Senior School Certificate Examination
MARCH – 2010

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

Questions with ⁘ 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. Set 58/1	Expected Answer / Value Points	Distribution of Marks
	Section – A	
1	A line on which different points show such bundles of two goods on which total expenditure is equal to consumer's income (given his income and prices of goods)	1
2	A good is called inferior when with rise in income its demand falls.	1
3	Perfect Competition.	1
4	It is a market in which there is single seller of the commodity in the market.	1

5	In this market form there are a large number of buyers and sellers.	1
6	a) The more the number of substitutes, the greater the elasticity because more choice is available to the consumer. b) Necessities are inelastic. Other goods are relatively more elastic.	1½ 1½
7	1) Rise in price of substitute goods. 2) Fall in price of complementary goods. 3) Rise in income of buyers / consumers in case of normal good 4) Fall in income of buyers in case of inferior good 5) Favourable change in taste for the good 6) Any other relevant (Any two) (Explanation) **OR** A consumer is in equilibrium when MU=P. Fall in price makes MU>P. This induces the consumer to buy more. So, when price falls demand rises. (or any other relevant explanation may also be awarded)	½ x 2 1 x 2 3
8	OUTPUT (Units) / ATC (Rs.) / TC (Rs.) / AFC (Rs.) / TFC / TVC (Rs.) / AVC (Rs.) / MC (Rs.) 1 / 80 / 80 / 60 / 60 / 20 / 20 / 20 2 / 48 / 96 / 30 / 60 / 36 / 18 / 16 3 / 40 / 120 / 20 / 60 / 60 / 20 / 24	½ x 6
9	PRICE / TR / SS 2 / 400 / 200 3 / - / 300 $e_s = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$ $= \frac{100}{1} \times \frac{2}{200}$ $= 1$	1 1½ ½
10	Number of firms is small in Oligopoly because of barriers to entry into industry. Patents, large capital requirement, control over crucial raw material etc. prevent new firms from entering.	3

11	i) Problem of choice of technique of production. ii) Two Techniques (a) Labour Intensive (b) Capital Intensive (Explanation) **OR** Micro economics deals with behaviour of individual economic agents Macro economic deals with aggregates of the economy Examples Micro Eco : Consumer's equilibrium etc. Macro Eco : National Income etc.	4 3 ½ ½
12	$\Delta P = -1 \quad \Delta Q = 3$ $e = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$ $-2 = \frac{3}{-1} \times \frac{10}{Q}$ $Q = 15$ units	½ 1½ 1½ ½
13	• When income falls demand falls. • Supply remaining unchanged, there is excess supply at the given price. • This leads to competition among sellers leading to fall in price. • As a result demand starts rising and supply starts falling. • These changes continue till a new equilibrium price is established where demand equals supply. • Equilibrium price falls.	4
14	a) False. When MR is constant and not equal to zero, it may be positive or negative TR increases when MR is positive and decreases when it is negative. b) False. AVC will rise only when MC > AVC whether MC is rising or falling. c) False. TP increases under Increasing Returns. It also increases under Diminishing returns till MP is positive. TP falls under Diminishing returns when MP is negative. (Note : No marks are to be awarded if reason is not stated).	2 2 2

15

There are two conditions:

(i) MRS = Ratio of prices — 1

(ii) MRS continuously falls — 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. — 3

(Or, alternatively in terms of when MRS < Px/Py)

(ii) Unless MRS continuously falls, the equilibrium cannot be established. — 1

16

OUTPUT (Units)	PRICE (Rs.)	TC (Rs.)	TR (Rs.)	MC (Rs.)	MR (Rs.)
1	8	6	8	6	8
2	7	11	14	5	6
3	6	15	18	4	4
4	5	18	20	3	2
5	4	23	20	5	0

