4% annually.
- It was around early 1980s in China, mid 80's in Pakistan, 90's in India that the breakthrough in GDP Growth rate was recorded.
- In 2005, India & Pakistan both recorded GDP growth of 6 to 8 percent, whereas China recorded GDP growth of about 10% per annum.

2. Compare the structure of growth between India, China, and Pakistan.

Sector	% Share in GDP			% share in employment		
	India	Pakistan	China	India	Pakistan	China
Primary	23	23	15	60	49	54
Secondary	26	23	53	16	18	27
Tertiary	51	54	32	24	33	19

China has succeeded in placing greater reliance on Industrial sector compared to India & Pakistan. It is due to (i) GLF, a campaign launched in China in 1958 focusing on widespread Industrialization of the Country.

(ii) Policy of reforms and opening up launched in 1978 which gave big push to China's manufacturing exports.

Q4. What is the important implication of the one child norm in China?

Ans : One child norm in China has successfully reduced the growth rate of population.

- After few decades in China there will be more elderly people in proportion to young people.
- This will force China to take steps to provide social security measures with fewer workers.

Q5. Compare the Demographic profile of India, China, and Pakistan.

Ans: One child policy in China adopted since 1979 has reduced the growth rate of population from 1.33 percent in 1979 to 0.64% in 2005.

i. Growth rate of Population

Country	Growth rate of Population
China	0.64
India	1.33
Pakistan	2.5

Fertility rate is also very low in china as Compared to India & Pakistan. ii)

Low Density of Population

Country	Person per square kilometer
China	138
India	358
Pakistan	193

iii) Urbanization

Country	% of Population
China	36%
India	28%
Pakistan	34%

iv) Sex ratio

Country	Female per 1000 male
China	937
India	933
Pakistan	922

Q6. Compare between the parameter of Human development.

Ans. Human development

i) HDI Ranking

Country	Ranking in the world
China	81
India	128
Pakistan	136

ii) INFANT MORTALITY RATE

Country	Per thousand
China	30
India	63
Pakistan	81

iii) Maternal Mortality Rate

Country	Per Lack
China	56
India	540
Pakistan	500

iv) Improved Sanitation

Country	Of Population
China	44%
India	30%
Pakistan	54%

iv) Safe Drinking Water facility

Country	Of Population
China	77%
India	86%
China	77%

v) Below Poverty Line

Country	Of Population
China	16.6%
India	21.8%
Pakistan	13.4%

Q8. Mention the common failures of India and Pakistan.

- Ans. 1) Relatively slow pace of GDP growth rate as Compared to China.
2) Poor performance in HDI ranking.
3) Poor fiscal management.
4) Lack of political interest for social prosperity.

Q 9. Mention the areas where India has an edge over Pakistan.

- Ans. i) Skilled manpower
ii) Investment in Education.
iii) Health facilities.

Q10. Mention the areas where Pakistan has an edge over India.

- Ans: 1) Urbanization
2) Less percentage of population below poverty line.
3) More percentage of population having access to improved water sources.

**SET-1****Series BVM/2**कोड नं. **58/2/1**
Code No.

रोल नं.

Roll No.

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परीक्षार्थी कोड को उत्तर-पुस्तिका के मुख-पृष्ठ पर अवश्य लिखें ।

Candidates must write the Code on the title page of the answer-book.

- कृपया जाँच कर लें कि इस प्रश्न-पत्र में मुद्रित पृष्ठ **15** हैं ।
- प्रश्न-पत्र में दाहिने हाथ की ओर दिए गए कोड नम्बर को छात्र उत्तर-पुस्तिका के मुख-पृष्ठ पर लिखें ।
- कृपया जाँच कर लें कि इस प्रश्न-पत्र में **24** प्रश्न हैं ।
- कृपया प्रश्न का उत्तर लिखना शुरू करने से पहले, प्रश्न का क्रमांक अवश्य लिखें ।
- इस प्रश्न-पत्र को पढ़ने के लिए 15 मिनट का समय दिया गया है । प्रश्न-पत्र का वितरण पूर्वाह्न में 10.15 बजे किया जाएगा । 10.15 बजे से 10.30 बजे तक छात्र केवल प्रश्न-पत्र को पढ़ेंगे और इस अवधि के दौरान वे उत्तर-पुस्तिका पर कोई उत्तर नहीं लिखेंगे ।
- Please check that this question paper contains **15** printed pages.
- Code number given on the right hand side of the question paper should be written on the title page of the answer-book by the candidate.
- Please check that this question paper contains **24** questions.
- **Please write down the Serial Number of the question before attempting it.**
- 15 minute time has been allotted to read this question paper. The question paper will be distributed at 10.15 a.m. From 10.15 a.m. to 10.30 a.m., the students will read the question paper only and will not write any answer on the answer-book during this period.

