Senior School Certificate Examination
MARCH – 2010

MARKING SCHEME – ECONOMICS (*DELHI*)
Set - I
Expected Answers / Value Points

Questions with 'X' mark are higher order thinking questions.

GENERAL INSTRUCTIONS :

1. Please examine each part of a question carefully and allocate the marks allotted for the part as given in the marking scheme below. TOTAL MARKS FOR ANY ANSWER MAY BE PUT IN A CIRCLE ON THE LEFT SIDE WHERE THE ANSWER ENDS.
2. Expected suggested answers have been given in the Marking Scheme. To evaluate the answers the value points indicated in the marking scheme be followed.
3. For questions asking the candidate to explain or define, the detailed explanations and definitions have been indicated alongwith the value points.
4. For mere arithmetical errors, there should be minimal deduction. Only ½ mark be deducted for such an error.
5. Wherever only two / three or a "given" number of examples / factors / points are expected only the first two / three or expected number should be read. The rest are irrelevant and must not be examined.
6. There should be no effort at "moderation" of the marks by the evaluating teachers. The actual total marks obtained by the candidate may be of no concern to the evaluators.
7. Higher order thinking ability questions are assessing student's understanding / analytical ability.

General Note : In case of numerical question no mark is to be given if only the final answer is given.

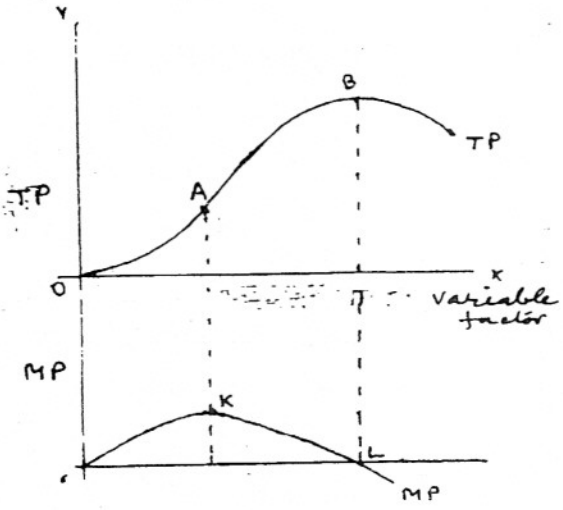
Q. No.	Expected Answer / Value Points	Distribution of Marks
A1	**Section – A**	
1	A curve joining all such points that represent such bundles of two goods among which the consumer is indifferent. OR It is a locus of points that show such combinations of two commodities which give the consumer same satisfaction.	1
2	Firms produce differentiated products.	1
3	Because it is a necessity.	1

4	(1) Few firms. (2) Firms are interdependent in taking price and output decisions. (3) Barriers to the entry of firms. (4) Non-Price competition (Any One)	1
5	Perfect competition.	1
6	When demand rises at the same price it is called 'increase in demand'. When demand rises due to fall in price it is called 'increase in quantity demanded'.	3
7	Consumption (Units) / Total Utility (Utils) / MU (Utils) 1 / 4 / 4 2 / 7 / 3 3 / 9 / 2 4 / 10 / 1 (Or any other relevant schedule)	1½
	Explanation of the law of Diminishing Marginal Utility on the basis of schedule	1½
	OR	
	When price of Y falls, X becomes relatively dearer. This reduces demand for X as Y will be substituted for X.	3
8	PRICE(Rs.) / TR(Rs.) / OUTPUT(Units) 5 / 800 / 160 6 / 1200 / 200	1
	$e_{ss} = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$	1
	$= \frac{40}{1} \times \frac{5}{160} = \mathbf{1.25}$	1
9	The implication is that firms will earn only normal profit in the long run. In the short run, there can be abnormal profits or losses. If there are abnormal profits, new firms enter the market. The total market supply increases, resulting in a fall in market price and fall in profits. This trend continues till profit are reduced to normal. Similarly, if there are losses, firms start exiting. The total market supply decreases resulting in a rise in market price, and reduction in losses. This trend continues till losses are wiped out.	3

