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ERNAKULAM REGION

SAMPLE QUESTION PAPER

CLASS XII – *ECONOMICS*

MARKING SCHEME

Qn. No.	Expected Answer/ Value Points	Distribution of Marks
1.	The branch of economics which studies individual economic units.	1
2.	Locus of different combinations of two goods which the consumer can afford by spending the whole of his income.	1
3	When price of a commodity falls and its demand is elastic, total expenditure on the commodity rises.	1
4	A mathematical expression of the technological relation between physical inputs and output of a good.	1
5	A firm under perfect competition which has to accept the price determined by market demand and market supply.	1
6	When there is unemployment in the economy, the maximum quantity that the economy can produce does not change. So, there is no effect on the PPC.	3
7	$E = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$ $= \frac{50}{0} \times \frac{9}{100}$ = Infinity(∞)	1 1½ ½
8	In a situation of equilibrium in case of two commodities, X and Y: $\frac{Mux}{Px} = \frac{Muy}{Py}$ When Px falls, $\frac{Mux}{Px} > \frac{Muy}{Py}$. It implies that rupee worth of satisfaction is greater for X than Y. Then consumer will start buying more of X in place of Y. Accordingly, Mux falls and Muy rises. He stops buying more of X when he attains equilibrium again.	3

9	Actual money expenditure on inputs are called explicit costs. Eg. expenditure on hiring factor services. Implicit costs refer to the estimated value of inputs provided by the owner. Eg. Estimated rent of the building owned by the entrepreneur.	3
10	Under perfect competition the number of buyers is so large that a single buyer cannot influence the market price on his own. OR Under monopoly, there exists strong barriers which prevent the entry of other firms in the market. These barriers may be legal barriers, raw materials, or technological barriers.	3 3
11	(i) By adopting modern farming methods agricultural production can be increased and thereby the demand for land can be decreased. (ii) By importing food grains from other countries. (iii) By adopting population control measures the demand for food and that of land can be decreased. (ANY TWO POINTS. OTHER CORRECT MEASURES ALSO CAN BE WRITTEN)	(2) 4 (2)
12	The law of variable proportions states that when we combine more and more units of a variable factor with fixed quantities of oher factors , after a stage, the increase in total product becomes smaller and smaller.(EXPLAIN WITH THREE STAGES) OR Increase in input price shifts the MC curve upward which implies higher cost for the same level of output. Accordingly, supply curve shifts upwards or to the left implying less supply at the same price. A fall in input price shifts the MC curve downward which implies lower costs for the same level of output. Accordingly, supply curve shifts downward or to the right implying more supply at the same price.	4 4
13	MC is addition to TC on producing one more unit ofoutput. When MC less than AC, AC falls. When MC greater than AC, AC rises. When MC = AC, AC is minimum and constant.(Use diagram- AC and MC)	1 1 1 1
14	Let the two goods be X and Y. Given income, prices and preferences of the consumer, the conditions of equilibrium are: (i) MRS = Px/Py If MRS>Px/Py, the consumer will find it advantageous to substitute X for Y. As a result MRS will fall. This will continue till MRS=Px/Py. (or answer based on MRS<Px/Py) (ii) MRSxy continuously falls. In case the consumer is not in equilibrium, it is the decreasing MRS which brings back the consumer into equilibrium. OR Features of IC are: (i) Slopes downward from left to right (with reason) (ii) Convex to the origin (with reason) (iii) Higher IC shows higher utility (with reason) (iv) Two ICs never intersect with each other (with reason) (1½ × 4 = 4 Marks)	1 2 1 2 4

