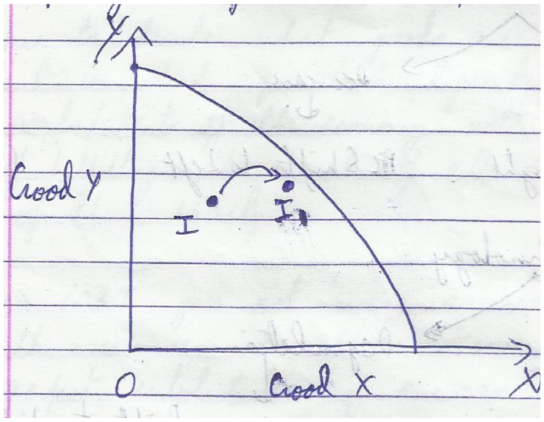
THE ASIAN SCHOOL, DEHRADUN (Marking Scheme)

CLASS 12 SUBJECT Economics CHAPTER- 1 Micro (Introduction to Micro Economics MM-30

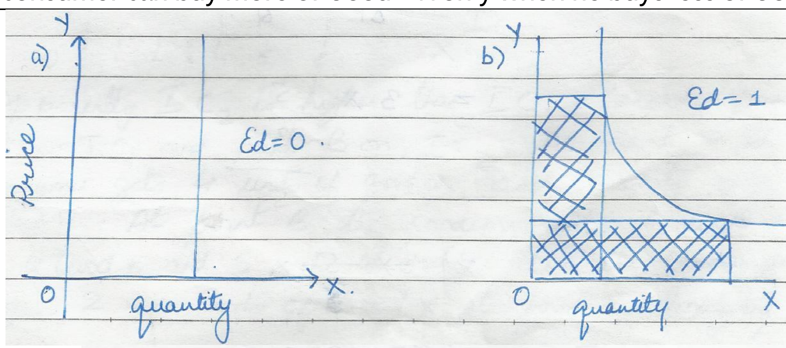
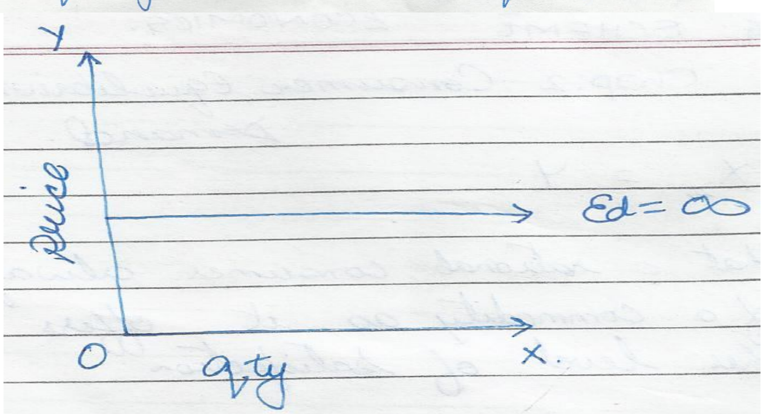
<table>
<tr><td>Ans1</td><td>a) PPC : Shows various combination of two goods which an economy can produce with given resources and technology.
b) MRT : Marginal rate of transformation is the rate at which one goods needs to be sacrificed in order to produce one additional unit of the other good.
c) MOC : Marginal Opportunity Cost is the cost of the next best alternative given up or sacrificed.
d) Resource : Any factor of production needed for production, or means to satisfy wants are known as resources.</td><td>1X4</td></tr>
<tr><td>Ans2</td><td>Causes of Economic Problem :
a) Unlimited Wants
b) Limited Resources
c) Alternative use of Resources</td><td>1</td></tr>
<tr><td>Ans3</td><td>Means that a resources can be put to many uses, can we have to make a choice where to employee it.</td><td>1</td></tr>
<tr><td>Ans4</td><td>PPC is always downward sloping as there is an inverse relation between the production of two goods. If we increase the production of one good less resources are left for producing the other good which leads to fall in its production.</td><td>3</td></tr>
<tr><td>Ans5</td><td>What to produce, is a problem of choice among the production type and quantity. As resources have alternative uses an economy has to decide what goods are to be produced and in what quantities depending upon the needs/ wants of the economy with the objective of fulfilling the wants of all the segments of the society. Economy has to choose between consumer goods (which directly satisfied human want) and Capital goods (used for further production) .</td><td>3</td></tr>
<tr><td>Ans6</td><td>a) MRT goes not rising as we substitute the resources as their resources are not perfect substitutes of one another and their efficiency decreases as they are shifted from the production of one good to other.
Schedule :<table><tr><th>Combination</th><th>Good X</th><th>Good Y</th><th>MRT</th></tr><tr><td>A</td><td>1</td><td>30</td><td>-</td></tr><tr><td>B</td><td>2</td><td>28</td><td>2:1</td></tr><tr><td>C</td><td>3</td><td>25</td><td>3:1</td></tr><tr><td>D</td><td>4</td><td>21</td><td>4:1</td></tr><tr><td>E</td><td>5</td><td>16</td><td>5:1</td></tr></table></td><td>4</td></tr>
<tr><td>Ans7</td><td>Determinants of PPC.
a) Resources
Increase → PPC Shifts to Right
Decrease → PPC Shifts to left

