

MARCH -2020 – ANSWER KEY

XII STANDARD – ECONOMICS – ENGLISH MEDIUM

A.VENNILA

PRINCIPAL

**MYDEEN MATRIC. HR.SEC. SCHOOL
MELACAUVERY – KUMBAKONAM.**

CELL NO.: 8220179521

8608481579

Time Allowed : 3 Hours

Maximum Marks : 90

I. Choose the most suitable from the given four alternatives and write the option code and the corresponding answer

20 x 1 = 20

1	C	J.M. Keynes	11	C	Regional Rural Banks
2	A	Aggregates	12	C	Foreign Exchange Market
3	D	Agriculture	13	D	Both Visible and Invisible items
4	C	Classical Economist	14	D	Fees
5	A	Increase Borrowing and Spending	15	D	Welfare
6	D	(a) and (b)	16	A	Increasing Temperature
7	B	J.R. Hicks	17	A	National Institution for Transforming India
8	D	Mumbai	18	B	1950
9	B	Medium of Exchange	19	B	Primary Data
10	D	July 1982	20	B	Controlling Plans

II. Answer any seven questions. Question No.30 is compulsory.

7 x 2 = 14

21. Inflation - Definition:

- Inflation refers to steady increase in general price level.
- Estimating the general price level by constructing various price index numbers such as Wholesale Price Index, Consumer Price Index, etc, are needed.

22. National Income - Meaning.

- According to Alfred Marshall, “The labour and capital of a country acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterial including services of all kinds”.

23. Say's "Law of Market":

- According to Say, "When goods are produced by firms in the economy, they pay reward to the factors of production.
- The households after receiving rewards of the factors of production spend the amount on the purchase of goods and services produced by them.

24. Multiplier - Definition :

- ◆ The multiplier is defined as the ratio of the change in national income to change in investment.
- ◆ If ΔI stands for increase in investment and ΔY stands for resultant increase in income, the multiplier $K = \Delta Y / \Delta I$.

25. Plastic Money - Meaning:

- Plastic money is a term that is used predominantly in reference to the hard plastic cards used every day in place of actual bank notes.
- **Examples:** *Cash cards, Credit cards, Debit cards.*

26. Primary Functions of Commercial Banks:

1. Accepting Deposits
 - *Demand Deposits*
 - *Time Deposits*
2. Advancing Loans

27. Objectives of ASEAN:

- To accelerate the economic growth, social progress and cultural development in the region.
- To serve as a centre of information and as an ASEAN link with other international organizations.

28. Public Finance - Definition:

- According to Adam Smith "*Public finance is an investigation into the nature and principles of the state revenue and expenditure*".

29. Functions of NITI Aayog:

- 1). Cooperative and Competitive Federalism
- 2). Shared National Agenda
- 3). Decentralized Planning
- 4). Vision and Scenario Planning

30. Father of Statistics:

- ✱ P.C.Mahalanobis is known as the founder of modern statistics and also as “**Father of Statistics** in India.
- ✱ Since 2007 29th of June every year is celebrated as Statistics Day to commemorate his birth anniversary.

PART - III

III. Answer any seven questions. Question No.40 is compulsory.

7 x 3 = 21

31. Importance of Macro Economics:

- a. There is a need to understand the functioning of the economy at the aggregate level to evolve suitable strategies and to solve the basic problems prevailing in an economy.
- b. Understanding the future problems, needs and challenges of an economy as a whole is important to evolve precautionary measures.
- c. Macro economics provides ample opportunities to use scientific investigation to understand the reality.

32. Personal Income - Explanation:

- Personal income is the total income received by the individuals of a country from all sources before payment of direct taxes in a year.
- Personal Income = National Income – (Social Security Contribution and undistributed corporate profits) + Transfer payments

33. Short Note on:

❖ Seasonal Unemployment:

- This type of unemployment occurs during certain seasons of the year. In agriculture and agro based industries like sugar, production activities are carried out only in some seasons.

❖ Frictional Unemployment:

- Frictional unemployment arises due to imbalance between supply of labour and demand for labour. This is because of immobility of labour, break down of machinery, shortage of raw materials etc.

❖ Educated Unemployment:

- Sometimes educated people are underemployed or unemployed when qualification does not match the job. Faulty education system, lack of employable skills.