10	<table><tr><th>Output (Units)</th><th>AVC (Rs.)</th><th>AFC (Rs.)</th><th>TVC (Rs.)</th><th>MC (Rs.)</th><th>ATC (Rs.)</th></tr><tr><td>1</td><td>30</td><td>60</td><td>30</td><td>30</td><td>90</td></tr><tr><td>2</td><td>28</td><td>30</td><td>56</td><td>26</td><td>58</td></tr><tr><td>3</td><td>32</td><td>20</td><td>96</td><td>40</td><td>52</td></tr></table>	½ x 6
11	The economy can produce different possible combinations of the goods and services from the given resources. The problem is that which of these combinations should the economy produce. This is the problem of choice if more of one good is produced, then lesser resources are left for producing other goods. **OR** (1) Production or allocation of resources through planning (Explanation) (2) Distribution of goods and services through planning (Explanation) (Any other relevant feature) (Any two)	4 1 1 1 1
12	Given $\Delta P = -2$, $\Delta Q = 10$, $P = 10$ $e = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$ $-1 = \frac{10}{-2} \times \frac{10}{Q}$ $Q = 50$ units	1½ 2 ½
13	• Increase in income increases demand at the given price. • This leads to excess demand. • Leads to competition among buyers. As a result price starts rising. • Rise in price leads to rise in supply and fall in demand. • These changes continue till supply and demand become equal at a new equilibrium price. • Equilibrium price rises.	4

14	There are two conditions: (i) MRS = Ratio of prices (ii) MRS continuously falls Explanation: (i) Let the two goods be X and Y. The first condition for consumer's equilibrium is that MRS = Px/ Py. Now suppose MRS is greater than Px/Py. It means that the consumer is willing to pay more for X than the price prevailing in the market. As a result the consumer buys more of X. This leads to fall in MRS. MRS continues to fall till it becomes equal to the ratio of prices and the equilibrium is established. (Or, alternatively in terms of when MRS < Px/Py) (ii) Unless MRS continuously falls, the equilibrium cannot be established.	1 1 3 1
15	a. False because when TR is constant, AR will fall as output increases. b. True, provided MC < AVC. c. False, because AP falls only when MP<AP. AP falls not because MP falls but because MP<AP. (No marks if reason is not given)	2 2 2

16



3

According to the Law of Variable Proportions when only one input is increased while others are held unchanged, MP and TP change in the following manner:

Phase-**I**: MP increases and TP increases at increasing rate i.e. up to A on TP curve (upto K on MP curve) 1

Phase-**II**: MP decreases but is positive and TP increases at decreasing rate i.e. up to B on TP curve (upto L on MP curve) 1

Phase-**III**: MP decrease and is negative and TP falls i.e. after B on TP curve (after L on MP curve) 1

OR

Price per unit ((Rs.)	OUTPUT (Units)	TR (Rs.)	TC (Rs.)	MR (Rs.)	MC (Rs.)
8	1	8	6	8	6
7	2	14	11	6	5
6	3	18	15	4	4
5	4	20	18	2	3

(or any other relevant schedule)

There are two conditions of producer's equilibrium: 3

(i) MC = MR

(ii) MC is greater than MR after equilibrium level of output. 1

The conditions are fulfilled at 3 units of output. 1

For blind candidates: 1

TP and MP Schedules

Explanation of law of variable proportion

OR as above

	SECTION B	
17	(i) currency and coins with public (ii) demand deposits of commercial banks.	1
18	It is the planned savings/expected saving.	1
19	Primary deficit = Fiscal deficit – interest payments	1
20	Excess of Aggregate supply over aggregate demand at full employment level.	1
21	Exports, foreign tourism, etc. (Any two)	½x2
22	If with increase in GDP inequalities of income increase, poor become more poor while rich become more rich. This may lead to decline in welfare even though GDP has increased. **OR** Goods which are purchased by a production unit from other production units and meant for resale or for using up completely during the same year are called intermediate goods. Example: Raw materials or any other example. Goods which are purchased for consumption and investment are called final goods. Examples: Purchased of machinery for installation in factory or any other example.	3 1 ½ 1 ½
23	Lending by the central bank to the commercial banks is called the 'lender of the last resort function. Commercial bank borrow from central bank in times of need.	3
24	Through the budget government can reduce inequalities of income. It can adopt progressive taxation policy and spend more on requirements of the poor.	3
25	When autonomous foreign exchange payments exceed autonomous foreign exchange receipts, the difference is called balance of payments deficit. Autonomous transactions in foreign exchanges are those which are undertaken for their own sake and independent of the State of balance of payments.	2 1
26	Under fixed exchange rate regime reduction in price of domestic currency in terms of all foreign currencies is called devaluation Under flexible exchange rate regime, fall in market price of domestic currency in terms of a foreign currency is called depreciation.	3