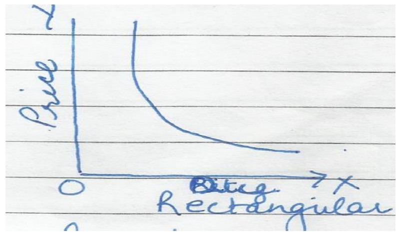
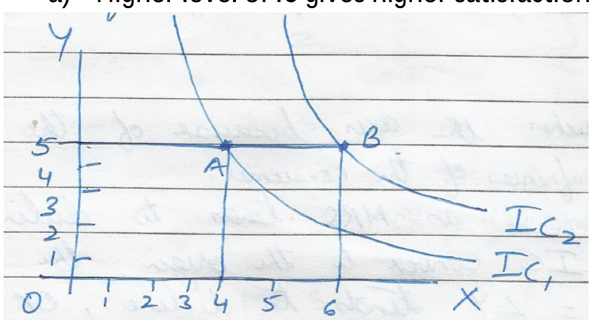
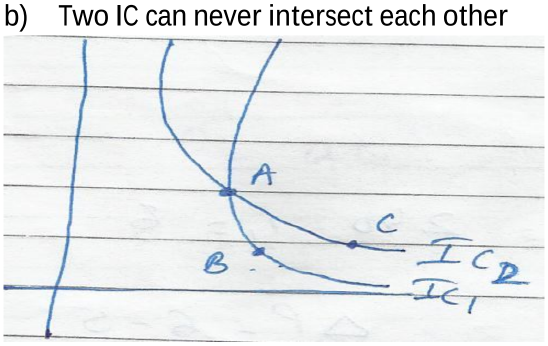
b) Technology
Improvement → PPC shifts to right
Degradation → PPC shifts to left</td><td>4</td></tr>
<tr><td>Ans8</td><td>a) How to Produce
Labour Intensive → More Labour, Less Machines
Capital Intensive → More Machines with less labour
An economy has to decide on the basis of social conditions and available technology which technique to employ.
b) PPC of India will not be affected by this announcement as it shows the maximum possible</td><td>2+2</td></tr>
</table>

	which an economy can produce, though the economy would come closer to the PPC with this policy i.e from I to I_1.  	
Ans9	a) Shifts to Right b) Shifts to the left c) Economy moves closer to PPC, without affecting the PPC d) Shifts to the night For X and Y a) Rotate the left on X axis. b) Rotate away from origin on Y – axis	6

THE ASIAN SCHOOL, DEHRADUN (Marking Scheme)

CLASS 12 SUBJECT Economics CHAPTER- 2 – Micro Eco(Consumer Equilibrium and Demand) MM-30

Ans1	$P_1 X_1 + P_2 X_2 = Y$.	1
Ans2	It means that a rational consumer always prefers more of a commodity as it offers him a higher level of satisfaction.	1
Ans3	Consumer is in equilibrium when : $\frac{MU_x}{Mu_m} = P_x$ $MU_x = 90$ $MU_m = 30$ $P_x = 30$ $\frac{90}{3} = 30$ 30 = 30 ∴ consumer is in equilibrium at the consumption of third cup of ice-cream and hence it will stop consumption at 3 units of ice-cream.	3
Ans4	Budget line slopes downward, because given consumer income and prices of goods X and Y the consumer can buy more of Good – X only when he buys less of Good Y.	3
Ans5	 c. 	3
Ans6	D(P) = 10-3p p = 5/3 $= 10-\cancel{3} \times \frac{5}{\cancel{3}}$ = 10- 5 D (P) = 5 $Ed = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P}$ $= \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$ $= 3 \times \frac{5}{3} \div 5$ $= \cancel{3} \times \frac{\cancel{5}}{\cancel{3}} \times \frac{1}{\cancel{5}}$ Ed = 1	3

Ans7	E = 250 E_1 = 240 P = 5 P_1 = 6 Q = 50 Q_1 = 40 ΔQ = Q_1 - Q Δ P = P_1 = P = 40 – 50 6- 5 = -10 = 1 % ΔQ = $\frac{\Delta Q}{Q}$ = 100 % Δ P = $\frac{\Delta P}{P}$X 100 = $\frac{10^{\cancel{2}}}{\cancel{50}}$ X 10$\cancel{0}$ = $\frac{1}{\cancel{5}}$X 10$\cancel{0}$ 20' = -20 % = 20% Ed = $\frac{\%\Delta Q}{\%\,\Delta P}$ = $\frac{20}{+20}$ Ed = -1  Shape of Demand curve = rectangular hyperbola	4
Ans8	a) Higher level of IC gives higher satisfaction  Apparently IC_2 is higher than IC_1. Consider point A on IC_1 and point B on IC_2. At point A the consumer gets 4 units of good X and 5 units of Good Y. At point B the consumer gets 6 units of Good X and 5 units of Good Y. Thus the consumer gets more of 2 units of Good X at point B. Implying that point B must yield higher satisfaction than point A. b) Two IC can never intersect each other  A and C are on the same IC therefore should be offering equal satisfaction. AB is on the same AC and therefore should be offering equal satisfaction. If A and C are equal and A and B are equal, B and C should also be equal. But this is wrong, because C is to the right and above B, and therefore must offer higher level of satisfaction. c) IC never touches the axis because of the monotonic preferences of the consumer. d) IC slopes downward as MRS tends to decline. This makes the IC convex to the origin, the slope of IC = $\frac{\Delta Y}{\Delta X}$ tends to decline, Or Because MRS tends to decline as we move along the curve, left to right.	6

