# ECONOMICS - 030

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## Section - B
## (Indian Economic Development)

18. (C) Financial sector reforms

19 (B) Both A and R are true, but R is not correct explanation of A

20. (D) fewer/less number of people reading higher education

21. (B) V K R V Rao

22. (D) (iv) - (d)

23. (A) Capital

24. (D) Solar lgas in rural areas

25. (C) Both Statements 1 and 2 are true

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26. (A) Dual Pricing

27. (D) (i), (ii) and (iii)

28. Yes, Pakistan did indeed experience significant changes in its policies, incentives and new investments in the late 1970s and 1980s.
Initially in early 1970s, emphasis was given to public sector role, which underwent changes in late 1970s as follows:

- In the late 1970s, Pakistan shifted its emphasis of role of private sector in the industrialization process. It encouraged private enterprises and provided them incentives to flourish.
- Green Revolution facilitated in the economy during this time through adoption of new technology and public investment brought drastic change in the agrarian economy.
- Financial aids and remittances from western Nations and emmigrants from Middle East also increased inflow of foreign exchange reserves in the country.
- Further, Reforms were initiated in 1988 and thus significant changes took place in its policies, incentives and new investments.

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(29) (A)

| Basis of difference | Formal Urban employment | Informal sector employment |
|---|---|---|
| Meaning | All public urban enterprises and private establishments with more than 10 hired workers are part of formal or organised sector | All private enterprises with less than 10 hired workers done under informal or unorganised sector |
| Social security benefits | They are entitled to social security benefits such as pension, provident funds, etc | They are not entitled to any such social security benefits |
| Share in workforce | They earn comparatively higher but their share is only 6% of total workforce | They earn comparatively lower and they constitute 94% of total workforce |
| Examples | Public sector employees, employees of big corporate companies, etc | owners of small enterprises, casual farm workers, etc |

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(30) (A) The restrictive policies with the colonial government adversely affected the structure, composition and volume of India's foreign trade are follows:

a. Exporter of primary products and importer of finished goods - The British policy completely changed India's trade structure, turning the economy into an exporter of primary products and importer of finished products from Britain.

b. Monopoly of British rule - The British acquired monopoly over Indian trade with more than half of India's trade being with Britain and some other countries allowed were China, Ceylon (Sri Lanka) and Persia (Iran) Further, the opening of Suez Canal in 1869 reduced distance between British and Indian trade route and facilated smoother operations.

c. Drain of Indian wealth - During Colonial period, India earned huge exports surplus due to export of primary products, however this was drained by Britishers by using it as follows:

- To set up vast office of Colonial Government in Britain and meet its expenses
- To finance war of the British Government
- To import invisible items.

Thus, all these factors adversely affected India's foreign trade.

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(31) (a) The comparison and analysis of distribution of work force with respect to gender is as follows:

a. In both males and females, major source of employment is self employment. It is (51%) in males and (56%) in females. Females have higher proportion because men are able to find casual and regular work more as compared to women

b. Followed by this, casual employment is second major source for both the genders. (29%) men are employed as compared to (31%) women in this type of employment.

c. (20%) male workers are regular salaried employees as compared to a mere (13%) female workers being regular salaried. The reasons for this are as follows

- Low level of migration among women due to social constraints
- Regular salaried work requires actual job skills
- Low level of education among women.

Thus, the following structure and distribution is justified

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(b) Worker population ratio is an indication of employment situation of an economy. It is the ratio of number of workers in the economy to the total population of the economy. It helps to understand how many persons actually contribute to economic development of the country.

$$\text{Worker Population Ratio} = \frac{\text{No of Workers (Work Force)}}{\text{Total Population}} \times 100$$

(32)

(i) The 'Commune System' is an agricultural system wherein farmers collectively cultivate land as a nation. It was introduced in China in 1958 by MAO Zedong under the Great Leap Forward campaign, which helped in more equitable distribution of food grains.

(ii) Two reasons for slow economic growth in Pakistan are as follows:

a. Agriculture and food supply situation of the economy depended on good harvests rather than institutionalized systems of technological change. So when harvest was good the economy was in good condition, whereas when it was not good, it showed stagnant or negative trends. Thus, the agricultural sector of Pakistan was highly volatile.

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b. Foreign exchange is very important for many country coz most can through export of manufactured goods. However, Pakistan relied on foreign financial aid from western nations, remittances from immigrants living in middle east and export of highly volatile agricultural products

Thus, these are two reasons for low and declined growth of the Pakistan economy

(33) (B)

(i) The indicated outcome of the globalization process is known as 'Outsourcing'

(ii) Two factors responsible for making India an important source of outsourcing is as follows:

- Availability of extremely skilled manpower at cheap labour rates
- Favourable government policies such as tax holidays, tax concessions, etc.