34. Uses of Multiplier:

- 1) Multiplier highlights the importance of investment in income and employment theory.
- 2) The process throws light on the different stages of trade cycle.
- 3) It also helps in bringing the equality between S and I.
- 4) It helps in formulating Government Policies.
- 5) It helps to reduce unemployment and achieve full employment.

35. Determinants of Money Supply :

Currency Deposit Ratio (CDR):

- It is the ratio of money held by the public in currency to that they hold in bank deposits.

Reserve Deposit Ratio (RDR):

- Reserve Money consists of two things (a) vault cash in banks and (b) deposits of commercial banks with RBI.

Cash Reserve Ratio (CRR):

- It is the fraction of the deposits the banks must keep with RBI.

36. Difference between “Internal Trade” and International Trade”

S. No.	Internal Trade	International Trade
1	Labour and capital move freely from one region to another.	Labour and capital do not move easily from one nation to another.
2	There is only one common currency.	There are different currencies.
3	The physical and geographical conditions of a country are more or less similar.	There are differences in physical and geographical conditions of the two countries.

37. Calculation of Standard Deviation: 14, 22, 9, 15, 20, 17, 12, 11

S. No	X	(x - \bar{x})	(x - \bar{x}) ²
1	14	-1	1
2	22	7	49
3	9	-6	36
4	15	0	0
5	20	5	25
6	17	2	4
7	12	-3	9
8	11	-4	16
N = 8			
(No. of Frequency occurred)	$\Sigma X = 120$	0	$\Sigma(x - \bar{x})^2 = 140$

$$\begin{aligned} N &= 8 \\ \bar{x} &= \frac{120}{8} = 15 \\ \sigma &= \sqrt{\frac{\Sigma(x - \bar{X})^2}{N}} \\ &= \sqrt{\frac{140}{8}} \\ &= \sqrt{17.5} \\ \sigma &= 4.18 \end{aligned}$$

38. Canons of Taxation:

(1) Canon of Ability:

- The Government should impose tax in such a way that the people have to pay taxes according to their ability.

(2) Canon of Certainty:

- The Government must ensure that there is no uncertainty regarding the rate of tax or the time of payment.

(3) Canon of Convenience:

- The method of tax collection and the timing of the tax payment should suit the convenience of the people.

39. Short Notes on (i) Climate Change (ii) Acid Rain

(i) Climate Change

- ✓ The climate change refers to seasonal changes over a long period with respect to the growing accumulation of greenhouse gases in the atmosphere.

(ii) Acid Rain

- ✓ Acid rain is one of the consequences of air pollution.
- ✓ It occurs when emissions from factories, cars or heating boilers contact with the water in the atmosphere.

40. Functions of WTO:

1. It facilitates the implementation, administration and operation of the objectives of the Agreement and of the Multilateral Trade Agreements.
2. It provides the forum for negotiations among its members, concerning their multilateral trade relations in matters relating to the agreements.
3. It administers the Understanding on Rules and Procedures governing the Settlement of Disputes.

PART - IV

IV. Answer any seven questions. Question No.30 is compulsory.

7 x 5 = 35

41.a. a) Feature of Capitalism and socialism:

S.No	Features	Capitalism	Socialism
1.	Ownership of Means of Production	Private Ownership	Public Ownership
2.	Economic Motive	Profit	Social Welfare
3.	Solution of Central Problems	Free Market System	Central Planning System
4.	Government Role	Internal Regulation only	Complete Involvement
5.	Income Distribution	Unequal	Equal
6.	Nature of Enterprise	Private Enterprise	Government Enterprise
7.	Economic Freedom	Complete Freedom	Lack of Freedom
8.	Major Problem	Inequality	Inefficiency

[OR]

41.b) Importance of National Income:

National income is of great importance for the economy of a country. Nowadays the national income is regarded as accounts of the economy, which are known as social accounts.

It enables us,

- (1) To know the relative importance of the various sectors of the economy and their contribution towards national income; from the calculation of national income.
- (2) To formulate the national policies such as monetary policy, fiscal policy and other policies; the proper measures can be adopted to bring the economy to the right path with the help of collecting national income data.
- (3) To formulate planning and evaluate plan progress; it is essential that the data pertaining to a country's gross income, output, saving and consumption from different sources should be available for economic planning.
- (4) To build economic models both in short - run and long - run.
- (5) To know a country's per capita income which reflects the economic welfare of the country.
- (6) To know the distribution of income for various factors of production in the country.