Ans9	MRS = 1 Px = 3 Py = 4 (Condition of equilibrium) $1 \neq \frac{3}{4}$ $1 \neq 0.75$ Consumer is not in equilibrium MRS > $\frac{Px}{Py}$ So he will increase the consumption of Good x to decrease the value of MRS and stop the consumption of Y, till the time MRS = $\frac{Px}{Py}$	6

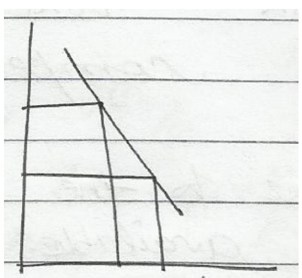
THE ASIAN SCHOOL, DEHRADUN (Marking Scheme)

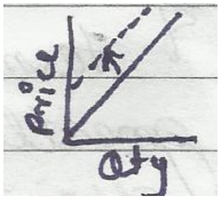
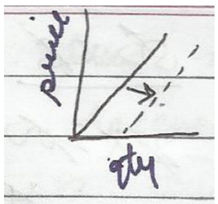
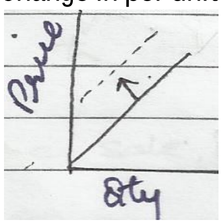
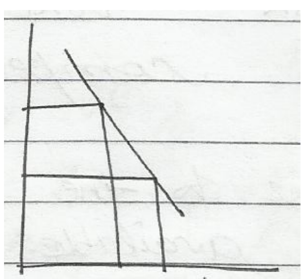
CLASS 12 SUBJECT Economics CHAPTER- 3 Micro (Producers Equilibrium) MM-30

<table>
<tr><td>Ans1</td><td>Marginal cost of production is less than the average cost (AC), AC would be falling.</td><td>1</td></tr>
<tr><td>Ans2</td><td>AFC will fall with increase in output because total fixed cost is constant at all levels of output.</td><td>1</td></tr>
<tr><td>Ans3</td><td>AFC (Average fixed cost) is the cost curve which never touches to any axes but is downward sloping.</td><td>1</td></tr>
<tr><td>Ans4</td><td>MC = MR and MC curve cuts the MR curve from below .</td><td>1</td></tr>
<tr><td>Ans5</td><td>Marginal Revenue</td><td>1</td></tr>
<tr><td>Ans6</td><td>
<table>
<tr><th>Output
(Limits)</th><th>Total Cost
(Rs)</th><th>Average Cost
AC = TC/Q</th><th>Marginal Cost
$MC = TC_n - TCn\text{-}_1$</th></tr>
<tr><td>0</td><td>10</td><td>∞</td><td>-</td></tr>
<tr><td>1</td><td>20</td><td>20</td><td>10</td></tr>
<tr><td>2</td><td>28</td><td>14</td><td>8</td></tr>
<tr><td>3</td><td>34</td><td>11.3</td><td>6</td></tr>
<tr><td>4</td><td>38</td><td>9.5</td><td>4</td></tr>
<tr><td>5</td><td>42</td><td>8.4</td><td>4</td></tr>
<tr><td>6</td><td>48</td><td>8</td><td>6</td></tr>
<tr><td>7</td><td>56</td><td>8</td><td>8</td></tr>
<tr><td>8</td><td>72</td><td>9</td><td>16</td></tr>
</table>
According to the schedule :
a) When AC falls, MC is lower than AC.
b) When AC rises, MC is greater than AC.
c) When AC does not change MC is equal to AC.</td><td>3</td></tr>
<tr><td>Ans7</td><td>In the short run as the application of the variable factor increases (fixed cost remaining constant) in the initial stage marginal cost decreases (owing to increasing returns), but eventually it tends to rise in accordance with the law of variable proportions. Hence, the ‘U’ shape of MC.</td><td>3</td></tr>
<tr><td>Ans8</td><td>True falling MC means that the cost of producing an additional unit of output tends to reduce. In a situation when price is constant (as under perfect competition) this would mean a situation when the difference between the firms TR and TVC (Note that TVC = ≤ MC) tends to increase. This means a situation when firms gross profits are rising? Certainly it will therefore, it is only when MC is rising that the firm will find its equilibrium output.</td><td>4</td></tr>
<tr><td>Ans9</td><td>A firm under perfect competition earns only normal profits in the long run. This is owing to the fact that there is freedom to entry and exit under perfect competition. In situations of extra normal profits new firms will join the industry. Consequently, market supply will increase. Market price will fall extra- normal profits will be wiped out. In situations of extra normal losses, some firms will leave the industry. Consequently, market supply will fall. Market price will rise. Extra- normal losses will be wiped.</td><td>3</td></tr>
<tr><td></td><td>OR</td><td></td></tr>
<tr><td></td><td>- Same as above -</td><td></td></tr>
<tr><td>Ans10</td><td>Yes the firm will produce a positive level of output in the range where the marginal cost is falling because the producer is earning profits till MC<MR . However the profits will tend to reduce as the output increases and the distance between MC and MR keeps on decreasing the output will be positive till MC = MR.</td><td>6</td></tr>
<tr><td>Ans11</td><td>The ATC and AVC curves comes closer and closer with an increase in output as AC = AFC + AVC. As output increases AFC must continuously fall, because TFC is constant. Consequently the component of AFC in AC tends to shrink that brings AC closer to AVC.</td><td>6</td></tr>
</table>