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(iii) Some examples of services that have expanded due to advancements in information technology are as follows:

a. Business Process Outsourcing (BPO), which refers to firms hiring some specialised firms to carry out some of its activities, which were previously performed within the firm. With advent of Information Technology, fast paced communication and transmission of data, has helped to transcend borders and allow BPO to flourish

b. Information Technology has also helped in faster spread of information, which has been beneficial to farmers, such as prices of different inputs, agricultural commodities, new technology, their application, different seed types for cultivation, etc. Thus, it has key role in Turning India into a knowledge economy. Its services have also particularly benefitted the meteorological department efficiency.

c. Using information and software tools, has also served the government and helped to predict various to find insecurity and vulnerability, so precautions can be taken before hand and prevent emergency situation.

Thus, these services have expanded due to advancements in IT sector and it has also helped to release creative potential embedded in an economy.

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(i) Rural development is of utmost significance, as more than 60% of India's population comes under rural India. Thus comprehensive development of rural life would mean increase in overall development of the economy. It is important, also as most of the rural families are engaged in agriculture which is main source of livelihood in India. Thus to increase overall standard and quality of life in India, development of human resources, land reforms, alleviation of poverty, etc are very crucial.

(ii) Two policies initiated by Government of India for rural development are as follows:

- Bharatnet Project - Under this policy scheme, broad band connectivity is set to expand providing distance access to all rural government secondary schools and primary healthcare centres. It is concerned with inclusive development of rural economy which will foster growth.
- Mahatama Gandhi National Rural Employment Guarantee Scheme (MGNREGS) This was launched by the government in 2005 to provide 100 days of wage employment to rural poor for rendering their services in

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manual labour. It helped to increase job acuity, income and growth of rural persons are received van allocation of ₹ 86000 crores in FY 2024-25.

Apart from these, other policies by the government also include regulated markets, minimum support price, public distribution system which improved vagricultural marketing. Govt. has also spent on infrastructure of the economy.

## Section - A
## (Macro - Economics)

1. (A) $C = 100 + 0.7Y$
2. (D) India
3. (D) Medium of exchange
4. (A) Statement 1 is true and Statement 2 is false

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5. (B) Capital goods

6. (C) same slope

7. (C) Both Statements 1 and 2 are True

8. (C) Demand deposits with commercial banks

9. (C) A is true, but R is false

10. (D) conducts periodic inspections

(11) We know,

Compensation of employees + Rent + Interest + Profits + Mixed Income = $NDP_{FC}$ (Domestic Income)

Also,

$GDP_{MP} = NDP_{FC}$ + depreciation (consumption of fixed capital) + Net Indirect taxes (GST)

$NDP_{FC}$ = (iv) − (iii) − (vii) = 200 − 50 − 10

$NDP_{FC} = 140$

Here, Mixed Income of self employed is taken as O.

So,

$NDP_{FC} = (i) + (v) + (ii) + (vi) + COE$ (∵ Profit before tax = Profit after tax + Corporate tax)

$140 = 45 + 25 + 20 + 5 + COE$

$140 = 95 + COE$

$\boxed{COE = 45 \text{ crores}}$

Thus, compensation of employees is equal to 45 crores

(12)

(A) The given statement is defended.

Money multiplier refers to increase in credit creation or secondary deposit creation owing to initial deposits.

Money multiplier is inversely related to legal reserve ratio (LRR)

This can be explained with the help of an example as follows:

Let us assume entire banking system is one unit and all transactions of payments and receipts take place through banks.

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Let the initial deposit be ₹1000 and legal reserve ratio be 20% and 50% in two alternate cases.

| Case | Legal Reserve Ratio (LRR) | Value of Money Multiplier $\left(\frac{1}{LRR}\right)$ | Total credit creation by banks = Initial Deposit × Money Multiplier (₹) |
|---|---|---|---|
| 1 | ~~0.5~~ 0.5 | 2 | 1000 × 2 = ₹ 2000 |
| 2 | ~~0.5~~ 0.2 | 5 | 1000 × 5 = ₹ 5000 |

Thus we see as value of money multiplier increases from 2 to 5 total credit creation by banks also increases.

Hence, Upheld.

(13)

(B).

(i) $\left[\text{GNP Inflator} = \frac{\text{Nominal GNP}}{\text{Real GNP}} \times 100\right]$

Here, Nominal GNP = ₹ 2500 and Real GNP = ₹ 3000

So, value of GNP deflator

$$= \frac{2500}{3000} \times 100$$

$$= 83.33\%$$

This means that prices in current year have fallen by 16.67% as compared to base year prices.

(ii) The following statement is refuted

From the GNP deflator we can infer that price level has fallen between base year and the year under consideration The prices in base year were 16.67% higher as compared to current year.

This is why Real GNP of the nation is more than the Nominal GNP of the nation.

(14)

(a) The 'Make in India' policy initiated by the government of India would help to decrease imports from foreign nations and also increase foreign investment in India. This will result in favourable Balance of Payments for India. Other factors being constant, it will result in BOP surplus as

receipts in the economy will exceed payments made. It would also lead to home currency appreciation.