अर्थशास्त्र**ECONOMICS**

निर्धारित समय : 3 घण्टे

Time allowed : 3 hours

अधिकतम अंक : 80

Maximum Marks : 80

58/2/1



सामान्य निर्देश:

- (i) दोनों खण्डों के सभी प्रश्न अनिवार्य हैं।
- (ii) प्रत्येक प्रश्न के निर्धारित अंक उसके सामने दिए गए हैं।
- (iii) प्रश्न संख्या 1 – 4 तथा 13 – 16 अति लघूत्तरात्मक प्रश्न हैं, जिनमें प्रत्येक का 1 अंक है। इनका प्रत्येक का उत्तर एक वाक्य में ही अपेक्षित है।
- (iv) प्रश्न संख्या 5 – 6 और 17 – 18 लघूत्तरात्मक प्रश्न हैं, जिनमें प्रत्येक के 3 अंक हैं। प्रत्येक का उत्तर सामान्यतः 60 शब्दों से अधिक नहीं होना चाहिए।
- (v) प्रश्न संख्या 7 – 9 और 19 – 21 भी लघूत्तरात्मक प्रश्न हैं, जिनमें प्रत्येक के 4 अंक हैं। प्रत्येक का उत्तर सामान्यतः 70 शब्दों से अधिक नहीं होना चाहिए।
- (vi) प्रश्न संख्या 10 – 12 और 22 – 24 दीर्घ उत्तरात्मक प्रश्न हैं, जिनमें प्रत्येक के 6 अंक हैं। प्रत्येक का उत्तर सामान्यतः 100 शब्दों से अधिक नहीं होना चाहिए।
- (vii) उत्तर संक्षिप्त तथा तथ्यात्मक होने चाहिए तथा यथासंभव ऊपर दी गई शब्द सीमा के अंतर्गत ही दिए जाने चाहिए।

General Instructions :

- (i) **All** questions in both the sections are compulsory.
- (ii) Marks for questions are indicated against each question.
- (iii) Question Nos. 1 – 4 and 13 – 16 are very short-answer questions carrying 1 mark each. They are required to be answered in **one sentence** each.
- (iv) Question Nos. 5 – 6 and 17 – 18 are short-answer questions carrying 3 marks each. Answers to them should normally not exceed 60 words each.
- (v) Question Nos. 7 – 9 and 19 – 21 are also short-answer questions carrying 4 marks each. Answers to them should normally not exceed 70 words each.
- (vi) Question Nos. 10 – 12 and 22 – 24 are long-answer questions carrying 6 marks each. Answers to them should normally not exceed 100 words each.
- (vii) Answers should be brief and to the point and the above word limits should be adhered to as far as possible.



खण्ड अ
(व्यष्टि अर्थशास्त्र)

SECTION A
(MICROECONOMICS)