3

3 Units will be produced because at this level of output MC=MR and after this level of output MC>MR. — 1+1+1

OR

Units of variable factor	TP (Units)	MP (Units)
1	2	2
2	6	4
3	9	3
4	9	0
5	6	-3

3

When more and more units of a variable factor are employed with fixed factors, MP and TP change in the following manner :

a. MP increases and TP increases at an increasing rate (upto 2 units of variable factor)
b. MP falls and is positive and TP increases at a decreasing rate. (upto from 3rd to 4th unit of variable factor)
c. MP falls and is negative TP falls, (after 4 units of variable factor)

3

Section – B

17 It is anything that serves as medium of exchange. — 1

18 Excess of revenue expenditure over revenue receipts. — 1

19	It is planned aggregate demand.	1
20	The excess of aggregate demand over aggregate supply at full employment level.	1
21	Imports, tourists going abroad etc. (any two)	½x2
22	Value of GDP at constant prices is called real GDP. Value of GDP at current year prices is called nominal GDP. **OR** i) Intermediate as purchased for resale. ii) Final as purchased for consumption.	3 1½ 1½
23	It act as banker to the government. It accepts deposits from government and give loans to the government	3
24	Govt. uses budgetary policy to allocate resources. This is done by imposing higher rate of taxation on goods whose production is to be discouraged and subsidies provided on goods whose production is to be promoted.	3
25	Autonomous transactions are done for some economic consideration such as profit. Such transactions are independent of the state of B.O.P. Accommodating transactions are undertaken to cover the deficit/surplus in balance of payments.	3
26	When price of foreign currency falls, imports are cheaper. So more demand for Foreign Exchange by importers. Tourism abroad is promoted as it becomes cheaper. So demand for foreign currency rises. (or any other example) (any tow)	1½ x2

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. Money creation = initial deposit X $\frac{1}{LRR}$ **OR** Open market operations refers to the buying and selling of securities by the Central Bank from and to the general public. Sale of securities by the Central Bank leads to flow of money out of commercial banks and into the Central bank. This reduces effective deposits with commercial banks and checks money creation reducing aggregate demand and investment.	3 1 4
28	(i) False. When MPC = 0, Multiplier = $\frac{1}{1\text{-MPC}} = \frac{1}{1-0} = 1$ (ii) False. APS or S/Y can be negative when S is negative at low level of income. At low level of income consumption expenditure is more than income	2 2
29	(i) • Capital expenditure is the expenditure that either reduces liabilities or creates assets. • Revenue expenditure is the expenditure that neither reduces liability nor creates assets. (ii) • Fiscal deficit is the excess of total budget expenditure over total budget receipts excluding borrowings. • Primary deficit is Fiscal deficit less interest payments.	2 2

30	(i) It is factor income to abroad, so it will be deducted from NDP to get NNP.	2
	(ii) It is factor income from abroad, so it is included in NI .	2
	(iii) It is a transfer payment. So, it is not included in NI. (No marks if reason is not given)	2
	OR	
	• Counting the value of goods or services more than once when estimating N **I** is the problem of double counting.	1
	• Example : Suppose a farmer produces wheat worth Rs. 1000. He sells this to the baker who converts the wheat into bread and sells it to the grocier for Rs. 2000. The value of total output here would be Rs. 3000 and this includes the value of wheat two times.	3
	• Methods of avoiding double counting are i) Value of final goods only to be included. ii) Use value added method.	1 1
31	MPC = 0.75 ; △Y needed = 8000 Crores.	1
	$K = \frac{1}{1\text{-MPC}} = \frac{1}{1-0.75} = 4$	2
	△Y =△**I**.K	1
	8000 = △**I**x 4	1½
	△**I** = 2000	½
	(If solved using K= 1 , full marks may be awarded)	
32	(a) GDP @ MP = (i) + (iii) + (vi) + (vii) + ix + (xi + xii – x)	1
	= 500 + 1500 + 300 + 400 + 250 + (700+50-650)	1½
	= 3050 Crores	½
	(b) NFIA = GNP_{FC}- GDP_{FC}	
	= (iv) – (3050 – ix)	1
	= 2800 – 3050 + 250 = 0	
	FIFA = NFIA + FITA	½
	= NFIA + (viii) = 0 + 120	1
	= 120 Crores.	½
	(Calculation by other method may also be awarded)	