THE ASIAN SCHOOL, DEHRADUN (Marking Scheme)

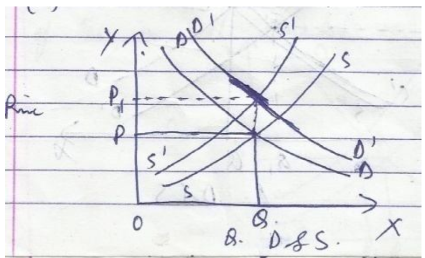
CLASS 12 SUBJECT Economics CHAPTER- 4 Micro (The Theory of Firm Under Perfect Competition) MM-30

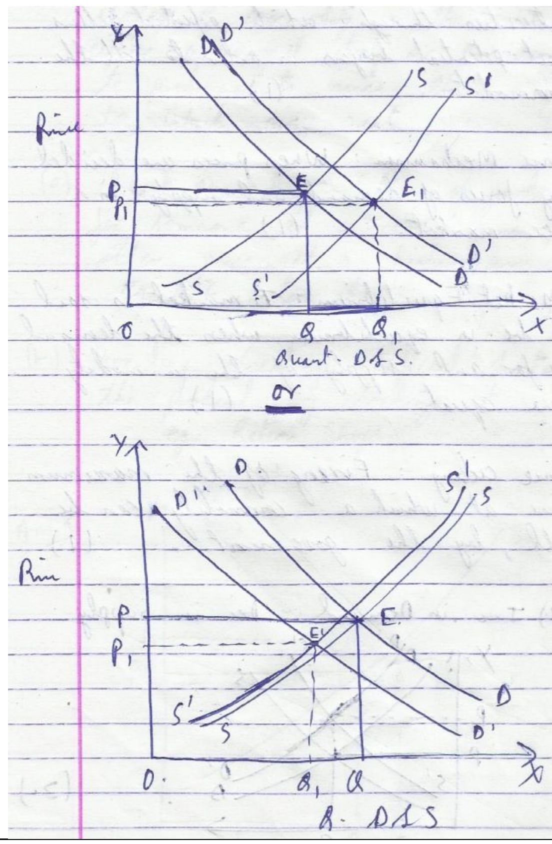
Ans1	It is the per unit price corresponding to a given level of output of a firm denoted as a curve (AR= P).	1
Ans2.	Market price is the AR of a firm Under perfect competition MR = AR. Whereas under imperfect competition MR < AR.	1
Ans3	Stock refers to the total quantity of the commodity available with the producer for the present or future sale.	1
Ans4	Slope of supply curve = $\frac{\Delta P}{\Delta Q}$ ES = $\frac{1}{Slope\ of\ supply\ curve}$ ES = $\frac{1}{\infty}$ = 0.	1
Ans5	Market supply is the summation of individual supply.	1
Ans6	A monopolist is a price maker. It means that he can fix whatever price he wishes for his product. It is due to following reasons. a) No competition b) No close substitutes, no fear of buyer to shift from one product to the other. c) Natural barrier to the entry of firms. To increase the sale, monopolist lowers the price. Price  Quantity	3
Ans7	Es = 2 P_1 = ? S = 200 S = 250 P = 8 Δ P= P_1 - P Δ S = S_1 - S = 250 -200 = 50 Es = $\frac{\Delta Q}{Q}$ X $\frac{P}{\Delta P}$ 2 = $\frac{50}{200}$ X $\frac{8}{\Delta P}$ Δ P = $\frac{\cancel{50} \times \cancel{8}^{2}}{\cancel{2} \times \cancel{200}_{4}}$ Δ P = 1 Δ P = P_1 - P 1 = P_1 – 8 1 + 8 = P_1 P_1 = 9	4
Ans8	a) False when TR increases MR will decrease. b) False, when MR = 0, AR will decrease c) False, TR = max, AR $\neq$ O because AR is the per unit price of the good. d) False, MR is the change in Total Revenue with every additional unit sold in the market.	6