27	Money creation by banks is determined by (1) Fresh deposits and (2) Legal Reserve Ratio. Suppose fresh deposit is Rs. 10000 and LRR is 20%. Initially banks keep Rs. 2000 as cash and lend Rs. 8000. Those who borrow spend this Rs. 8000. It is assumed that this Rs. 8000 comes into banks as a fresh deposit. Banks again keep 20% of it as cash reserve and lend the rest. In this way money creation goes on. Total money creation is Rs. 50000.	3
	Money creation = initial deposit X $\frac{1}{LRR}$	1
	OR	
	Bank rate is the rate of interest at which the central banks lends money to the commercial banks. Suppose the central bank raises the bank rate. Since borrowing by the commercial banks becomes costlier, commercial banks are forced to increase the rate of interest they charge on borrowing by public. This reduces demand for borrowing and adversely affects deposit/money creation by commercial banks.	4
28	(a) True, if MPC is greater than 0.8.	2
	OR	
	False, if MPC is greater than 0.5 but not greater than 0.8	
	(b) True, since MPS = $\triangle S / \triangle Y$. The individual may at the most spend the entire $\triangle Y$ so that $\triangle S = 0$. So, MPS can at the most be zero.	2
	(No marks if reason is not given)	
29	(a) Receipts which lead to either reduction in assets or increase in liabilities are called capital receipts. Receipts which neither reduce assets not create any liability are revenue receipts.	2
	(b) Direct tax is a tax whose incidence and impact fall on the same person. Indirect tax is tax whose incidence and impact fall on different persons.	2
30	(a) It is factor income from abroad, so will be included in N.I.	2
	(b) It is transfer receipts, so it is not included in national income.	2
	(c) Not included in national income because it is a non-factor receipt as the loan is not used for production but for consumption.	2
	(No marks if reason is not given)	

31	(a) GDP at fc = (i) + (ii) + (v) + (vi) + [(vii) - (viii + ix)].	1
	= 800 + 200 + 150 + 100 + (300-200-50)	1½
	= Rs. 1300 Crore.	½
	(b)	
	NFIFA = $GNP@_{MP}$ – $GDP@_{MP}$.	
	= (iv) – [$GDP@_{FC}$ + (xi)]	
	= 1400 – (1300+120) = - 20	1
	FITA = FIFA – NFIFA	1
	= 60 – (- 20)	½
	= Rs. 80 Crore.	½
	(Calculation by any other method may be taken as correct)	
	OR	
	NNP_{FC} = (xi) + (iii) + (v) + (viii) – (iv) – (x) – (vi) + (ii) + (i)	1
	= 1000 + 90 + 10 + 30 – 20 – (-10) – 40 +70 + 50	1½
	= Rs. 1200 Crore.	½
	GNDI = NNP_{FC} + (ix) + (vii) + (x)	
	= 1200 + 80 + 60 + (-10)	1
	= Rs. 1330 Crore.	1½
	(or any other alternate method of solution)	½
32	MPC = $\frac{3}{4}$, MPS= $\frac{1}{4}$ ∴ K=4	1
	(i) $\Delta Y = \Delta I$. K	1
	= 1000 x 4	½
	= Rs. 4000 Crore	½
	(ii) Given that $\Delta Y = \Delta C + \Delta I$	
	$\Delta C = \Delta Y - \Delta I$	1½
	=4000 – 1000	1
	=Rs. 3000 Crore	½
	OR	
	$\Delta C = \Delta Y$ x MPC	1½
	=4000 x 0.75	1
	=Rs. 3000 Crore	½