42.a) Types of Unemployment:

Unemployment is problem faced when there are people, who are willing to work and able to work but cannot find suitable jobs.

1. Cyclical Unemployment

- ▲ Unemployment exists during the downturn phase of trade cycle in the economy.

▲ In a business cycle during the period of recession and depression, income and output fall.

2. Seasonal Unemployment

- unemployment occurs during certain seasons of the year.
- In agriculture and agro based industries like sugar, production activities are only in some season.

3. Frictional Unemployment (Temporary Unemployment)

- ✧ Frictional unemployment arises due to imbalance between supply of labour and demand for labour.
- ✧ This is because of immobility of labour, lack of necessary skills, break down of machinery, shortage of raw materials etc.

4. Educated Unemployment

- ✧ Sometimes educated people are underemployed or unemployed when qualification does not match the job.

5. Technical Unemployment

- ✧ Modern technology being capital intensive requires less labourers and contributes to technological unemployment.

[OR]

42.b) Keynes psychological law of consumption function with diagram:

Meaning of Psychological law of consumption

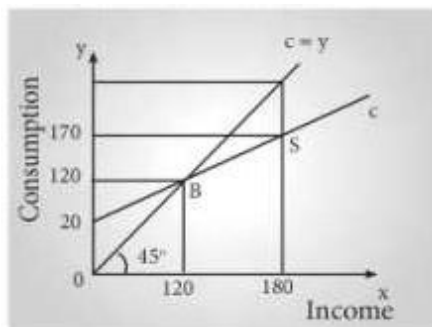
The law implies that there is a tendency on the part of the people to spend on consumption less than the full increment of income.

Assumptions:

- The other variables such as income distribution, tastes, habits, social customs, price movements, population growth, etc. do not.
- Existence of Normal Conditions: The law holds good under normal conditions. People may spend the whole of increased income on consumption.
- Existence of a Laissez-faire Capitalist Economy: The law operates in a rich capitalist economy where there is no government intervention.

The three propositions of the law Diagrammatically, the three propositions

Income Y	Consump- tion C	Savings S = Y - C
120	120	0
180	170	10
240	220	20



Explanations

Proposition (1): When income increases from 120 to 180 consumption also increases from 120 to 170 but the increase in consumption is less than the increase in income, 10 is saved.

Proposition (2): When income increases to 180 and 240, it is divided in some proportion between consumption by 170 and 220 and saving by 10 and 20 respectively.

Proposition (3): Increases in income to 180 and 240 lead to increased consumption 170 and 220 and increased saving 20 and 10 than before.

43.a) Casus of Inflation:

a) Increase in Money Supply:

- Inflation is caused by an increase in the supply of money which leads to increase in aggregate demand.

b) Increase in Public Expenditure:

- Government activities have been expanding due to developmental activities and social welfare programmes.

c) Cheap Monetary Policy:

- Cheap monetary policy or the policy of credit expansion also leads to increase in the money supply

d) Deficit Financing:

- In order to meet its mounting expenses, the government resorts to deficit financing by borrowing from the public and even by printing more notes.

e) Increase in Exports:

- When exports are encouraged, domestic supply of goods decline. So, prices rise.

[OR]

43.b) The objectives of monetary policy

1. Neutrality of Money

- ★ The monetary authority should aim at neutrality of money in the economy.
- ★ Monetary changes could be the root cause of all economic fluctuations.

2. Exchange Rate Stability

- ★ Exchange rate stability was the traditional objective of monetary authority.
- ★ This was the main objective under Gold Standard among different countries.

3. Price Stability

- ★ Economists like Crustave Cassel and Keynes suggested price stabilization as a main objective of monetary policy.

4. Full Employment

- ★ During world depression, the problem of unemployment had increased rapidly.
- ★ It was regarded as socially dangerous, economically wasteful and morally deplorable.

5. Economic Growth

- ★ Economic growth is the process whereby the real per capita income of a country increases over a long period of time.
- ★ It implies an increase in the total physical or real output.