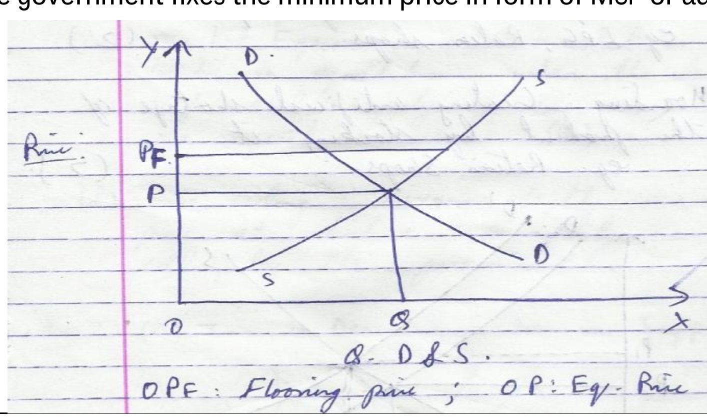
Ans9	a) Cost of production increases , then supply will decrease and vice versa .  b) Subsidies increases, supply will increase and vice versa.  c) Change in per unit tax : it per unit tax will increase, supply will decrease and vice versa.  d) Change in technology : Better technology leads to fall in price of cost of production. This will result in increase in supply. 	6
Ans10	If MSP for production of cotton will increase and only two crops rice and wheat are grown. Then more of cotton will be produced rather than rice. Therefore supply for cotton will increase and rice will decrease. Any such decision made by the government will affect the supply of two goods rice and wheat. Farmers producing rice will be greatly affected. Hence such decisions cannot be favoured.	6

THE ASIAN SCHOOL, DEHRADUN (Marking Scheme)

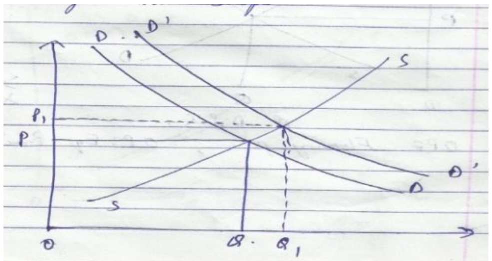
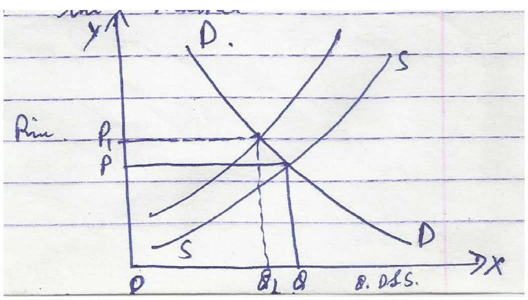
CLASS 12 **SUBJECT Economics** **CHAPTER- 5 Micro (Market Equilibrium)** **MM-30**

<table>
<tr><td>Ans1</td><td>a) Market : Market is a system or a set of complex activities through which potential seller must potential buyers in order to sell the commodities.
b) Price Mechanism : When prices are decided by forces of demand and supply in a free market.
c) Market Equilibrium : A market is said to be a equilibrium when the demand for and supply of the commodity are equal.
d) Price Ceiling : Fixing of the maximum price at which a commodity can be sold, by the government.</td><td>4</td></tr>
<tr><td>Ans2</td><td>a)


b)


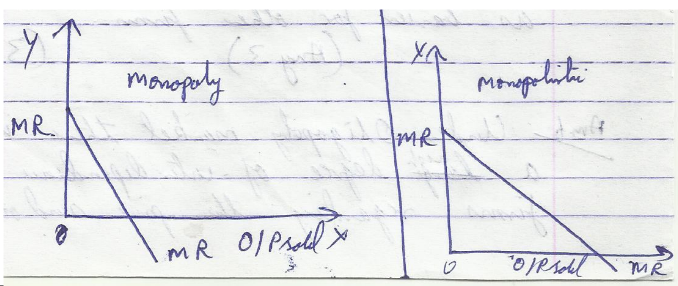
</td><td>4</td></tr>
<tr><td>Ans3</td><td>Price flooring is the minimum price at which a commodity can be sold fixed by the government.
It is used to protect the farmers as during the harvesting season the supply of agricultural goods rises leading to fall in its equilibrium price. So to insure that farmers do not suffer losses due to falling prices the government fixes the minimum price in form of MSP or administrated price.


</td><td>4</td></tr>
</table>

<table>
<tr><td>Ans4</td><td>"Price ceiling means lowering of price than usual which creates demand in the market.
The government needs to fulfill this shortage of commodity in the market by producing it itself or providing subsidies to produces to increase their output, to which may .
a) Black Marketing : Selling of goods issued for someone at a lower price to some other person it a higher price. Eg LPG, Ration shops.
b) Hoarding : Creating artificial shortage of the product by stocking it. Eg : Ration Shops.</td><td>6</td></tr>
<tr><td>Ans5</td><td>
Rise is price of Y would lead to rise in demand for X, both being substitutes of one another. This increased demand for X excess demand in the market : Chain of effects :
a) It is a situation where buyers are willing to buy more than what sellers are willing to sell.
b) Sellers are unable to maintain the desired level of inventory due to shortage of product.
c) Shortage of product leads to competition among the buyer putting preasure on the price to rise.
d) Rise in price lead to ; fall in demand and Rise in supply(Law of demand andsupply) .
e) This continues till both become equal and new equilibrium in established at a higher price.</td><td>6</td></tr>
<tr><td>Ans6</td><td>If tea plantation is hit by puts it will lead to fall in the supply of tea in the market.