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MARCH – 2010

MARKING SCHEME – ECONOMICS (*DELHI*)
Set - II
Expected Answers / Value Points

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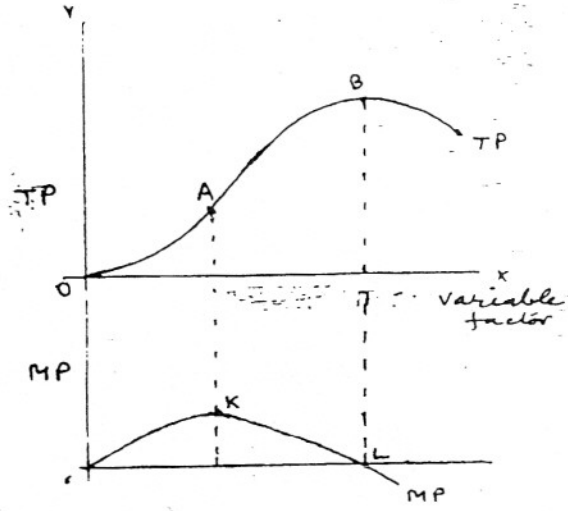
Q. No. A2	Expected Answer / Value Points	Distribution of Marks
1	It is the family of indifference curves that represent consumer preferences over all the bundles of the two goods.	1
2	Perfect competition.	1
3	(1) Few firms. (2) Firms are interdependent in taking price and output decisions. (3) Barriers to the entry of firms. (4) Non-Price competition (Any One)	1

4	Firms produce differentiated products.	1
5	Because it is a necessity.	1
6	When demand falls at the same price it is called 'decrease in demand'. When demand falls due to rise in price it is called 'decrease in quantity demanded'.	3
7	<table><tr><th>Output (Units)</th><th>AVC (Rs.)</th><th>AFC (Rs.)</th><th>TVC (Rs.)</th><th>MC (Rs.)</th><th>ATC (Rs.)</th></tr><tr><td>1</td><td>30</td><td>60</td><td>30</td><td>30</td><td>90</td></tr><tr><td>2</td><td>28</td><td>30</td><td>56</td><td>26</td><td>58</td></tr><tr><td>3</td><td>32</td><td>20</td><td>96</td><td>40</td><td>52</td></tr></table>	½ x 6
8	<table><tr><th>PRICE (Rs.)</th><th>TR (Rs.)</th><th>OUTPUT (Units)</th></tr><tr><td>10</td><td>1600</td><td>160</td></tr><tr><td>12</td><td>2400</td><td>200</td></tr></table> $e_{ss} = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$ $= \frac{40}{2} \times \frac{10}{160} = 1.25$	1 1 1
9	The implication is that firms will earn only normal profit in the long run. In the short run, there can be abnormal profits or losses. If there are abnormal profits, new firms enter the market. The total market supply increases, resulting in a fall in market price and fall in profits. This trend continues till profit are reduced to normal. Similarly, if there are losses, firms start exiting. The total market supply decreases resulting in a rise in market price, and reduction in losses. This trend continues till losses are wiped out.	3
10	<table><tr><th>Consumption (Units)</th><th>Total Utility (Utils)</th><th>MU (Utils)</th></tr><tr><td>1</td><td>4</td><td>4</td></tr><tr><td>2</td><td>7</td><td>3</td></tr><tr><td>3</td><td>9</td><td>2</td></tr><tr><td>4</td><td>10</td><td>1</td></tr></table> (Or any other relevant schedule) Explanation of the law of Diminishing Marginal Utility on the basis of schedule OR When price of Y falls, X becomes relatively dearer. This reduces demand for X as Y will be substituted for X.	1½ 1½ 3

11	Given $\Delta P = -2$, $\Delta Q = 10$, $P = 10$ $e = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$ $-1 = \frac{10}{-2} \times \frac{10}{Q}$ $Q = 50$ units	1½ 2 ½
12	• Increase in income increases demand at the given price. • This leads to excess demand. • Leads to competition among buyers. As a result price starts rising. • Rise in price leads to rise in supply and fall in demand. • These changes continue till supply and demand become equal at a new equilibrium price. • Equilibrium price rises.	4
13	The economy can produce different possible combinations of the goods and services from the given resources. The problem is that which of these combinations should the economy produce. This is the problem of choice if more of one good is produced, then lesser resources are left for producing other goods. <u>OR</u> (1) Production or allocation of resources through planning (Explanation) (2) Distribution of goods and services through planning (Explanation) (Any other relevant feature) (Any two)	4 1 1 1 1