(b). Balance of Payments Surplus - It means that autonomous receipts of an economy exceed the autonomous payments made by the economy. Autonomous transactions refer to transactions that are undertaken with economic motive and are independent of items of BOP.

Balance of Payments Deficit - It means that autonomous payments of an economy exceed the autonomous receipts of the economy.

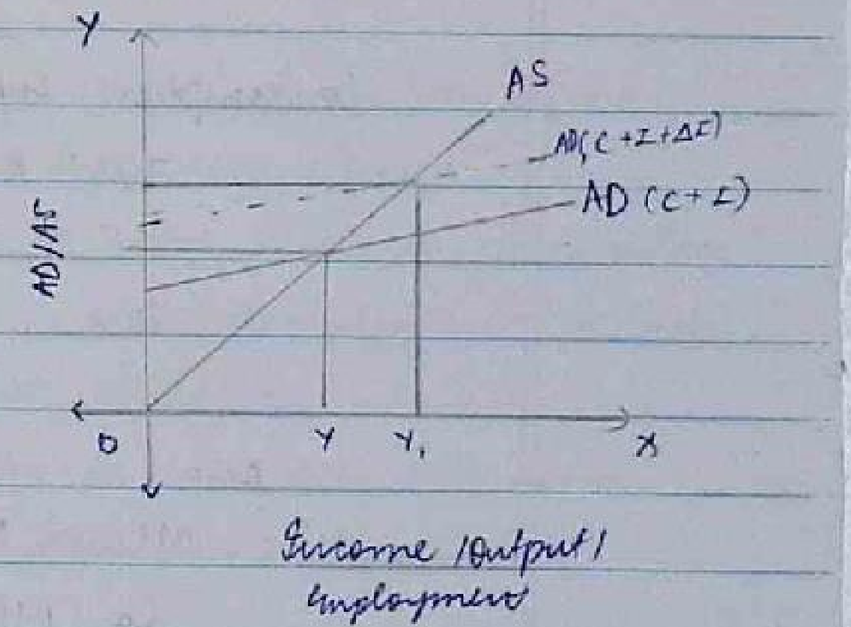
(15)

(i) The economic issue indicated in the above text highlights 'Deficient Demand'.

(ii) Repo rate refers to the rate at which central bank lends money to commercial banks for short-term needs. Since repo-rate has been decreased, it will help commercial banks to borrow freely and increase the credit creating capacity of commercial

banks. This will thus increase aggregate demand of the economy and help overcome the issue of deficient demand. It will also make borrowing cheap for households and industrial units and they will be able to undertake investment expenditure in the economy. Also, since aggregate demand increases, output and employment will also increase in the economy along with general price level

The following diagram, indicates the consequence of decrease in repo rate.



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(16) (A).

(I) At equilibrium,

Aggregate demand = Aggregate supply

Consumption exp + Investment exp = National Income

So, 1200 = Consumption exp (C) + 100

Consumption expenditure = ₹1100 crores

We know, consumption function is as follow,

$C = \bar{C} + bY$ — (1)

Here, $\bar{C}$ is autonomous level of consumption

$b$ is MPC

Also

MPS + MPC = 1

So, MPC = 1 - 0.2 = 0.8

Thus, putting necessary values in equation (1), we get,

$1100 = \bar{C} + 0.8 \times 1200$

$\bar{C} = 1100 - 960$

$\bar{C} = 140$ crores

Thus, Subsistence level of consumption expenditure is ₹140 crores.

(II) The above statement is wrong.

An economy facing an increase in unintended accumulation refers to a situation of deficient demand. Thus economy would try to increase Aggregate demand.

An economy faces unintended accumulation of inventories when planned output exceeds desired output. In this situation buyers are plaining to buy less than what producers are planning to produce. This leads to accumulation of inventories, and to prevent further accumulation, producers lower the output, and thus employment and income of people also declines.

Thus, in such a case, the economy would try to increase aggregate demand through various monetary and fiscal policies of the Central Bank and government respectively.

Therefore, it will not try to reduce aggregate demand.

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(17)

(i) The major sources of government revenue and percentage contribution of each of them are as follows:

a. Borrowings and other liabilities - Their capital receipts account for 27% of the incoming cash

b. Income Tax Revenue - Their direct taxes account for 13% of government revenue

c. Corporation Taxes - These are also direct taxes of the government accounting for 17% revenue

d. Goods and Services Tax - This indirect tax accounts for 18% of government revenue.

(ii) Allocation of funds among different sectors of the economy is extremely so crucial. It is necessary to ensure government meets its social objectives and reduces income disparities between groups to ensure growth with equity.

As mentioned, government has been actively allocating funds for rural development especially in infrastructure and capacity building. Government must ensure all economic sectors are less allocated funds

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Government expenditure is especially crucial in places where private sector is not coming due to no market mechanism. Government thus allocates funds towards production of public goods which are non-excludable and non-rivalrous in nature. It also gives subsidies and tax concessions.

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