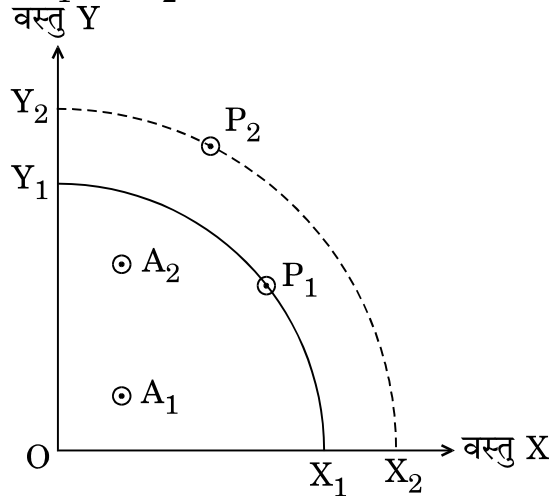
1. 20 इकाइयाँ विक्रय करने पर कुल संप्राप्ति ₹ 700 अर्जित होती है। 21वीं इकाई को विक्रय करने से ₹ 70 की सीमांत संप्राप्ति अर्जित होती है। कुल 21 इकाइयाँ विक्रय करने पर अर्जित कुल संप्राप्ति का मूल्य _____ होगा। (सही विकल्प का चयन कीजिए)

- (क) ₹ 721 (ख) ₹ 630
(ग) ₹ 770 (घ) ₹ 720

The Total Revenue earned by selling 20 units is ₹ 700. Marginal Revenue earned by selling 21st unit is ₹ 70. The value of Total Revenue earned by selling total 21 units will be _____. (Choose the correct alternative)

- (a) ₹ 721 (b) ₹ 630
(c) ₹ 770 (d) ₹ 720

2. दिए गए चित्र में वस्तु X तथा वस्तु Y के लिए, X_1Y_1 तथा X_2Y_2 क्रमशः, दो विभिन्न समयावधि T_1 तथा T_2 में, उत्पादन संभावना वक्र हैं। दोनों समय अवधियों में A_1 और A_2 वास्तविक उत्पादन तथा P_1 और P_2 संभावित उत्पादन को क्रमशः प्रदर्शित करते हैं।



वस्तुओं X और Y के वास्तविक उत्पादन में, दोनों समय अवधियों में, परिवर्तन _____ खिसकाव द्वारा प्रदर्शित होगा। (रिक्त स्थान की पूर्ति कीजिए)

- (क) A_2 से P_2 (ख) A_1 से P_2
(ग) P_1 से A_2 (घ) A_1 से A_2

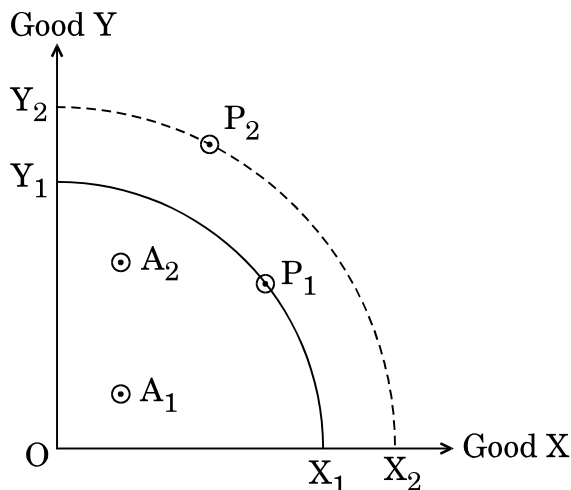
अथवा



परिवर्तन की सीमांत दर (MRT) स्थिर है। ऐसी स्थिति में बनने वाला उत्पादन संभावना वक्र मूल-बिंदु _____ होगा। (रिक्त स्थान की पूर्ति कीजिए)

1

In the given figure X_1Y_1 and X_2Y_2 are Production Possibility Curves in two different periods T_1 and T_2 respectively for Good X and Good Y. A_1 and A_2 represent actual outputs and P_1 and P_2 represent potential outputs respectively in the two time periods.



The change in actual output of Goods X and Y over the two periods would be represented by movement from _____. (Fill up the blank)

- | | |
|--------------------|--------------------|
| (a) A_2 to P_2 | (b) A_1 to P_2 |
| (c) P_1 to A_2 | (d) A_1 to A_2 |

OR

The Marginal Rate of Transformation (MRT) is constant. The Production Possibility Curve, so formed, would be _____ to the origin.

