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**XII ECONOMICS**

**DECEMBER ASSIGNMENT (2024-25)**

**ANSWER KEY**

**Sample Paper-1**

1. (c)
  2. (d)
  3. (a)
  4. (c)
  5. (d) OR (c)
  6. (a) OR (d)
  7. (a)
  8. (a) OR (b)
  9. (d)
  10. (b)
11. The working of multiplier is based on the fact 'one's expenditure is other's income'.

Given, the increase in investment is ₹ 4,000 crores and Marginal Propensity to Consume is 0.5:

Rounds	ΔI	ΔY	ΔC	ΔS
1	4,000	4,000	2,000	2,000
2		2,000	1,000	1,000
3		1,000	500	500
-		-	-	-
<b>Total</b>	<b>4,000</b>	<b>8,000</b>	<b>4,000</b>	<b>4,000</b>

The above table shows that an increase in investment of ₹ 4,000 crores leads to a total increase of ₹ 8,000 crores

Working Note:

$$K = 1/(1 - MPC) = 1/(1 - 0.5) = 1/0.5 = 2$$

$$K = \Delta Y/\Delta I \Rightarrow 2 = \Delta Y/4,000 \Rightarrow \Delta Y = 8,000$$

**OR**

Investment multiplier (K) and Marginal Propensity to Save (MPS) are inversely related.

Suppose, the value of MPS = 0.2

$$\text{Then, the value of } K = 1/MPS = 1/0.2 = 5$$

Suppose, the value of MPS = 0.4

$$\text{Then, the value of } K = 1/0.4 = 2.5$$

Thus, it is clear from illustration mentioned above that there exists inverse relationship between MPS and investment multiplier. As MPS rises, the value of investment multiplier falls.

12. (i) Decrease in imports from China
  - (ii) \$72.46 Billion
  - (iii) Adverse BOP position
13. (a) Voluntary unemployment refers to a situation where an able-bodied person is not willing to work at the prevailing wage rate. Whereas, Involuntary unemployment refers to a situation where an able-bodied person who is willing to work at the prevailing wage rate, is not getting work.
- (b) Given;  $Y = ₹ 100$  crore and  $a = ₹ 40$  crore. When  $S = 0$ ;  $C = Y$  (break-even point). Hence,  $C = ₹ 100$  crore  
We know,  $C = a + MPC(Y)$   
 $100 = 40 + MPC(100) \Rightarrow MPC = 60/100 = 0.6$

14. (a) When planned savings exceeds planned investments it means households are planning to consume less than what the firms expected. As a result, planned inventory would rise above the desired level. To manage the inventories at the desired level, producers may contract production, reducing the employment and income level.

(b) When planned savings are less than the planned investments it means households are planning to consume more than what the firms expected. As a result, planned inventory would fall below the desired level. To bring back the inventories at the desired level, producers may expand production raising the level of employment and output.

15. (i) Revenue Deficit = Total revenue expenditure - Total revenue receipts = Revenue expenditure - (Tax revenue + Non tax revenue)  
 $= 1500 - (1000 + 150) = ₹ 350$  crores
- (ii) Fiscal deficit = Net Borrowings by Government = ₹ 780 crores

**OR**

Reallocation of resources refers to re-distribution of resources from one use to another. The government reallocates resources with a view to balance the goals of profit maximisation (by firms) and social welfare (by government). The government may influence the allocation of resources through:

(a) Taxation policy: Heavy taxes may be imposed on harmful products, e.g. liquor, cigarettes, tobacco, etc. to discourage their production. On the other hand, tax concessions/subsidies may be provided on the production of socially useful products to encourage their production.

(b) Expenditure policy: Government may directly undertake production of certain goods and services in the areas where private sector may not be willing to participate in production activities due to lack of enough profits and huge investment expenditure involved, e.g. water supply, sanitation, law and order, national defence, etc. (public goods)

16. •  $GDPFC = (ii) + \text{Government Final Consumption Expenditure} + (viii + x) + (v) - (iv)$   
 $370 = 210 + \text{Government Final Consumption Expenditure} + (70 + 60) + (-20) - 20$   
Government Final Consumption Expenditure = ₹ 70 crore
- $GDPFC = (i) + \text{Operating Surplus} + (ix) + (xi)$   
 $370 = 175 + \text{Operating Surplus} + 40 + 70$   
Operating Surplus = ₹ 85 crore



17. Functions of money in the economy:

(a) Medium of exchange: The first and foremost role of money is that it acts as a medium of exchange. Money is the commonly accepted medium of exchange. Barter exchanges become extremely difficult in a large economy because of the high costs people would have to incur looking for suitable persons to exchange their surpluses. Economic exchanges without the mediation of money are referred to as barter exchanges. However, they presume the rather improbable double coincidence of wants. Consider, for example, an individual who has a surplus of rice which she wishes to exchange for clothing. If she is not lucky enough she may not be able to find another person who has the diametrically opposite demand for rice with a surplus of clothing to offer in exchange. The search costs may become prohibitive as the number of individuals increases. Thus, to smoothen the transaction, an intermediate good is necessary which is acceptable to both parties. Such a good is called money. The individuals can then sell their produces for money and use this money to purchase the commodities they need.