Fall in supply leads to deficit supply or excess demand in the market.
Chain of effects :
a) Situation were buyers are willing to buy more than what sellers can supply.
b) Competition among buyers due to lack of supply puts pressure on the price to rise.
c) Rise in price leads to : Fall in demand and rise in supply (Law of D and S)
d) It continues till both become equal and equilibrium is reestablished at a higher price.</td><td>6</td></tr>
</table>

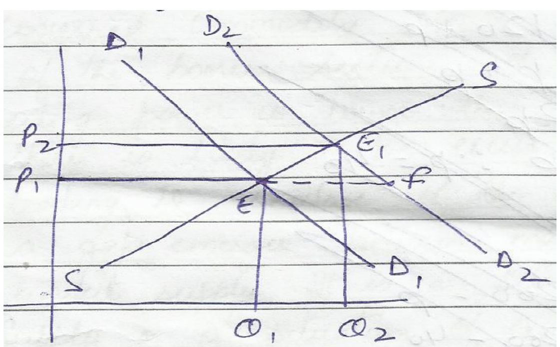
THE ASIAN SCHOOL, DEHRADUN (Marking Scheme) (Marking Scheme)

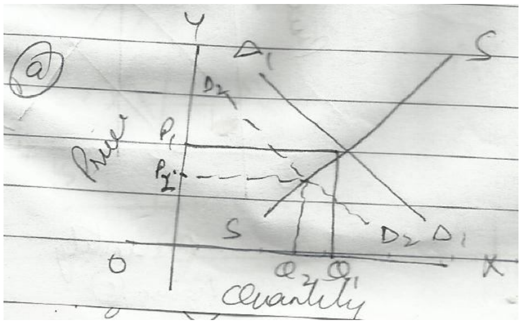
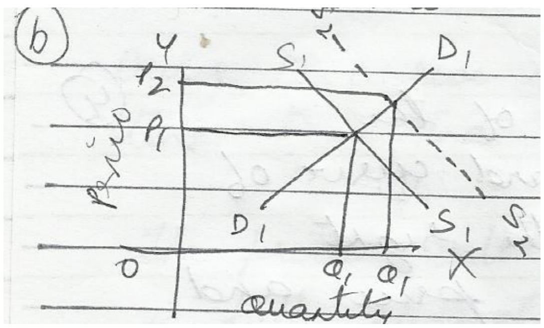
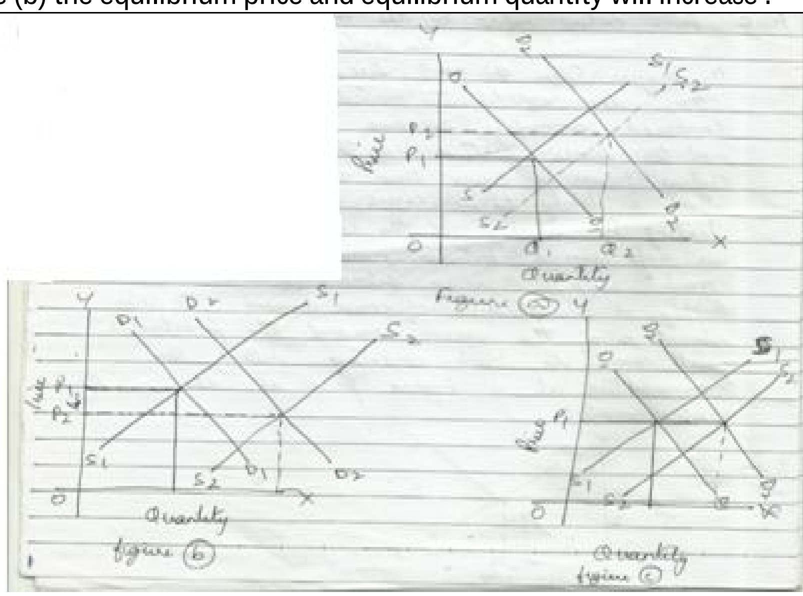
CLASS 12 SUBJECT Economics CHAPTER- 6 Micro (Non Competitive Markets) Part- 1 MM-30

Ans1	Downward sloping straight line.	1
Ans2	When firm under oligopoly corporate among themselves.	1
Ans3	When firm supply close substitutes of one another under monopolistic market.	1
Ans4	Charging different price for the same product from different buyers under monopoly.	1
Ans5	Causes of Monopoly : a) **Law of Land** : Monopoly created by the government through legal produces. b) **Potent Right** : Any technique which has been patented. c) **Cartels** : Joining of few firms to work as single firm. d) **Control of resources/ Raw materials** : A firm may have exclusive control of resources. e) **Technical know- how** : Particular production technique known by a firm. f) **Huge Capital Requirement** : May art as for other firms. (any three)	3
Ans6	Under oligopoly market there is a high degree of inter-dependence among firms regarding the price and output policy which makes it impossible to trace a firms demand curve at individual level. The demand curve of the whole industry can be determined but not at individual level of firm.	3
Ans7	MR curve under monopolistic market is more elastic as compared to monopoly due to the close substitutes available under monopolistic competition but not under monopoly. Thus under monopoly all the buyers are buying from the single seller and reducing the price leads to increase in sales as only new consumers can be created, whereas under monopolistic competition the response of sales is more than in monopoly as the buyers buying the competitors product may also switch to the firm offering at a lower price leading to rise in sales, much more than monopoly. 	4
Ans8	a) **Collusive and Non collusive oligopoly** : Collusive oligopoly is a market where oliobigopolists cooperate with one to another rather than competing. Non collusive oligopoly of cooperating compete with one another. b) **Perfect and Imperfect Oligopoly** : When oligopolists supply homogenous goods it is termed as perfect oligopoly. When oligopolists supply close substitutes of one another it is termed as imperfect oligopoly.	4
Ans9	a) **Homogenous Products** : Buyer is indifferent among sellers as he can get the same product by all firms at the same price. b) **Free Entry & Exit** : Firms can earn only Normal Profit is the long run i.e π = O or TR = TC. As there is any profit in short run new firm enter the market and nuetralize the profits to zero and vice versa.	3+3
Ans10	a) **Single seller under monopoly** : The monopoly has full control over the price due to absence of close substitutes. Is a price maker with constraint. b) **Few Dominant firms under Oligopoly** : Leads to high degree of inter dependence among firms regarding price and output decisions and absence of price war. Individual firms demand came is indiscrimate.	3X2