14



3

According to the Law of Variable Proportions when only one input is increased while others are held unchanged, MP and TP change in the following manner:

Phase-**I**: MP increases and TP increases at increasing rate i.e. up to A on TP curve (upto K on MP curve) 1

Phase-**II**: MP decreases but is positive and TP increases at decreasing rate i.e. up to B on TP curve (upto L on MP curve) 1

Phase-**III**: MP decrease and is negative and TP falls i.e. after B on TP curve (after L on MP curve) 1

OR

Price per unit (Rs.)	OUTPUT (Units)	TR (Rs.)	TC (Rs.)	MR (Rs.)	MC (Rs.)
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(or any other relevant schedule)

There are two conditions of producer's equilibrium: 3

(i) MC = MR

(ii) MC is greater than MR after equilibrium level of output. 1

The conditions are fulfilled at 3 units of output. 1

For blind candidates: 1

TP and MP Schedules

Explanation of law of variable proportion

OR as above

15	i. True, because TP increases till falling MP is positive and then falls when falling MP is negative.	2
	ii. False, because when MR falls to zero TR becomes constant and so AR will fall as AR = $\frac{TR}{output}$	2
	iii. False, because the difference between TC and TVC is equal to TFC which remains constant. (No marks if reason is not given)	2
16	There are two conditions: (i) MRS = Ratio of prices (ii) MRS continuously falls	1 1
	Explanation: (i) Let the two goods be X and Y. The first condition for consumer's equilibrium is that MRS = Px/ Py. Now suppose MRS is greater than Px/Py. It means that the consumer is willing to pay more for X than the price prevailing in the market. As a result the consumer buys more of X. This leads to fall in MRS. MRS continues to fall till it becomes equal to the ratio of prices and the equilibrium is established. (Or, alternatively in terms of when MRS < Px/Py)	3
	(ii) Unless MRS continuously falls, the equilibrium cannot be established.	1
	SECTION B	
17	It is the planned investment/expected investment.	1
18	(i) currency and coins with public (ii) demand deposits of commercial banks.	1
19	Excess of Aggregate supply over aggregate demand at full employment level.	1
20	Exports, foreign tourism, etc. (Any two)	½x2
21	Primary deficit = Fiscal deficit – interest payments	1

22	When GDP is calculated at current prices, it is nominal GDP. When GDP is calculated at constant prices, it is real GDP. **OR** Goods purchased for satisfying wants are consumer goods. Durable goods purchased for use in production are capital goods. Both are final goods.	1½ 1½ 1 1 1
23	Conducts banking accounts of government departments. It accepts deposits from government and gives loans to government.	3
24	Under fixed exchange rate regime reduction in price of domestic currency in terms of all foreign currencies is called devaluation Under flexible exchange rate regime, fall in market price of domestic currency in terms of a foreign currency is called depreciation.	3
25	Through the budget government can reduce inequalities of income. It can adopt progressive taxation policy and spend more on requirements of the poor.	3
26	When autonomous foreign exchange payments exceed autonomous foreign exchange receipts, the difference is called balance of payments deficit. Autonomous transactions in foreign exchanges are those which are undertaken for their own sake and independent of the State of balance of payments.	2 1
27	(a) True, if MPC is greater than 0.8. **OR** False, if MPC is greater than 0.5 but not greater than 0.8 (b) True, since MPS = $\triangle S / \triangle Y$, The individual may at the most spend the entire $\triangle Y$ so that $\triangle S = 0$. So, MPS can at the most be zero. (No marks if reason is not given)	2 2