(b) Unit of account: Money also acts as a convenient unit of account. The value of all goods and services can be expressed in monetary units. When we say that the value of a certain wristwatch is ₹500 we mean that the wristwatch can be exchanged for 500 units of money. If the price of a pencil is ₹2 and that of a pen is ₹10 we can calculate the relative price of a pen with respect to a pencil, viz. a pen is worth  $10 \div 2 = 5$  pencils. The same notion can be used to calculate the value of money itself with respect to other commodities. In the above example, a rupee is worth  $1 \div 2 = 0.5$  pencil or  $1 \div 10 = 0.1$  pen. Thus if prices of all commodities increase in terms of money i.e., there is a general increase in the price level, the value of money in terms of any commodity must have decreased – in the sense that a unit of money can now purchase less of any commodity. We call it a deterioration in the purchasing power of money.

(c) Store of value: A barter system has other deficiencies. It is difficult to carry forward one's wealth under the barter system. Suppose we have an endowment of rice which we do not wish to consume today entirely. We may regard this stock of surplus rice as an asset which we may wish to consume, or even sell off, for acquiring other commodities at some future date. But rice is a perishable item and cannot be stored beyond a certain period. Also, holding the stock of rice requires a lot of space. We may have to spend considerable time and resources looking for people

with a demand for rice when we wish to exchange our stock for buying other commodities.

This problem can be solved if we sell our rice for money. Money is not perishable and its storage costs are also considerably lower. It is also acceptable to anyone at any point of time. Thus money can act as a store of value for individuals. Wealth can be stored in the form of money for future use.

However, to perform this function well, the value of money must be sufficiently stable. A rising price level may erode the purchasing power of money. It may be noted that any asset other than money can also act as a store of value, e.g. gold, landed property, houses or even bonds (to be introduced shortly). However, they may not be easily convertible to other commodities and do not have universal acceptability.

OR

Money Multiplier (or Credit Multiplier or Deposit Multiplier) is the number by which total deposits can increase due to a given change in deposits.

Money multiplier =  $1/\text{Legal Reserve Ratio (LRR)}$

The credit creation by commercial banks depends on money multiplier. There is a direct relationship between money multiplier and total credit creation by commercial banks.

Lower the money multiplier, lesser will be total credit creation by the commercial banking system and *vice-versa*.

Total credit creation = Initial deposits  $\times$  Money Multiplier ( $1/\text{LRR}$ )

Numerical Example: Suppose the LRR is 20% and initial deposit is ₹10,000.

Money multiplier =  $1/\text{LRR} = 1/0.20 = 5$ ; and Total credit created =  $\text{₹}10,000 \times 5 = \text{₹}50,000$

Whereas, suppose LRR is increased by the Central Bank to 50% and initial deposits remain the same, i.e. ₹10,000.

Then, Money multiplier =  $1/0.50 = 2$ ; and Total credit created =  $\text{₹}10,000 \times 2 = \text{₹}20,000$ .

Thus, with the same initial deposit ₹10,000, total credit creation decreases from ₹50,000 to ₹20,000 with a decrease in the value of money multiplier from 5 to 2.

18. (a) 19. (d) OR (c)

20. (a) 21. (c)

22. (d) 23. (a)

24. (c) OR (b) 25. (c)

26. (b) OR (a) 27. (d)

28. Some obstacles that hinder the mechanism of agricultural marketing:

(i) Farmers, while selling their produce to traders, suffered from faulty weighing and manipulation of accounts.



- (ii) Farmers who did not have the required information on prices prevailing in markets were often forced to sell at low prices.
- (iii) They also did not have proper storage facilities to keep back their produce for selling later at a better price. Even today, more than 10 per cent of goods produced in farms are wasted due to lack of storage.

OR

Recently, self-help groups (SHGs) have emerged to fill the gap in the formal credit system.