(Fill up the blank)



3. अपूर्ण प्रतियोगिता के अंतर्गत, औसत संप्राप्ति (AR), सीमांत संप्राप्ति (MR) _____ होती है। (रिक्त स्थान की पूर्ति कीजिए) 1

अथवा

“संतुलन में एक फर्म के लिए सीमांत संप्राप्ति (MR) तथा सीमांत लागत (MC) _____ होनी चाहिए तथा उस उत्पादन स्तर के बाद सीमांत लागत _____ होनी चाहिए।” (रिक्त स्थान की पूर्ति कीजिए) 1

Under imperfect competition, Average Revenue (AR) remains _____ Marginal Revenue (MR). (Fill up the blank)

OR

“For a firm to be in equilibrium, Marginal Revenue (MR) and Marginal Cost (MC) must be _____ and beyond that level of output Marginal Cost must be _____.” (Fill up the blank)

4. यदि पूर्ति वक्र ऊर्ध्वाधर अक्ष (Y-अक्ष) के समांतर एक सीधी रेखा है, तो वस्तु की पूर्ति _____ कहलाती है। (रिक्त स्थान की पूर्ति कीजिए) 1

- (क) इकाई के बराबर लोचदार पूर्ति
- (ख) पूर्णतः लोचदार पूर्ति
- (ग) पूर्णतः बेलोचदार पूर्ति
- (घ) पूर्णतः लोचदार माँग

If the supply curve is a straight line parallel to the vertical axis (Y-axis), supply of the good is called as _____. (Fill up the blank)

- (a) Unitary Elastic Supply
- (b) Perfectly Elastic Supply
- (c) Perfectly Inelastic Supply
- (d) Perfectly Elastic Demand



5. सकारात्मक अर्थशास्त्र तथा आदर्शक अर्थशास्त्र में, उपयुक्त उदाहरणों सहित, अंतर स्पष्ट कीजिए । 3

Distinguish between positive economics and normative economics, with suitable examples.

6. एक काल्पनिक अनुसूची की सहायता से सीमांत उपयोगिता ह्रास नियम की व्याख्या कीजिए । 3

अथवा

एक काल्पनिक अनुसूची की सहायता से माँग के नियम की व्याख्या कीजिए । 3

Explain the law of diminishing marginal utility, with the help of a hypothetical schedule.

OR

Elaborate the law of demand, with the help of a hypothetical schedule.

7. एक वस्तु का बाज़ार संतुलन में है । अन्य बातें (कारक) समान रहने पर, एक आगत की कीमत में वृद्धि किस प्रकार संतुलन कीमत तथा संतुलन मात्रा को प्रभावित करेगी ? चित्र के प्रयोग से समझाइए । 4

The market for a good is in equilibrium. How would an increase in an input price affect the equilibrium price and equilibrium quantity, keeping other factors constant ? Explain using a diagram.

नोट : निम्नलिखित प्रश्न केवल दृष्टिबाधित परीक्षार्थियों के लिए, प्रश्न संख्या 7 के स्थान पर है :

Note : The following question is for the **Visually Impaired Candidates** only, in lieu of Q. No. 7 :

एक वस्तु का बाज़ार संतुलन में है । अन्य बातें (कारक) समान रहने पर, एक आगत की कीमत में वृद्धि किस प्रकार संतुलन कीमत तथा संतुलन मात्रा को प्रभावित करेगी ? समझाइए । 4

The market for a good is in equilibrium. How would an increase in an input price affect the equilibrium price and equilibrium quantity, keeping other factors constant ? Explain.



8. (क) वस्तु X की माँग की कीमत लोच का गुणांक $(-)$ 0.2 है। यदि वस्तु की कीमत में 5% की वृद्धि होती है, तो वस्तु की माँगी गई मात्रा कितने प्रतिशत से कम होगी ?
- (ख) निम्नलिखित माँग की कीमत लोच के गुणांकों को बढ़ते हुए (आरोही) क्रम में लगाइए :

$(-)$ 3.1, $(-)$ 0.2, $(-)$ 1.1

अथवा

उपभोक्ताओं के “स्वाद व प्राथमिकताएँ” वस्तु के पक्ष में होने पर, वस्तु की माँग किस प्रकार प्रभावित होगी ? चित्र की सहायता से समझाइए ।

- (a) The coefficient of price elasticity of demand for Good X is $(-)$ 0.2. If there is a 5% increase in the price of the good, by what percentage will the quantity demanded for the good fall ?
- (b) Arrange the following coefficients of price elasticity of demand in ascending order :

$(-)$ 3.1, $(-)$ 0.2, $(-)$ 1.1

OR

How would the demand for a commodity be affected by a change in “tastes and preferences” of the consumers in favour of the commodity ? Explain using a diagram.