28	Money creation by banks is determined by (1) Fresh deposits and (2) Legal Reserve Ratio. Suppose fresh deposit is Rs. 10000 and LRR is 20%. Initially banks keep Rs. 2000 as cash and lend Rs. 8000. Those who borrow spend this Rs. 8000. It is assumed that this Rs. 8000 comes into banks as a fresh deposit. Banks again keep 20% of it as cash reserve and lend the rest. In this way money creation goes on. Total money creation is Rs. 50000.	3
	$\text{Money creation} = \text{initial deposit} \times \frac{1}{\text{LRR}}$	1
	OR	
	Bank rate is the rate of interest at which the central banks lends money to the commercial banks. Suppose the central bank raises the bank rate. Since borrowing by the commercial banks becomes costlier, commercial banks are forced to increase the rate of interest they charge on borrowing by public. This reduces demand for borrowing and adversely affects deposit/money creation by commercial banks.	4
29	(i) Wealth tax is direct tax because its impact and incidence lie on the same person.	2
	(ii) Value added tax is indirect tax because its impact and incidence lie on different persons.	2
30	$MPC = \frac{3}{4}$, $MPS = \frac{1}{4}$ $\therefore$ K=4	1
	(i) $\Delta Y = \Delta I \cdot K$	1
	$= 1000 \times 4$	½
	= Rs. 4000 Crore	½
	(ii) Given that $\Delta Y = \Delta C + \Delta I$	
	$\Delta C = \Delta Y - \Delta I$	1½
	$= 4000 - 1000$	1
	= Rs. 3000 Crore	½
	OR	
	$\Delta C = \Delta Y \times MPC$	1½
	$= 4000 \times 0.75$	1
	= Rs. 3000 Crore	½

31	(a) $GDP@_{FC}$ = (ii) + (iv) + (v) + (vi) + [(i) - (xi + ix)].	1
	= 200 + 300 + 1600 + 400 + (600-400-100)	1½
	= Rs 2600 Crore	½
	(b)	
	$NFIFA = GNP@_{MP} - GDP@_{MP}$	
	= (iii) – [2600 + (x)]	1
	= 2800 – (2600+240) = - 40	
		1
	FITA = FIFA – NFIFA	½
	= 50 – (- 40)	½
	= Rs. 90 Crore.	
	(Calculation by any other method may be taken as correct)	
	OR	
		1
	NNP_{FC} = (xi) + (vi) + (vii) + (x) + (i) – (viii) – (ix) + (ii) + (iv)	1½
	= 1100 + 100 + 40 + 10 + 10 – 30 – 50 + 60 + 80	½
	= Rs. 1320 Crore.	
		1
	GNDI = (NNP_{FC} + (v) + (iii)) – (i)	1½
	= 1320 + 70 + 90 – 10	½
	= Rs. 1470 Crore.	
	(or any other alternate method of solution)	
32	(a) It is factor income from abroad, so will be included in N.I.	2
	(b) It is transfer receipts, so it is not included in national income.	2
	(c) Not included in national income because it is a non-factor receipt as the loan is not used for production but for consumption.	2
	(No marks if reason is not given)	

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Q. No.

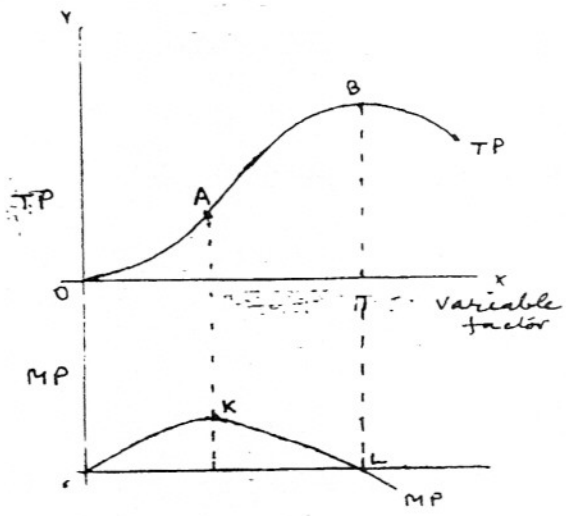
A3	Expected Answer / Value Points	Distribution of Marks
1	Inverse relation between price and demand of a good, other things remaining the same, is termed law of demand.	1
2	(1) Few firms. (2) Firms are interdependent in taking price and output decisions. (3) Barriers to the entry of firms. (4) Non-Price competition (Any One)	1
3	Perfect competition.	1