THE ASIAN SCHOOL, DEHRADUN (Marking Scheme)

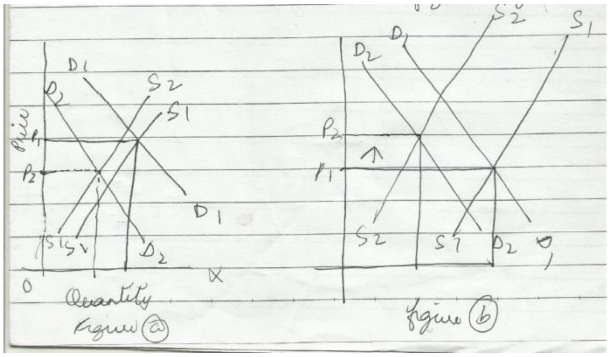
CLASS 12 SUBJECT Economics CHAPTER-6 Micro (Price Determination Under Perfect Competition with Simple applications Part-II MM-30

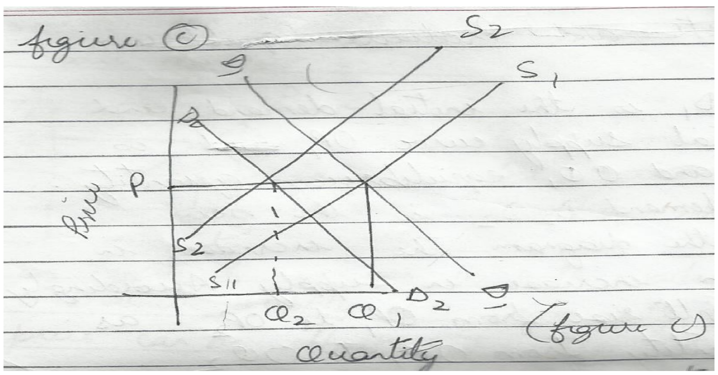
Ans1	It refers to the maximum price of the product, as fixed by the government often the ceiling price is fixed lower than the equilibrium price. Government fixes this price to ensure the availability of essential commodities to the weak sections of the society.	1
Ans2	Equilibrium price is the price at which market demand = market supply.	1
Ans3	Owing to improvement in technology, equilibrium price tends to fall as the supply of the good in the market will increase causing a rightward shift of the supply curve.	1
Ans4	Floor price is the minimum price of a commodity, as fixed by the government this is higher than the equilibrium price of the commodity.	1
Ans5	'Buffer Stock is an important tool of the price floor. Floor price is the minimum price fixed by the government for sale of a commodity in the market. Generally it is done in case of farm goods with a view to stabilizing income of the farmers. However floor price is often supplemented with the support price policy. This implies that the government will buy the surplus stocks of the farmers, the government creates its own buffer stock (to be used for public distribution) Thus floor price is a tool of the buffer stock. Equilibrium Price OP Floor Price : OP* i) Excess supply = ab = Q_1 Q_2 ii) Market price would reduce to the level of equilibrium price, unless 'support price is offered.' at this price, the govt buys the surplus product from the producers and stores it as a buffer stock. This stock is used for public distribution.	3
Ans6	 Owing to increase in demand, demand curve shifts to the right, from D_1 D_1 to D_2 D_2. And at the exiting price (OP_1) quantity demanded rises from point E to point E_1. There is excess demand ↓ Price of commodity will rise from OP_1 to OP_2 ↓ Owing to rise in price, quantity demanded tends to contract. ↓ Owing to a rise in price, quantity supplied tends to extend. ↓ The process will continue till excess demand is fully eliminated . ↓ Net Effect – Increase in equilibrium price - Increase in equilibrium quantity	3
Ans7	With increase in the price to the substitute of Good X, demand curve of the good X will shift to the right. Accordingly the equilibrium price and quantity of Good X would tend to increase.	4