15	Change in quantity supplied means the expansion and contraction of supply of a commodity caused by changes in own price of the commodity. Movement along the same supply curve.(with explanation and diagram) Change in supply refers to increase or decrease in supply of a commodity caused by changes in factors other than own price of the commodity. Supply curve shifts rightwards or leftwards.(with explanation and diagram).	3 3
16	Increase in supply shifts the supply curve to the right. There will be excess supply at the same equilibrium price. The competition among sellers to sell their excess quantity leads to fall in price. When price falls demand rises. These changes continue till D=S at a new equilibrium. The new price will be less than the original equilibrium price. DIAGRAM	4 2
17	SLR is the percentage of total deposits which commercial banks are required to keep in the form of liquid assets with themselves.	1
18	Two components of money supply are: (i) Currency held by the public (ii) Demand deposits of the people with the commercial banks	1
19	Say's Law states that supply creates its own demand.	1
20	$K = \frac{1}{1-0.75}$ $= 4$	1
21	The Central Bank will purchase US $ from the market.	1
22	Net value Added at factor Cost = [(ii)×(i)]+(v)-(vi)-(iv)-(iii) = [1000×25]+(-)500-7000-1000-5000 = ₹ 11,500	1 1 1
23	Non-monetary exchanges refer mainly to the own account or self consumed goods and services like services of family members to each other, which are left out of GDP on account of non availability of data. But these do contribute to welfare. As such, GDP under estimate welfare.	3
24	(i) Not included in national income because it is paid out of compensation of employees which is already included in national income. (ii) Not included in national income in the year of actual payment because it was already counted as pension during the period when the person was employed / because it is a deferred payment. OR (i) Expenditure on the purchase of shares, debentures etc is not included. (ii) Expenditure on second hand goods is not to be included. (iii) Expenditure on transfer payments is not to be included. (iv) Expenditure on intermediate goods is not to be included. (Any 3 points × 1 mark = 3 marks)	1½ 1½
25	Foreign exchange rate is the rate at which one country's currency can be exchanged for another country's currency. It is determined by the interaction of demand for and supply of foreign currency in the international market.(with brief explanation)	1 2

26	Balance of trade records the exports and imports of goods. When the value of exports of goods is greater than the value of imports of goods, BoT is in surplus.	1 2
27	Inflationary gap is the excess of aggregate demand over and above its level required to maintain full employment equilibrium in the economy.(with diagram) During inflation, both CRR and SLR are raised. This reduces credit creation capacity of commercial banks. As a result, aggregate demand reduces as required to correct inflationary gap. OR Deflationary gap is the shortfall in aggregate demand from the level required to maintain full employment equilibrium in the economy.(Diagram) During deflationary gap or deficient demand margin requirement is reduced, which induces borrowing. This raises borrowings in the economy. As a result, the flow of credit rises and therefore aggregate demand rises.	2 2 2 2
28	(a) Revenue deficit = v-i-iii =80-47-10 = 23 Crores (b) Fiscal deficit= iv= 32 Crores (c) Primary deficit = Fiscal deficit – vi = 32-20= 12 Crores	 1½ 1½ 1
29	Revenue expenditures are those expenditures which neither create any asset nor reduce any liability. Examples are expenditure on the maintenance of law and order, expenditure on subsidies, pay and allowances of ministers, governors, judges etc. Capital expenditures are those expenditures which either create assets for the government or reduce liabilities of the government. Examples are expenditure on the construction of a road, expenditure on the construction of a dam, expenditure on the repayment of a loan from IMF etc.	1 1 1 1
30	By creating credit commercial banks contribute money supply in the economy. They create credit in the form of derivative demand deposits . This derivative demand deposits will be many times more than the initial primary deposits. If primary deposits in a bank is ₹1000 and CRR is 10%, the demand deposits created by the banking system will be ₹10,000. (Explain with balance sheets of two or three banks). Demand deposits created = $\frac{1}{CRR}$ × Primary deposits = $\frac{1}{10\%}$ × 10,000 = ₹10,000	6
31	(a) GNP at MP = (ix)+(iii)+(vi)+(vii)+(x)-(i) = 1200+300+500+100+250-10 = 2340 Crore (b) PDI = (ii)-(iv)-(v)-(viii) = 1700-150-30-200 = 1320 Crore No marks be given if only the final answer is given.	2 1½ ½ 1 ½ ½
32	C=200+0.5 Y When income is 0, C=200 When Y1 = 1000, C= 200+0.5×1000=700 APC = 700÷1000=0.7 When Y2=2000, C= 200+0.5×2000=1200 APC= 1200÷2000= 0.6 Thus, as income increases APC decreases.	6

	OR (a) Given that, $S= -100+0.2Y$ and, $Y=2000$ At equilibrium level $I=S$ $I= -100+ 0.2\times2000$ **$I= 300$**	 2
	(b) Autonomous consumption At $Y=0$, $S= -100+0.2\times0 = -100$ $C=Y-S= 0-(-100)=100$ **Autonomous consumption = 100**	 2
	(c) Investment multiplier $K=\frac{1}{MPS}$ $K=\frac{1}{0.2}$ **= 5**	 2

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