4	Because it is a necessity.	1
5	Firms produce differentiated products.	1
6	(i) Nature of the good: Demand is inelastic in case of necessities while elastic in case of luxuries (ii) Number of substitutes: More the number of substitutes, more the choice the consumer has, and, therefore, more elastic the demand. (iii) Any other relevant factor with explanation (Any two)	½ 1 ½ 1
7	Output (Units) / AVC (Rs.) / AFC (Rs.) / TVC (Rs.) / MC (Rs.) / ATC (Rs.) 1 / 30 / 60 / 30 / 30 / 90 2 / 28 / 30 / 56 / 26 / 58 3 / 32 / 20 / 96 / 40 / 52	½ x 6
8	PRICE (Rs.) / TR (Rs.) / OUTPUT (Units) 4 / 480 / 120 5 / 720 / 144 $e_{ss} = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$ $= \frac{24}{1} \times \frac{4}{120} = \mathbf{0.8}$	1 1 1

9	Homogonous products means that the buyers treat products of all the firms in the industry as identical. Therefore, the buyers are willing to pay only the same price for the products of all the firms in the industry. It also implies that no individual firm is in a position to charge a higher price for its product. This ensures uniform price in the market.	3
10	<u>Consumption (Units)</u> / <u>Total Utility (Utils)</u> / <u>MU (Utils)</u> 1 / 4 / 4 2 / 7 / 3 3 / 9 / 2 4 / 10 / 1 (Or any other relevant schedule)	1½
	Explanation of the law of Diminishing Marginal Utility on the basis of schedule	1½
	<u>OR</u>	
	When price of Y falls, X becomes relatively dearer. This reduces demand for X as Y will be substituted for X.	3
11	• Increase in income increases demand at the given price. • This leads to excess demand. • Leads to competition among buyers. As a result price starts rising. • Rise in price leads to rise in supply and fall in demand. • These changes continue till supply and demand become equal at a new equilibrium price. • Equilibrium price rises.	4
12	The economy can produce different possible combinations of the goods and services from the given resources. The problem is that which of these combinations should the economy produce. This is the problem of choice if more of one good is produced, then lesser resources are left for producing other goods.	4
	<u>OR</u>	
	(1) Production or allocation of resources through planning	1
	(Explanation)	1
	(2) Distribution of goods and services through planning	1
	(Explanation)	1
	(Any other relevant feature) (Any two)	

13	Given $\Delta P = -2$, $\Delta Q = 10$, $P = 10$	
	$e = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$	1½
	$-1 = \frac{10}{-2} \times \frac{10}{Q}$	2
	$Q = 50$ units	½
14	i) Sloping downwards from left to right. ii) Strictly convex towards the origin. iii) Higher indifference curve represents higher utility.	1x3
	(Explanation)	1x3

15



3

According to the Law of Variable Proportions when only one input is increased while others are held unchanged, MP and TP change in the following manner:

Phase-**I**: MP increases and TP increases at increasing rate i.e. up to A on TP curve (upto K on MP curve) 1

Phase-**II**: MP decreases but is positive and TP increases at decreasing rate i.e. up to B on TP curve (upto L on MP curve) 1

Phase-**III**: MP decrease and is negative and TP falls i.e. after B on TP curve (after L on MP curve) 1

OR

Price per unit (Rs.)	OUTPUT (Units)	TR (Rs.)	TC (Rs.)	MR (Rs.)	MC (Rs.)
8	1	8	6	8	6
7	2	14	11	6	5
6	3	18	15	4	4
5	4	20	18	2	3

(or any other relevant schedule)

There are two conditions of producer's equilibrium: 3

(i) MC = MR

(ii) MC is greater than MR after equilibrium level of output. 1

The conditions are fulfilled at 3 units of output. 1

For blind candidates: 1

TP and MP Schedules

Explanation of law of variable proportion

OR as above

16	a. False because when TR is constant, AR will fall as output increases. b. True, provided MC < AVC. c. False, because AP falls only when MP<AP. AP falls not because MP falls but because MP<AP. (No marks if reason is not given)	2 2 2
	SECTION B	
17	Exports, foreign tourism, etc. (Any two)	½x2
18	It is the expected demand for all goods and services in the economy.	1
19	(i) currency and coins with public (ii) demand deposits of commercial banks.	1
20	Primary deficit = Fiscal deficit – interest payments	1
21	Excess of Aggregate supply over aggregate demand at full employment level.	1
22	Through the budget government can reduce inequalities of income. It can adopt progressive taxation policy and spend more on requirements of the poor.	3
23	It has the sole authority to issue currency. It does so in accordance with the requirements of the economy.	3
24	If with increase in GDP inequalities of income increase, poor become more poor while rich become more rich. This may lead to decline in welfare even though GDP has increased. **OR** Goods which are purchased by a production unit from other production units and meant for resale or for using up completely during the same year are called intermediate goods. Example: Raw materials or any other example. Goods which are purchased for consumption and investment are called final goods. Examples: Purchased of machinery for installation in factory or any other example.	3 1 ½ 1 ½
25	Autonomous transactions take place independently of the state of B.O.P. (due to profit outcome). Accommodating transactions are transactions that are determined by net consequences of autonomous transactions.	3