44.a) Rate of Exchange Determined with Illustration:



The equilibrium rate of exchange is determined in the foreign exchange market in accordance with the general theory of value, i.e., by the interaction of the forces of demand and supply. Thus, the rate of exchange is determined at the point where demand for forex is equal to the supply of forex.

- In the above diagram, Y axis represents exchange rate, that is, value of rupee in terms of dollars.
- X axis represents demand and supply of forex.
- E is the point of equilibrium where DD intersects SS.
- The exchange rate is P2.

[OR]

44.b) Short Notes on:

SAARC

- ❖ The South Asian Association for Regional Co-operation (SAARC) is an organization of South Asian nations, which was established on 8 December 1985.
- ❖ The SAARC Group (SAARC) comprises of Bangladesh, Bhutan, India, The Maldives, Nepal, Pakistan and Sri Lanka. In April 2007, Afghanistan became its eighth member.
- ❖ The basic aim of the organisation is to accelerate the process of economic and social development of member states through joint action in the agreed areas of cooperation.
- ❖ The SAARC Secretariat was established in Kathmandu (Nepal) on 16th January 1987.

BRICS

- ❖ BRICS is the acronym for an association of five major emerging national economies: Brazil, Russia, India, China and South Africa.
- ❖ It's headquarters is at Shanghai, China. The New Development Bank (NDB) formerly referred to as the BRICS Development Bank was established by BRICS States.
- ❖ The BRICS countries make up 21 percent of global GDP. They have increased their share of global GDP threefold in the past 15 years.
- ❖ The BRICS are home to 43 percent of the world's population.

45.a) Merits of Indirect Taxes and Direct Taxes:

Merits of Direct Taxes

1. Equity

- Direct taxes are progressive i.e. rate of tax varies according to tax base. For example, income tax satisfies the canon of equity.

2. Certainty

- Canon of certainty can be ensured by direct taxes. For example, an income tax payer knows when and at what rate he has to pay income tax.

3. Elasticity:

- Direct taxes also satisfy the canon of elasticity. Income tax is income elastic in nature. As income level increases, the tax revenue to the Government also increases automatically.

4. Economy

- The cost of collection of direct taxes is relatively low. The tax payers pay the tax directly to the state.

Merits of Indirect Taxes

1. Wider Coverage

- All the consumers, whether they are rich or poor, have to pay indirect taxes.
- For this reason, it is said that indirect taxes can cover more people than direct taxes.

2. Equitable

- The indirect tax satisfies the canon of equity when higher tax is imposed on luxuries used by rich people.

3. Economical

- Cost of collection is less as producers and retailers collect tax and pay to the Government.
- The traders act as honorary tax collectors.

4. Checks harmful consumption

- The Government imposes indirect taxes on those commodities which are harmful to health e.g. tobacco, liquor etc.
- They are known as sin taxes.

5. Convenient

- Indirect taxes are levied on commodities and services.
- Whenever consumers make purchase, they pay tax along with the price.

[OR]

45.b) Nature and Scope of Statistics:

Definition of Statistics

According to Croxton & Cowden “Statistics may be defined as the collection, organisation, presentation, analysis and interpretation of numerical data”

Nature of Statistics

- Statistics are an aggregate of facts.
- Statistics are numerically enumerated, estimated and expressed.
- Statistics should be collected in a systematic manner for a predetermined purpose.
- Should be capable of being used as a technique for drawing comparison
- Statistics are numerated or estimated according to reasonable standard of accuracy.
- Statistics are affected to a marked extent by a multiplicity of causes.

Scope of Statistics

- ✧ Statistics and Economics
- ✧ Statistics and Commerce
- ✧ Statistics and Education
- ✧ Statistics and Planning
- ✧ Statistics and Medicine
- ✧ Statistics and Modern applications

46.a) Types of Planning:

