

Class-XII

Economics(030)



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Q-1.] Yes, I agree with the given statement that Infrastructure contributes directly to the economic development of a country. This is because of following reasons:

1. Infrastructure increases the productivity of factors of production — land, labour, capital and entrepreneur — and enable them to work with greater efficiency
2. Infrastructure helps in increasing the output of all the three economic sectors — primary, secondary and tertiary (service)
3. Infrastructure induces investment in the economy and creates a conducive environment for business.
4. Infrastructure directly generates employment in the nation for various productive activities.



Q-2.] It is given that 75% of the increase in income is spent on consumption.

Therefore, $MPC = 75\%$ or $0.75 \rightarrow (1)$

Now, Investment multiplier (k) = $\frac{1}{1 - MPC}$

$$k = \frac{1}{1 - 0.75} = \frac{1}{0.25} \quad (\text{from (1)})$$

$$\therefore k = 4$$

Now, k can be calculated as $k = \frac{\Delta Y}{\Delta I} \rightarrow (2)$

where ΔI = change in the Investment

ΔY = change in the total income

Here, ΔI is given as ₹ 1000 Cr.

$$\therefore \Delta Y = k \times \Delta I \quad (\text{From (2)})$$

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$$\Delta Y = 4 \times ₹1000 \text{ cr}$$

$$= ₹4000 \text{ cr}$$

so the total ^{income} increases by ₹4000 crores.

Q.3] The given statement is Refuted

Excess Demand refers to a situation when Aggregate Demand (AD) exceeds Aggregate Supply (AS)

corresponding to full employment level of output.

so, the economy is already at full employment and no more opportunities for employment exist.

Therefore, Excess Demand doesn't create greater employment opportunities, instead, it leads to rise in the general price level leading to inflation.

Q-4.]	BASIS OF DIFFERENCE	DEPRECIATION	CAPITAL LOSS
(	Meaning	Depreciation refers to fall in the value of a fixed asset due to obsolescence, normal wear and tear and efflux of time.	Capital loss refers to loss in the value of a fixed asset because of unforeseen and unexpected circumstances.
	Nature	It is an expected obsolescence and generally on regular basis.	It is unexpected obsolescence and generally on an irregular basis.
	Provision	It is provided by creating a Depreciation Fund under the reserves.	No such funds or reserves are created. However, insurance policies may be taken.



Effect on Production	It ham doesn't hamper the production process	It hampers the production process
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Q-5] The informal sector comprises of all those private enterprises that employ less than 10 hired workers. There are several problems associated with this sector:

1. The enterprises and the workers there generally do not get regular income as well as regulation and protection for from the government
2. The labour laws generally do not apply to this sector, leading to exploitation of the workers and lack of social security programmes
3. The enterprises in this sector generally do not

maintain any financial accounts and the technology used here is also outdated one.

4. The workers of this sector have ~~no job security~~ and are ~~dismissed~~ without any compensation. Moreover, the worker of this sector generally live in slums and are squatters.

So, we may say that the informal sector suffers from hefty problems which needs to be addressed at the earliest.

Q-6] a) Payment of indirect Taxes by the firm are NOT included in the estimation of national income. This is because indirect taxes are those taxes imposed by the government on the production and consumption of goods and services. No direct benefit is gained from such taxes. So, they are merely transfer payments which do not add to current flow of goods and services.



b) Purchase of goods by foreign tourist WILL BE included in the estimation of National Income. This is because these purchases are actually exports for the nation and hence, will be added as Net Exports under the Expenditure Method.

Q. 7.] Environmental Crises refers to a situation when the environment is not able to perform its third vital function of sustenance of life, i.e. There exists and immense pressure and burden on its 'carrying capacity' due to human practices.

Environmental crisis impacts the resources adversely:

1. It leads to a situation where the rate of resource extraction is more than the rate of resource regeneration, i.e. resources are used faster than they are replenished.



2. The intensive and extensive extraction of both renewable and non-renewable resources leads to exhaustion of some vital resources and we ~~are~~ compelled to spend an increased amount on technology and research to explore new resources.

So, the resources are exploited and their reserves are depleted due to overuse and misuse.

Hence, environmental crisis generally arise out of increasing population of developing countries and affluent production - consumption standards of developed nations leading to pollution, excessive waste generation and resource depletion.

Q-8.] The Great Leap Forward campaign (GLF) was initiated in China in the year 1958, which aimed at industrialising the nation at a massive scale through backyard industries and communes.

However, it had to face some problems:

1. Severe Drought.

A severe drought during that time caused a havoc in China, killing almost 30 million people. This acted as a severe hindrance and gave a setback to the campaign.

2. Conflicts with Russia

When China had conflicts with Russia, it withdrew its professionals sent to China to help in

industrialisation process. This also led to a slowdown the campaign and adversely affected its results.

So, the GLF campaign ~~failed~~ due to these hindrances. This led the Mao introduce the Great Proleterian Cultural Revolution in 1965 which extend from 1966-76.