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

Questions with ·⁘· 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. Set 58/2	Expected Answer / Value Points	Distribution of Marks
1	A curve joining all points representing such bundles of two goods among which the consumer is indifferent or, each bundle giving same satisfaction.	1
2	A good is called normal good when its demand rises with rise in income and its demand falls with fall in income	1
3	It is a market in which there is single seller of the commodity in the market.	1
4	In this market form there are a large number of buyers and sellers.	1

5	Perfect Competition.	1
6	1) Rise in price of substitute goods. 2) Fall in price of complementary goods. 3) Rise in income of buyers / consumers in case of normal good 4) Fall in income of buyers in case of inferior good 5) Favourable change in taste for the good 6) Any other relevant (Any two) (Explanation) **OR** A consumer is in equilibrium when MU=P. Fall in price makes MU>P. This induces the consumer to buy more. So, when price falls demand rises. (or any other relevant explanation may also be awarded)	½ x 2 1 x 2 3
7	PRICE TR SS 2 400 200 3 - 300 $e_s = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$ $= \frac{100}{1} \times \frac{2}{200}$ $= 1$	1 1½ ½
8	OUTPUT (Units) / ATC (Rs.) / TC (Rs.) / TVC (Rs.) / AVC (Rs.) / MC (Rs.) 1 160 160 40 40 40 2 96 192 72 36 32 3 80 240 120 40 48	½ x 6
9	a) The more the number of substitutes, the greater the elasticity because more choice is available to the consumer. b) Necessities are inelastic. Other goods are relatively more elastic.	1½ 1½

10	i) Under Perfect competition, Demand Curve/AR curve is perfectly elastic or parallel to x – axis because the firm can sell any amount at a given price. ii) Under Monopolistic competition, Demand Curve/AR Curve is downward sloping because more can be sold only at a lower price.	1½ 1½
11	• When income falls demand falls. • Supply remaining unchanged, there is excess supply at the given price. • This leads to competition among sellers leading to fall in price. • As a result demand starts rising and supply starts falling. • These changes continue till a new equilibrium price is established where demand equals supply. • Equilibrium price falls.	4
12	$\Delta P = -1 \quad \Delta Q = 3$ $e = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$ $-1.5 = \frac{3}{-1} \times \frac{P}{30}$ P = Rs.15 per unit	½ 1½ 1½ ½
13	i) Problem of choice of technique of production. ii) Two Techniques (a) Labour Intensive (b) Capital Intensive (Explanation) **OR** Micro economics deals with behaviour of individual economic agents Macro economic deals with aggregates of the economy Examples Micro Eco : Consumer's equilibrium etc. Macro Eco : National Income etc.	4 3 ½ ½

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		

OUTPUT (Units)	PRICE (Rs.)	TC (Rs.)	TR (Rs.)	MC (Rs.)	MR (Rs.)
1	8	6	8	6	8
2	7	11	14	5	6
3	6	15	18	4	4
4	5	18	20	3	2
5	4	23	20	5	0

3

3 Units will be produced because at this level of output MC=MR and after this level of output MC>MR. 1+1+1

OR

Units of variable factor	TP (Units)	MP (Units)
1	2	2
2	6	4
3	9	3
4	9	0
5	6	-3

3

When more and more units of a variable factor are employed with fixed factors, MP and TP change in the following manner :

a. MP increases and TP increases at an increasing rate (upto 2 units of variable factor)
b. MP falls and is positive and TP increases at a decreasing rate. (upto from 3rd to 4th unit of variable factor)
c. MP falls and is negative TP falls, (after 4 units of variable factor)