<u>1. Democratic Vs Totalitarian:</u>		
Democratic Plan		Totalitarian Plan
Democratic planning implies planning within democracy.		Under totalitarian planning, there is central control and direction of all economic activities in accordance with a single plan.
<u>2. Centralized Vs Decentralized</u>		
Centralized Plan		Decentralized Plan
Under centralized planning, the entire planning process in a country is under a central planning authority.		Under decentralized planning local organizations and institutions, execute and supervise the plan without interference by the central authorities.
<u>3. Planning by Direction Vs Inducement:</u>		
Planning by Direction		Planning by Inducement
There is a central authority which plans, directs and orders the execution of the plan in accordance with pre-determined targets and priorities.		The people are induced to act in a certain way through various monetary and fiscal measures.
<u>4. Indicative Vs Imperative Planning:</u>		
Indicative Plan		Imperative Plan
Indicative planning is peculiar to the mixed economies. It has been in practice in France		The state is all powerful in preparation and implementation of the plan.
<u>5. Short, Medium and Long term Planning:</u>		
Short Term Plan	Medium Term Plan	Long Term Plan
Short - term upto 1 year	Medium - term 3 - 7 years	Long - term over 10 year

[OR]

46.b)

Solution: Let A = 30 and B = 26 then dx = X- A dy= Y-B

X	Y	d _x	d _y	d ² _x	d ² _y	d _x d _y
23	18	-7	-8	49	64	56
27	22	-3	-4	9	16	12
28	23	-2	-3	4	9	6
29	24	-1	-2	1	4	2
30	25	0	-1	0	1	0
31	26	1	0	1	0	0
33	28	3	2	9	4	6
35	29	5	3	25	9	15
36	30	6	4	36	16	24
39	32	9	6	81	36	54
		11	-3	275	159	175

$$\begin{aligned}r(x,y) &= \frac{N\sum dxdy - \sum dy}{\sqrt{N\sum d_x^2 - (\sum dx)^2} \sqrt{n\sum d_y^2 - (\sum dy)^2}} \\&= \frac{10(175) - (11)(-3)}{\sqrt{10(215) - (11)^2} \sqrt{10(159) - (-3)^2}} \\&= \frac{1750 + 33}{\sqrt{2150 - 121} \sqrt{1590 - 9}} \\&= \frac{1783}{\sqrt{(45.044)} \sqrt{(39.761)}} \\&= \frac{1783}{1790.94}\end{aligned}$$

$$\text{Ans: } r(x,y) = 0.9955$$

47.a) Causes for increasing Public Debt:

1. War and Preparation of war

- Waging war has become one of the important causes for incurring debts by the governments.
- In modern times, the preparation for war and nuclear defence programmes take away the major share of the government's revenue and so it incurs debt.

2. Social obligations

- Modern states are considered to be 'Welfare States' and they have to undertake many social obligations like public health, sanitation, education, insurance, transport and communications, etc., besides providing the minimum necessities of life to the citizens of the country.
- To finance these, the State has to incur a heavy public debt.

3. Employment

- Most of the governments of modern days face the problem of unemployment and it has become the duty to solve this by making huge public expenditure.
- To solve the unemployment problem, and to fight recession, the government has to make huge expenditures.
- For this the States have to resort to public debt.

4. Controlling inflation

- The Government can withdraw excess money from circulation, by raising public debt and thus prevent prices from rising.

5. Fighting depression

- During the depression phase, private investment is lacking.
- The Government applies compensatory public spending by borrowing from internal and external sources.

47.b) Air Pollution – Definition:

- *“Air pollution is the presence of any solid, liquid, or gaseous substance in the atmosphere in such concentration as may be or tend to be injurious to human beings or other living creatures or plants or property or environment”.*

-The Air (Prevention and Control of Pollution) Act, 1981

Causes of Air Pollution

1. Vehicle exhaust smoke: Vehicle smoke happens to release high amounts of Carbon monoxide. Millions of vehicles are operated every day in cities, each one leaving behind its own carbon footprint on the environment.
2. Exhaust from Industrial Plants and Factories: Heavy machineries located inside big factories and industrial plants also emit pollutants into the air.
3. Construction and Agricultural activities: Potential impacts arising from the construction debris would include dust particles and gaseous emissions from the construction sites.
4. Natural Causes: Earth is one of the biggest polluters itself, through volcanoes, forest fires, and dust storms. They are nature-borne events that dump massive amounts of air pollution into the atmosphere.
5. Household activities: Household activities like cooking, heating and lighting, use of various forms of mosquito repellents, pesticides and chemicals for cleaning at home and use of artificial fragrances are some of the sources that contribute to air pollution.