Q-9.] Annual growth Rate of population refers to the percentage by which the total population of the country increases over the year as ~~compared~~ compared to previous year.

From the given data table, we can infer the following ~~re~~ understandings:

1. The annual growth rate of population of India stood at 1.2% in 2015, which was far above than China at 0.5% only. So, India witnessed a



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higher population growth.

2. One of the reasons of China's low growth rate of population could be the 'One Child Norm' introduced in late 1970s to control population, where the couples were allowed to have only one child. Although, the restrictions were liberalised later to two children, yet the growth of population remained mild.
3. India did not witnessed any such population-control measures over the time which led to high population growth. Also, illiteracy played a significant role there.
4. The data also reveals that there is a pressing need to control population in India in order to avoid problems of unemployment and adverse health.



It is one of the major hindrances for Indian development as it leads to overuse of resources and fall in quality of life.

Q-10] Bank Rate refers to the rate of interest at which RBI (The central Bank) lends funds to the commercial banks for productive purposes for long term.

There exists an inverse relationship between Bank rate and aggregate demand in the economy for credit.

1. When the Reserve Bank of India (RBI) increased the Bank Rate, it will make the borrowings from RBI costlier for the commercial banks.
2. In order to cover the costs, the commercial banks, in turn, will increase their lending rate to the

general public and the business enterprises.

3. This will make the borrowings from commercial banks costlier for the general public. As a result, the households and business enterprises will discourage the borrowings.

So, it will at last lead to an overall drop in the total demand for credit as it becomes costlier.

Q-11.] (a.)

$$\begin{aligned}
 \text{(i) Net Value Added at Factor cost (NVA_{fc})} &= \\
 &\text{Gross Value Added at market price (GVA_{mp})} \\
 &- \text{Consumption of Fixed Capital} \\
 &- \text{Net Indirect Taxes.}
 \end{aligned}$$



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Gross value added at market price (GVAMP) =

Value of output - Intermediate consumption, i.e.
 (Sales + change in stock) - (single use producer goods) $\rightarrow$ (2)

$$\begin{aligned} \text{Now, Sales} &= \text{Price per unit} \times \text{Output (units) sold} \\ &= 20 \times 1250 \quad (\text{given}) \\ &= ₹ 25,000 \text{ crores} \quad \rightarrow (3) \end{aligned}$$

Now, Putting (3) in (2) and using the data,

$$\begin{aligned} \text{GVAMP} &= 25,000 + (-500) - 6000 \\ &= ₹ 18,500 \text{ crores.} \quad \rightarrow (4) \end{aligned}$$

Now, Putting (4) in (1) and using the data,

$$\text{NVAMP} = ₹ 18,500 - 1,000 - 5,000$$

$$\therefore \underline{NVA_{FC}} = ₹ 12,500 \text{ Crores}$$

Note : Since subsidies are not given, they are assumed to be 0...

$$\therefore \text{So, Net Indirect Taxes} = \text{Excise Duty} = ₹ 5000 \text{ Cr.}$$

(ii) Final Goods refers to those goods which are either meant for consumption or for investment. On the other hand, intermediate goods are those goods which are meant for resale or for further production.

1. During the production process, the intermediate goods are processed and converted into final goods.
2. So, final goods already include the value of intermediate goods in them.

Therefore, there is a need to make distinction between final and intermediate goods so that we don't count the value of intermediate goods twice. The distinction will help in avoiding the problem of 'Double Counting'.

For ex: If a bread manufacturer sells bread worth ₹1000 to a bakery shop, which in turn sells cake worth ₹2000 to general public, then the value of cake already includes the bread's worth. Hence, it need not be separately added.

Q-12] Deflationary gap refers to the gap by which the actual aggregate Demand falls short of the aggregate Demand required to achieve full employment equilibrium in an economy.

So, in order to correct the deflationary gap; the



government and RBI tend to increase the demand and money supply through various measures.

Repo Rate and Reverse Repo rate come under the 'monetary policy' of Reserve Bank of India (RBI) as a quantitative instrument. Their roles are as follows:

(i) Repo Rate (Repurchase Rate)

Repo Rate is the rate at which the RBI lends funds to the commercial banks for productive purpose for short term.

1. During deflationary gap, the RBI tends to decrease the Repo Rate.

2. This makes borrowing from RBI cheaper for

the commercial banks.

3. As a response, commercial banks will decrease their lending rates to general public and enterprises. This will make borrowings cheaper for households and business firms.

Hence, it will encourage borrowing and will lead to an increase in the aggregate demand till the deflationary gap is corrected.

(e) Reverse Repo Rate

Reverse Repo Rate refers to the rate at which commercial banks park their excess funds with RBI to earn interest.