3

16	a) False. When MR is constant and not equal to zero, it may be positive or negative TR increases when MR is positive and decreases when it is negative. b) False. AVC will rise only when MC > AVC whether MC is rising or falling. c) False. TP increases under Increasing Returns. It also increases under Diminishing returns till MP is positive. TP falls under Diminishing returns when MP is negative. (Note : No marks are to be awarded if reason is not stated).	2 2 2
	Section – B	
17	The excess of aggregate demand over aggregate supply at full employment level.	1
18	A legally compulsory payment to government.	1
19	Ratio of change in saving and change in income.	1
20	Imports, tourists going abroad etc. (any two)	½x2
21	It is anything that serves as medium of exchange.	1
22	Govt. uses budgetary policy to allocate resources. This is done by imposing higher rate of taxation on goods whose production is to be discouraged and subsidies provided on goods whose production is to be promoted.	3
23	Lending to commercial banks by the central bank is the lender of the last resort function. Commercial bank borrow from central bank in times of need.	3
24	Autonomous transactions are done for some economic consideration such as profit. Such transactions are independent of the state of B.O.P. Accommodating transactions are undertaken to cover the deficit/surplus in balance of payments.	3
25	Value of GDP at constant prices is called real GDP. Value of GDP at current year prices is called nominal GDP. **OR** i) Intermediate as purchased for resale. ii) Final as purchased for consumption.	3 1½ 1½
26	When foreign exchange rate is fixed by central bank/government it is called fixed exchange rate. When foreign exchange rate is determined by market forces it is flexible exchange rate. (Explanation)	3

27	(i) • Capital expenditure is the expenditure that either reduces liabilities or creates assets. • Revenue expenditure is the expenditure that neither reduces liability nor creates assets.	2
	(ii) • Fiscal deficit is the excess of total budget expenditure over total budget receipts excluding borrowings. • Primary deficit is Fiscal deficit less interest payments.	2
28	(i) True, because investment multiplier (K) = $\frac{1}{MPS}$	2
	(ii) False, the value of MPS can never be negative, value of MPS varies between 0 and 1	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 $\frac{1}{LRR}$	3 1
	OR Open market operations refers to the buying and selling of securities by the Central Bank from and to the general public. Sale of securities by the Central Bank leads to flow of money out of commercial banks and into the Central bank. This reduces effective deposits with commercial banks and checks money creation reducing aggregate demand and investment.	4
30	MPC = 0.75 ; $\triangle Y$ needed = 8000 Crores.	1
	$K = \frac{1}{1-MPC} = \frac{1}{1-0.75} = 4$	2
	$\triangle Y = \triangle I.K$	1
	$8000 = \triangle I \times 4$	1½
	$\triangle I = 2000$	½
	(If solved using K= 1 , full marks may be awarded)	

31	(i) It is factor income to abroad, so it will be deducted from NDP to get NNP.	2
	(ii) It is factor income from abroad, so it is included in NI.	2
	(iii) It is a transfer payment. So, it is not included in NI. (No marks if reason is not given)	2
	OR	
	• Counting the value of goods or services more than once when estimating NI is the problem of double counting.	1
	• Example : Suppose a farmer produces wheat worth Rs. 1000. He sells this to the baker who converts the wheat into bread and sells it to the grocier for Rs. 2000. The value of total output here would be Rs. 3000 and this includes the value of wheat two times.	3
	• Methods of avoiding double counting are	
	i) Value of final goods only to be included.	1
	ii) Use value added method.	1
32	(a)	
	GDP @ MP = (i) + (iii) + (iv) + (v) + (xi) + (vii - viii – ix)	1
	= 1000+ 400 + 250 + 150 + 100 + 220-150+201	1½
	= 1950	½
	(b)	
	$NFIA = GNP_{FC} - GDP_{FC}$	
	$= (vi) - [\ GDP_{MP} - NIT\ ]$	
	= 1850 – 1950 + 100 = 0	1
	FITA= FIFA + NFIA	½
	= (ix) + NIFA	
	= 30 + 0	1
	= 30 Crore	½
	(or any other alternate solution)	

Senior School Certificate Examination
MARCH – 2010

MARKING SCHEME – ECONOMICS (OUTSIDE)
Set - III
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 : <u>In case of numerical question no mark is to be given if only the final answer is given</u>.