नोट : निम्नलिखित प्रश्न केवल दृष्टिबाधित परीक्षार्थियों के लिए, प्रश्न संख्या 8 (विकल्प) के स्थान पर है :

Note : The following question is for the **Visually Impaired Candidates** only, in lieu of Q. No. 8 (Alternative) :

उपभोक्ताओं के “स्वाद व प्राथमिकताएँ” वस्तु के पक्ष में होने पर, वस्तु की माँग किस प्रकार प्रभावित होगी ? समझाइए ।

How would the demand for a commodity be affected by a change in “tastes and preferences” of the consumers in favour of the commodity ? Explain.



9. निम्नलिखित में से कौन-से कथन *सही* या *ग़लत* हैं ? अपने उत्तर के समर्थन में उपयुक्त कारण दीजिए ।

4

- (क) औसत लागत वक्र, औसत परिवर्ती लागत वक्र को उसके न्यूनतम स्तर पर काटता है ।
- (ख) औसत उत्पाद वक्र तथा सीमांत उत्पाद वक्र 'U-आकार' के वक्र होते हैं ।
- (ग) सभी बाज़ार परिस्थितियों में, औसत संप्राप्ति तथा सीमांत संप्राप्ति बराबर होते हैं ।
- (घ) कुल लागत वक्र तथा कुल परिवर्ती लागत वक्र एक-दूसरे के समांतर होते हैं ।

अथवा

एक काल्पनिक अनुसूची का प्रयोग करते हुए, एक पूर्ण प्रतियोगी फर्म के संतुलन की व्याख्या कीजिए ।

4

Which of the following statements are *true* or *false* ? Give valid reasons in support of your answer.

- (a) Average cost curve cuts Average variable cost curve, at its minimum level.
- (b) Average product curve and Marginal product curve are 'U-shaped' curves.
- (c) Under all market conditions, Average revenue and Marginal revenue are equal to each other.
- (d) Total cost curve and Total variable cost curve are parallel to each other.

OR

Explain a firm's equilibrium under perfect competition, using a hypothetical schedule.

10. अल्पाधिकारी बाज़ार की निम्नलिखित विशेषताओं के अर्थ की व्याख्या कीजिए :

6

- (क) गैर-मूल्य प्रतिस्पर्धा
- (ख) कम विक्रेता

Explain the meaning of the following features of the Oligopoly Market :

- (a) Non-Price Competition
- (b) Few Sellers



11. (क) एक परिवर्ती कारक के बढ़ते हुए प्रतिफल से क्या तात्पर्य है ?
 (ख) एक परिवर्ती कारक के घटते हुए प्रतिफल के किन्हीं दो कारणों की संक्षेप में चर्चा कीजिए । 2+4
- (a) What is meant by increasing returns to a variable factor ?
 (b) Discuss briefly, any two reasons for the decreasing returns to a variable factor.
12. निम्नलिखित परिस्थितियों की व्याख्या कीजिए : 3+3
- (क) एक ही अनधिमान वक्र पर संचलन ।
 (ख) निम्न अनधिमान वक्र से उच्च अनधिमान वक्र पर खिसकाव ।

अथवा

सम-सीमांत उपयोगिता नियम की व्याख्या कीजिए । 6

Explain the following conditions :

- (a) Movement along the same indifference curve.
 (b) Shift from a lower to a higher indifference curve.

OR

Explain the Law of Equi-Marginal Utility.