26	When price of foreign currency rises, (i) imports become dearer resulting in less imports and therefore falls demand for foreign currency. (ii)Tourism abroad becomes costlier and so demand for foreign currency falls. (or any other relevant example) (any two)	1½×2
27	(a) Receipts which lead to either reduction in assets or increase in liabilities are called capital receipts. Receipts which neither reduce assets not create any liability are revenue receipts. (b) Direct tax is a tax whose incidence and impact fall on the same person. Indirect tax is tax whose incidence and impact fall on different persons.	2 2
28	(i) False, it can be negative at low level of income when consumption expenditure is greater than income. (ii) False, it varies from 1 to infinity. (No marks if reason is not given)	2 2
29	Money creation by banks is determined by (1) Fresh deposits and (2) Legal Reserve Ratio. Suppose fresh deposit is Rs. 10000 and LRR is 20%. Initially banks keep Rs. 2000 as cash and lend Rs. 8000. Those who borrow spend this Rs. 8000. It is assumed that this Rs. 8000 comes into banks as a fresh deposit. Banks again keep 20% of it as cash reserve and lend the rest. In this way money creation goes on. Total money creation is Rs. 50000. Money creation = initial deposit X $\frac{1}{LRR}$ **OR** Bank rate is the rate of interest at which the central banks lends money to the commercial banks. Suppose the central bank raises the bank rate. Since borrowing by the commercial banks becomes costlier, commercial banks are forced to increase the rate of interest they charge on borrowing by public. This reduces demand for borrowing and adversely affects deposit/money creation by commercial banks.	3 1 4

30	MPC = $\frac{3}{4}$, MPS= $\frac{1}{4}$ $\therefore$ K=4	1
	(i) $\Delta Y = \Delta I \cdot K$	1
	= 1000 x 4	½
	= Rs. 4000 Crore	½
	(ii) Given that $\Delta Y = \Delta C + \Delta I$	
	$\Delta C = \Delta Y - \Delta I$	1½
	=4000 – 1000	1
	=Rs. 3000 Crore	½
	OR	
	$\Delta C = \Delta Y \times MPC$	1½
	=4000 x 0.75	1
	=Rs. 3000 Crore	½
X 31	(a) It is factor income from abroad, so will be included in N.I.	2
	(b) It is transfer receipts, so it is not included in national income.	2
	(c) Not included in national income because it is a non-factor receipt as the loan is not used for production but for consumption.	2
	(No marks if reason is not given)	

32	(a) GDP at fc = (i) + (ii) + (v) + (vi) + [(vii) - (viii + ix)].	1
	= 800 + 200 + 150 + 100 + (300-200-50)	1½
	= Rs. 1300 Crore.	½
	(b)	
	NFIFA = $GNP@_{MP}$ – $GDP@_{MP}$.	
	= (iv) – [$GDP@_{FC}$ + (xi)]	
	= 1400 – (1300+120) = - 20	1
	FITA = FIFA – NFIFA	1
	= 60 – (- 20)	½
	= Rs. 80 Crore.	½
	(Calculation by any other method may be taken as correct)	
	OR	
	NNP_{FC} = (xi) + (iii) + (v) + (viii) – (iv) – (x) – (vi) + (ii) + (i)	1
	= 1000 + 90 + 10 + 30 – 20 – (-10) – 40 +70 + 50	1½
	= Rs. 1200 Crore.	½
	GNDI = NNP_{FC} + (ix) + (vii) + (x)	
	= 1200 + 80 + 60 + (-10)	1
	= Rs. 1330 Crore.	1½
	(or any other alternate method of solution)	½