Q. No. Set 58/3	Expected Answer / Value Points	Distribution of Marks
1	It is the family of indifference curves that represent consumer's preference over all the bundles of two goods.	1
2	When demand does not change with change in price.	1
3	In this market form there are a large number of buyers and sellers.	1
4	Perfect Competition.	1

5	It is a market in which there is single seller of the commodity in the market.	1
6	PRICE TR SS 2 400 200 3 - 300 $e_s = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$ $= \frac{100}{1} \times \frac{2}{200}$ $= 1$	1 1½ ½
7	a) The more the number of substitutes, the greater the elasticity because more choice is available to the consumer. b) Necessities are inelastic. Other goods are relatively more elastic.	1½ 1½
8	OUTPUT (Units) / TC (Rs.) / AFC (Rs.) / TVC (Rs.) / MC (Rs.) / AVC (Rs.) 1 80 60 20 20 20 2 96 30 36 16 18 3 120 20 60 24 20	½ x 6
9	1) Rise in price of substitute goods. 2) Fall in price of complementary goods. 3) Rise in income of buyers / consumers in case of normal good 4) Fall in income of buyers in case of inferior good 5) Favourable change in taste for the good 6) Any other relevant (Any two) (Explanation) **OR** A consumer is in equilibrium when MU=P. Fall in price makes MU>P. This induces the consumer to buy more. So, when price falls demand rises. (or any other relevant explanation may also be awarded)	½ x 2 1 x 2 3
10	The demand curve under monopolistic competition is more elastic than under monopoly because a large number of close substitutes are available in the monopolistic market. In monopoly, there are no close substitutes available.	3

11	• When income falls demand falls. • Supply remaining unchanged, there is excess supply at the given price. • This leads to competition among sellers leading to fall in price. • As a result demand starts rising and supply starts falling. • These changes continue till a new equilibrium price is established where demand equals supply. • Equilibrium price falls.	4
12	$\Delta P = -1 \quad \Delta Q = 6$ $e = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$ $-1 = \frac{6}{-1} \times \frac{20}{Q}$ Q = 120 units	½ 1½ 1½ ½
13	i) Problem of choice of technique of production. ii) Two Techniques (a) Labour Intensive (b) Capital Intensive (Explanation) **OR** Micro economics deals with behaviour of individual economic agents Macro economic deals with aggregates of the economy Examples Micro Eco : Consumer's equilibrium etc. Macro Eco : National Income etc.	4 3 ½ ½

14

OUTPUT (Units)	PRICE (Rs.)	TC (Rs.)	TR (Rs.)	MC (Rs.)	MR (Rs.)
1	8	6	8	6	8
2	7	11	14	5	6
3	6	15	18	4	4
4	5	18	20	3	2
5	4	23	20	5	0

3 — 1+1+1

3 Units will be produced because at this level of output MC=MR and after this level of output MC>MR.

OR

Units of variable factor	TP (Units)	MP (Units)
1	2	2
2	6	4
3	9	3
4	9	0
5	6	-3

3

When more and more units of a variable factor are employed with fixed factors, MP and TP change in the following manner :

a. MP increases and TP increases at an increasing rate (upto 2 units of variable factor)
b. MP falls and is positive and TP increases at a decreasing rate. (upto from 3rd to 4th unit of variable factor)
c. MP falls and is negative TP falls, (after 4 units of variable factor)

3

15

a) False. When MR is constant and not equal to zero, it may be positive or negative TR increases when MR is positive and decreases when it is negative. — 2

b) False. AVC will rise only when MC > AVC whether MC is rising or falling. — 2

c) False. TP increases under Increasing Returns. It also increases under Diminishing returns till MP is positive. TP falls under Diminishing returns when MP is negative. — 2

(Note : No marks are to be awarded if reason is not stated).