खण्ड ब
(समष्टि अर्थशास्त्र)
SECTION B
(MACROECONOMICS)

13. सरकारी बजट में, प्राथमिक घाटा शून्य होगा, जब _____ । (सही विकल्प का चयन कीजिए) 1
- (क) राजस्व घाटा शून्य हो
 (ख) शुद्ध ब्याज भुगतान शून्य हो
 (ग) राजकोषीय घाटा शून्य हो
 (घ) राजकोषीय घाटा ब्याज भुगतान के बराबर हो



Primary deficit in a government budget will be zero, when _____.
(Choose the correct alternative)

- (a) Revenue deficit is zero
- (b) Net interest payments are zero
- (c) Fiscal deficit is zero
- (d) Fiscal deficit is equal to interest payment

14. एक अर्थव्यवस्था में निवेश को प्रोत्साहित करने के लिए, केन्द्रीय बैंक _____ कर सकता है। (सही विकल्प का चयन कीजिए)

1

- (क) नकद आरक्षित अनुपात में कमी
- (ख) नकद आरक्षित अनुपात में वृद्धि
- (ग) खुले बाज़ार में सरकारी प्रतिभूतियों का विक्रय
- (घ) बैंक दर में वृद्धि

In order to encourage investment in the economy, the Central Bank may _____. (Choose the correct alternative)

- (a) Reduce Cash Reserve Ratio
- (b) Increase Cash Reserve Ratio
- (c) Sell Government securities in open market
- (d) Increase Bank Rate

15. प्रत्यक्ष कर से आप क्या समझते हैं ?

1

अथवा

अप्रत्यक्ष कर से आप क्या समझते हैं ?

1

What do you mean by a direct tax ?

OR

What do you mean by an indirect tax ?



16. 'मुद्रा गुणक' को परिभाषित कीजिए । 1
Define 'money multiplier'.
17. यदि सीमांत उपभोग प्रवृत्ति (MPC) 0.8 है तथा प्रारंभिक निवेश में परिवर्तन ₹ 1,000 करोड़ है, तो अंतिम आय में परिवर्तन की गणना कीजिए । 3
Calculate change in final income, if Marginal Propensity to Consume (MPC) is 0.8 and change in initial investment is ₹ 1,000 crores.
18. कीन्स के सिद्धांत के अंतर्गत "अधिमाँग" का अर्थव्यवस्था में रोज़गार पर पड़ने वाले प्रभाव का उल्लेख कीजिए । 3
अथवा
निम्नलिखित का अर्थ बताइए : 3
(क) प्रत्याशित बचत
(ख) पूर्ण रोज़गार
(ग) स्वायत्त उपभोग
State the impact of "Excess Demand" under the Keynesian theory on employment, in an economy.
- OR**
- State the meaning of the following :
- (a) Ex-Ante Savings
(b) Full Employment
(c) Autonomous Consumption
19. निम्नलिखित कथनों को राजस्व प्राप्तियों या पूँजीगत प्राप्तियों में वर्गीकृत कीजिए । अपने उत्तर के समर्थन में उपयुक्त कारण दीजिए । 4
(क) एक बाढ़ प्रभावित इलाके के पीड़ितों के लिए किसी बहुराष्ट्रीय निगम द्वारा वित्तीय मदद ।
(ख) सार्वजनिक क्षेत्र की एक इकाई के अंशों (शेयरों) की एक निजी कम्पनी, Y लिमिटेड को बिक्री ।
(ग) भारतीय स्टेट बैंक द्वारा सरकार को लाभांश भुगतान ।
(घ) अंतर्राष्ट्रीय मुद्रा कोष (IMF) से लिया गया ऋण ।



Classify the following statements as revenue receipts or capital receipts. Give valid reasons in support of your answer.

- (a) Financial help from a multinational corporation for victims in a flood affected area.
- (b) Sale of shares of a Public Sector Undertaking (PSU) to a private company, Y Ltd.
- (c) Dividends paid to the Government by the State Bank of India.
- (d) Borrowings from International Monetary Fund (IMF).