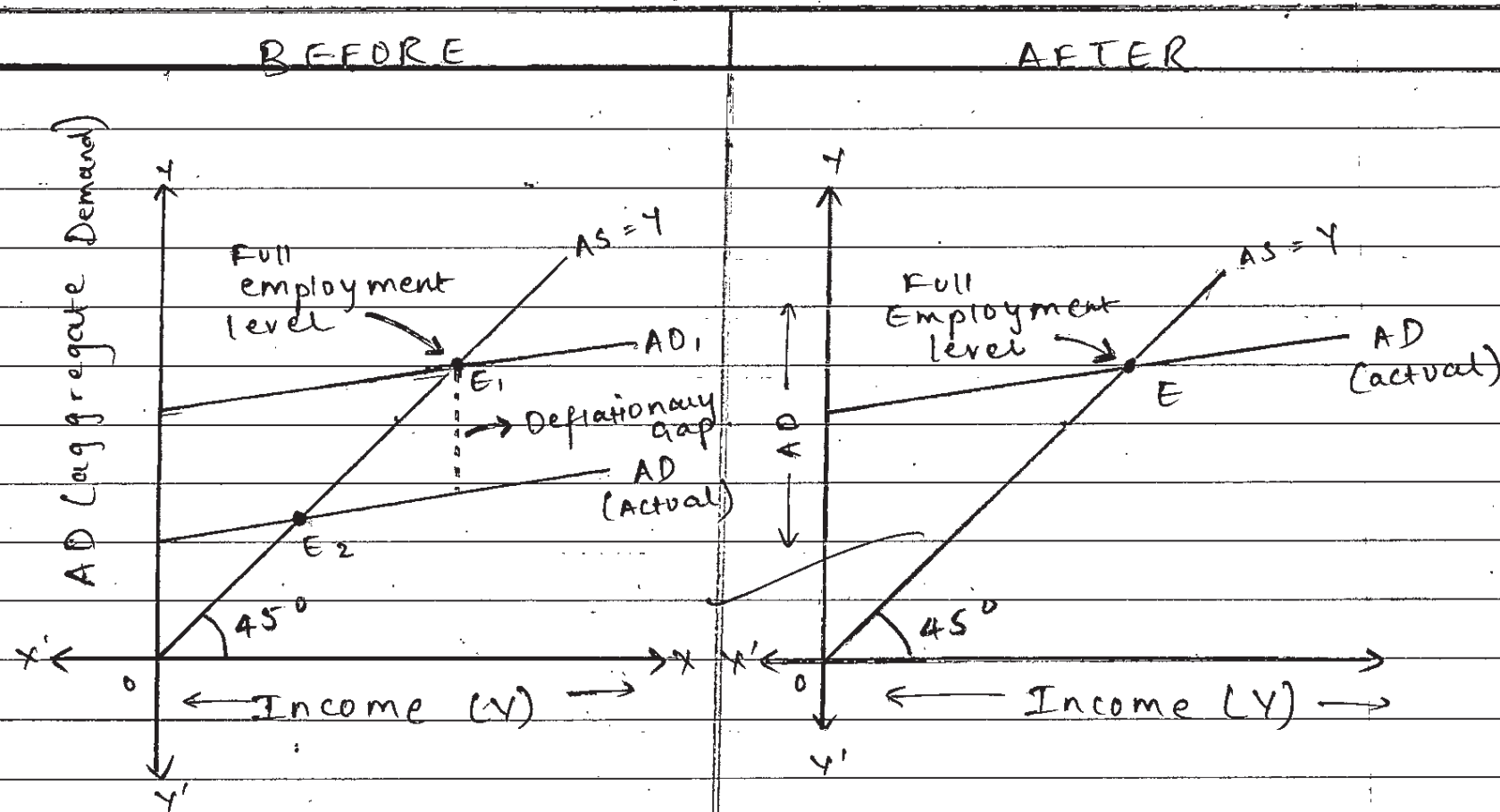
1. In this situation, the RBI tend to decrease the Reverse Repo Rate. This means that the commercial banks will get lower interest on the funds with RBI.

2. This will encourage the commercial bank to lend more funds to general public and keep less funds with RBI.

3. As a result, the overall money supply in the economy will increase, leading to rise in aggregate demand.

This will continue till the deflationary gap gets corrected.

Diagrammatic Representation :



Q-13.]

a) Infrastructure refers to the facilities and arrangements that provide supportive services in the main areas of agriculture as well as domestic and foreign trade and commerce.

It includes roadway, railways, ports, airports, dams, power stations, telecommunication services, oil and gas pipelines, country's health sector comprising of hospitals and clinics, education sector comprising of schools and colleges, sanitation comprising safe drinking water and monetary facilities includes banks and other financial institutions.

b) The objectives of PM Gati Shakti Scheme are as follows :



1. To give much needed push to infrastructural development and logistic across India as well as to drive the economic growth by giving boost to industries such as steel and cement.
2. To develop new products and services targeted through the railways, targeted at small farmers and businesses to help them become a part of layer supply chain.

Therefore, PM Gati Shakti Scheme aims to improve overall economic opportunities to the farmer and enterprises through quality multi-modal transport and reducing costs.