16	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
	Section – B	
17	Imports, tourists going abroad etc. (any two)	½x2
18	Income tax and Wealth tax etc. (any two)	½ x 2
19	Level of income at which AD = AS **OR** S=I	1
20	It is anything that serves as medium of exchange.	1
21	The excess of aggregate demand over aggregate supply at full employment level.	1
22	Autonomous transactions are done for some economic consideration such as profit. Such transactions are independent of the state of B.O.P. Accommodating transactions are undertaken to cover the deficit/surplus in balance of payments.	3
23	CRR is the ratio of deposits of commercial bank which is to be kept with the central bank. SLR is the ratio of deposits of commercial bank that bank has keep with itself.	1½ 1½
24	Value of GDP at constant prices is called real GDP. Value of GDP at current year prices is called nominal GDP. **OR** i) Intermediate as purchased for resale. ii) Final as purchased for consumption.	3 1½ 1½
25	Govt. uses budgetary policy to allocate resources. This is done by imposing higher rate of taxation on goods whose production is to be discouraged and subsidies provided on goods whose production is to be promoted.	3

26	Under the managed float regume market determine foreign exchange rate is allowed to fluctuate within certain limits. When the exchange rate crosses these limits then central bank intervenes in the market as buyer/ seller (as the case may be) of foreign exchange. In this way foreign exchange rate is managed to float only within limits (these limits are decided by the central bank)	3
27	(i) • Capital expenditure is the expenditure that either reduces liabilities or creates assets. • Revenue expenditure is the expenditure that neither reduces liability nor creates assets. (ii) • Fiscal deficit is the excess of total budget expenditure over total budget receipts excluding borrowings. • Primary deficit is Fiscal deficit less interest payments.	2 2
28	(i) False. When MPC : MPS = 4:1 Then MPS = $\frac{1}{5}$ Investment multiplier = $\frac{1}{MPS} = \frac{1}{5} = 5$ (ii) False. There can be no such relationship between APC & MPC. APC is the ratio of C and Y and MPC is the ratio of $\triangle C$ and $\triangle Y$.	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** Open market operations refers to the buying and selling of securities by the Central Bank from and to the general public. Sale of securities by the Central Bank leads to flow of money out of commercial banks and into the Central bank. This reduces effective deposits with commercial banks and checks money creation reducing aggregate demand and investment.	3 1 4

30	MPC = 0.75 ; △Y needed = 8000 Crores.	1
	$K = \frac{1}{1\text{-MPC}} = \frac{1}{1-0.75} = 4$	2
	△Y = △I.K	1
	8000 = △Ix 4	1½
	△I = 2000	½
	(If solved using K= 1 , full marks may be awarded)	
31	(i) It is factor income to abroad, so it will be deducted from NDP to get NNP.	2
	(ii) It is factor income from abroad, so it is included in NI.	2
	(iii) It is a transfer payment. So, it is not included in NI. (No marks if reason is not given)	2
	OR	
	• Counting the value of goods or services more than once when estimating N I is the problem of double counting.	1
	• Example : Suppose a farmer produces wheat worth Rs. 1000. He sells this to the baker who converts the wheat into bread and sells it to the grocier for Rs. 2000. The value of total output here would be Rs. 3000 and this includes the value of wheat two times.	3
	• Methods of avoiding double counting are	
	i) Value of final goods only to be included.	1
	ii) Use value added method.	1
32	(a)	
	GDP @ MP = (i) + (iii) + (vi) + (v) + (xi) + ix + x - viii	1
	= 3000+ 800 +900 + 1300 + 300 + 850+50-800	1½
	= Rs. 6400 Crore.	½
	(b)	
	$NFIA = GNP_{FC} - GDP_{FC}$	
	$= (i) - [\ GDP_{MP} - NIT\ ]$	
	= 6150 – 6400 + 300	
	= 6150 – 6100 = Rs. 50 Crore.	1
	FIFA= NFIA + FITA	
	= NFIA + (xii)	½
	= 50+ 80	1
	= Rs. 130 Crore.	½
	(or any other alternate solution)	