20. “अधिक सकल घरेलू उत्पाद (GDP) का तात्पर्य अर्थव्यवस्था में वस्तुओं की अधिक प्रति व्यक्ति उपलब्धता होता है।” क्या आप दिए गए कथन से सहमत हैं ? अपने उत्तर के समर्थन में उपयुक्त कारण दीजिए।

4

अथवा

एक संख्यात्मक उदाहरण के प्रयोग से, वास्तविक सकल घरेलू उत्पाद तथा मौद्रिक सकल घरेलू उत्पाद का अर्थ समझाइए।

4

“Higher Gross Domestic Product (GDP) means greater per capita availability of goods in the economy.” Do you agree with the given statement ? Give valid reason in support of your answer.

OR

Explain the meaning of Real Gross Domestic Product and Nominal Gross Domestic Product, using a numerical example.

21. केन्द्रीय बैंक द्वारा साख नियंत्रण के लिए प्रयोग किए जाने वाले ‘गुणात्मक तथा मात्रात्मक उपकरणों’ में अंतर स्पष्ट कीजिए।

4

Distinguish between ‘Qualitative and Quantitative tools’ of credit control as may be used by a Central Bank.



22. (क) “व्यापार अधिशेष” तथा “व्यापार घाटा” को परिभाषित कीजिए ।

(ख) विदेशी मुद्रा दर निर्धारण की प्रबंधित तिरती प्रणाली की अवधारणा की संक्षेप में चर्चा कीजिए ।

3+3

(a) Define “Trade Surplus” and “Trade Deficit”.

(b) Discuss briefly the concept of managed floating system of foreign exchange rate determination.

23. निम्नलिखित परिस्थितियों में समायोजन तंत्र की चर्चा कीजिए :

6

(क) समग्र माँग, समग्र पूर्ति से कम हो ।

(ख) प्रत्याशित निवेश, प्रत्याशित बचत से अधिक हों ।

Discuss the adjustment mechanism in the following situations :

(a) Aggregate demand is lesser than Aggregate Supply.

(b) Ex-Ante Investments are greater than Ex-Ante Savings.

24. निम्नलिखित को परिभाषित कीजिए :

6

(क) मूल्य वृद्धि

(ख) सकल घरेलू उत्पाद

(ग) प्रवाह चर

(घ) सम्पत्ति तथा उद्यमशीलता से प्राप्त आय

अथवा



दिए गए आंकड़ों के आधार पर, “सकल घरेलू पूँजी निर्माण” तथा “प्रचालन अधिशेष” के मूल्य ज्ञात कीजिए ।

6

क्र.सं.	विवरण	राशि (₹ करोड़ों में)
(i)	राष्ट्रीय आय	22,100
(ii)	मज़दूरी व वेतन	12,000
(iii)	निजी अंतिम उपभोग व्यय	7,200
(iv)	शुद्ध अप्रत्यक्ष कर	700
(v)	सकल घरेलू पूँजी निर्माण	?
(vi)	मूल्यहास	500
(vii)	सरकारी अंतिम उपभोग व्यय	6,100
(viii)	स्व-नियोजित की मिश्रित आय	4,800
(ix)	प्रचालन अधिशेष	?
(x)	निवल निर्यात	3,400
(xi)	किराया	1,200
(xii)	विदेशों से प्राप्त निवल साधन आय	(-) 150

Define the following :

- Value Addition
- Gross Domestic Product
- Flow Variables
- Income from property and entrepreneurship

OR



Given the following data, find the values of “Gross Domestic Capital Formation” and “Operating Surplus”.

S. No.	Particulars	Amount (₹ in crores)
(i)	National Income	22,100
(ii)	Wages and Salaries	12,000
(iii)	Private Final Consumption Expenditure	7,200
(iv)	Net Indirect Taxes	700
(v)	Gross Domestic Capital Formation	?
(vi)	Depreciation	500
(vii)	Government Final Consumption Expenditure	6,100
(viii)	Mixed Income of Self-Employed	4,800
(ix)	Operating Surplus	?
(x)	Net Exports	3,400
(xi)	Rent	1,200
(xii)	Net Factor Income from Abroad	(–) 150



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