- The SHGs promote thrift in small proportions by a minimum contribution from each members. From the pooled money, credit is given to the needy members to be repayable in small installments at reasonable interest rates. Such credit provisions are generally referred to as 'micro-credit programmes'.
  - SHGs have helped in the empowerment of women. By May 2019, nearly 6 crore women in India have become member in 54 lakh women SHGs. About ₹10-15,000 per SHG and another ₹2.5 lakhs per SHG as a Community Investment Support Fund (CISF) are provided as part of renovating fund to take up self employment for income generation.
29. Two environmental concerns faced by India in the present times are:
- (i) **Air Pollution:** In India, air pollution is widespread in urban areas where vehicles and industries are major contributors to pollution. Air pollution results in health problems and causes severe damage to the environment. The number of motor vehicles has increased from about 3 lakh in 1951 to 23 crores in 2016. In 2016, personal transport vehicles (two-wheeled vehicles and cars only) constituted about 85 per cent of the total number of registered vehicles thus contributing significantly to total air pollution load.
  - (ii) **Global Warming:** Global warming is the observed projected increases in the average temperature of earth's atmosphere and oceans due to increase in greenhouse gases in the recent past. This has become a major global concern for the world.
30. Growth refers to increase in country's capacity to produce the output of goods and services in an economy. Equity refers to reductions in inequality of income and wealth.
- When the objective of economic growth and equity are achieved, it may lead to development with social justice, which may increase the per capital availability of goods and services.
  - It is important that the benefits of economic growth should reach the poor sections as well instead of being enjoyed only by the rich. Every Indian should be able to meet his/her basic need of food, house, education and health care. Inequality

in the distribution of income and wealth should be reduced.

Even if a country has high growth, and the modern technology developed in the country itself, yet it may not ensure welfare of people if majority of its people are living in poverty.

OR

Usefulness of public sector undertakings:

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

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

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

31. The National Education Policy 2020 states that the world is undergoing rapid changes in the knowledge landscape. With various dramatic scientific and technological advances, such as the rise of big data, machine learning, and artificial intelligence, many unskilled jobs worldwide may be taken over by machines, while the need for a skilled workforce, particularly involving mathematics, computer science, and data science, in conjunction with multidisciplinary abilities across the sciences and social sciences, and humanities, will be increasingly in greater demand.

With climate change, increasing pollution, and depleting natural resources, there will be a sizeable shift in how we meet the world's energy, water, food, and sanitation needs, again resulting in the need for new skilled labour, particularly in biology, chemistry, physics, agriculture, climate science, and social science.

The growing emergence of epidemics and pandemics will also call for collaborative research in infectious disease management and development of vaccines and the resultant social issues heightens the need for multidisciplinary learning. There will be a growing demand for humanities and art, as India moves towards becoming a developed country as well as among the three largest economies in the world.

This policy vision suggests how human capital formation in India will move its economy to a higher growth trajectory based on knowledge landscape.



32. The given statement is quite appropriate with reference to the 'casualisation of labour' in India.

- (i) For casual workers, the rights of the labour are not properly protected by labour laws. Particularly, during pandemic times, as demand for goods and services fell the casual workers were left jobless, without any compensation or support.
- (ii) During the COVID-19 lockdown, millions of casual workers lost their jobs, raising the question of their survival. Also, additional health expenditure added to their troubles. Had such workers been working under the formal sector, it would have given them some respite in their difficult times.

33. (a) The two main reasons for the same may be quoted as under:

- (i) Cheaper imports
- (ii) Inadequate investment in infrastructure

(b) Two steps taken by the government of India on financial sector under the economic reforms of 1991 were:

- (i) Change in the role of Reserve Bank of India (RBI): The role of RBI was reduced from regulator to facilitator of financial sector. This means that financial sector was given greater autonomy (to take decisions) on many matters independent of RBI.
- (ii) Origin of Private Banks: The reform process led to establishment of private sector banks of Indian as well as foreign origin.

(c) Reasons for India as outsourcing destination-

- (i) Availability of skilled manpower- India has vast skilled manpower which enhances the faith of MNCs for investment in India.
- (ii) Favourable Government policies- MNCs get various types of lucrative offers from the Indian government such as tax holidays, tax concessions etc.

OR

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

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

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

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

(iv) High inflation - The crisis was further compounded by the rising prices of essential goods. India approached the World Bank and IMF and received \$7 billion as loan to manage the crisis. For availing the loan, these international institutions expected India to liberalise and open up the economy by removing restrictions on the private sector, reducing the role of the government in many areas and remove trade restrictions between India and other countries.

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

Thus, India changed its economic policies in 1991 due to a financial crisis, and pressure from international organisations like the World Bank and IMF.

34. (a) Economic advantages of China Pakistan Economic Corridor (CPEC) to the economy of Pakistan are:

- (i) China provided financial and technical expertise to help Pakistan build its road infrastructure, supporting employment and income in the economy.
- (ii) CPCE has led to a massive increase in power generation capacity of Pakistan. It has brought an end to supply-side constraints in the nation, which had made blackouts a regular phenomenon across the country.

(b) China has become famous for its 'Debt Trap Diplomacy' in recent times. Under this China provides financial and technical expertise/ assistance to help various nations to bring them under its direct or indirect influence. The first and the foremost implication of the diplomacy is that Beijing has now become Islamabad's largest creditor. According to documents released by Pakistan's finance ministry, its total public external debt stood at \$44.35 billion in June 2013, just 9.3 percent of which was owed to China. By April 2021, this external debt had ballooned to \$90.12 billion, with Pakistan owing 27.4 percent — \$24.7 billion — of its total external debt to China, according to the IMF.