Ans8	Price ceiling refers to the maximum price of commodity that the sellers can charge from the buyers. Often the government fixes this price lower than the equilibrium market price so that the concerned commodity remains within the reach of the poorer sections of the society. When ceiling power is lower than the equilibrium price there is likely to be excess demand in the market leading to shortage of the commodity. Consequently a gap emerges between a market demand and market supply. It is a situation when demand > supply or a situation of excess demand. To take advantages of the excess demand the producers will resort to black marketing selling the commodities at a higher price in the black market.	4
Ans9.	In figure (a) the equilibrium price and equilibrium quantity will decrease.   In figure (b) the equilibrium price and equilibrium quantity will increase .	6
Ans10	 a) Effect of increase is both market demand and market supply of a commodity on its market price can be illustrated three different situations. In figure (a) D_1 D_1 is the initial demand and S_1S_1 is the initial supply curve. OP_1 is the equilibrium and OQ_1 equilibrium quantity. Due to increase in demand D_2D_2 is the new demand curve. In the diagram the increase in demand is more than increase in supply. Accordingly the market price will rise from OP_1 to OP_2 as in equilibrium quantity from OQ_1 to OQ_2 . In figure (b) Increase in demand is less than increase in supply. Accordingly the market price falls from OP_1 to OP_2 and equilibrium quantity increases from OQ_1 to OQ_2. In figure (c) increase in demand in equal to increase in supply. Accordingly the market price falls from OP_1 to OP_2 equilibrium quantity increases from OQ_1 to OQ_2.	6

Or

Effect of decrease in both market demand and supply of a commodity on its market price is illustrated with three figures given below :





i) In figure a) D_1 D_1 is the initial demand curve and S_1S_1 is the initial supply curve. Decrease in demand is more than decrease in supply. Accordingly market price falls from OP_1 to OP_2 and equilibrium quantity decreases from OQ_1 to OQ_3.

ii) In figure b) decrease in demand is less than decrease in supply. Accordingly the market price rises from OP_1 to OP_2. Equilibrium quantity decreases from OQ_1 to OQ_2.

iii) Decrease in demand is exactly equal to decrease in supply in figure (c). Accordingly the market price remain unchanged.

THE ASIAN SCHOOL, DEHRADUN (Marking Scheme)

CLASS 12 **SUBJECT Economics** **CHAPTER- 1 Macro (Introduction to Macro Economy** **MM-30**

Ans1 (12X1)

a) **Macro Economics** : Is defined as the study of macro economic variables like National Income, Total Investment, and Corruption.

Or

Study of Aggregates of an economy with Macro decision making units.

b) **Factors of Production** : Factors of production are the inputs needed for any production process ie. Land, Labour, Capital and Entrepreneur.

c) **Entrepreneur** : Is the person who brings the basic idea of the business and owns the risk involved in the business.

d) **Exports** : Goods or services sold by the economy outside its domestic tenotory.

e) Economic Agents : Decision making units of the economy ie. Producers, consumers, government etc.

f) **Wage Rate** : Rate at which labour is available.

g) **Capital** : Investment required in a business in form of assets.

h) **Capitalist Economy** : An economy with private ownership of factors of production and operations of Price mechanism.

i) **Socialist Economy** : An economy with public ownership of factors of production and major decisions by Central Planning Authority.

j) **Household sector** : Refers to all the person residing in an economy. They are the owners of factors of production and consumers of finished goods/ services.

k) **Investment Expenditure** : Expenditure done on assets which enhance the productive capacity by the firms.

l) **Household sector** : Refers to all the persons residing in an economy, they are the owner of factor of production and consumers of final goods and services.

Ans2 (3X3)

a) Consumer Goods and Producer Goods

Consumer Goods	**Producer Goods**
1. These are bought by the consumers	1. Brought by producers
2. Objective is to consume and satisfy a human want	2. Objective in further production and sale of the produce for profit.
3. E.g : Mobile Phone	3. Eg : Mother board, Machines, Tools.

b) Investment Expenditure and Consumption Expenditure.

Investment Expenditure	**Consumption Expenditure**
1. Done by the firm	1. Done by the household
2. Objective is to enhance productive capacity	2. Objective is to satisfy a want by corruption
3. Eg : Installation of new machine	Eg : Buying a television

c) Macro Economics and Micro Economics

Macro Economics	**Micro Economics**
1. Branch of Economic which studies macro variables	1. Branch which studies micro economic variables.
2. Also known as theory of Income and Employment.	2. Also known as Theory .
3. Wide Scope	3. Narrow Scope

Ans3 (6)

Macro Economic decision makers are generally concerned about the best utilization of resources to enhance the development of the economy as a whole. Their decisions are guided towards economic welfare and growth of the society and economy as a whole.

Macro Economic decisions are guided towards generating more employment opportunities in the economy which would ultimately lead to growth. They are also concerned about the income level and output level of the economy. The various decision makers like RBI, Government etc are generally focused on welfare and stability of the economy.

Ans4 (6)

It is time that micro economics is concerned about individual decision makers and aims at maximizing their satisfaction at individual level while on the other hand macro is all about aggregates and focuses on maximizing the welfare and growth of all the economic agents as a whole and over all society.

Whereas micro economics is concerned about individual equilibrium, macro economics aims a bringing the equilibrium in the economy as a whole. The decisions of individuals decision makers under micro economics are guided towards maximizing their profits/ satisfaction level but under macro economics the coordination among aggregates takes the at most importance. Thus it can be said that micro economics is concerned about individual decisions makers, while macro is all about aggregates.

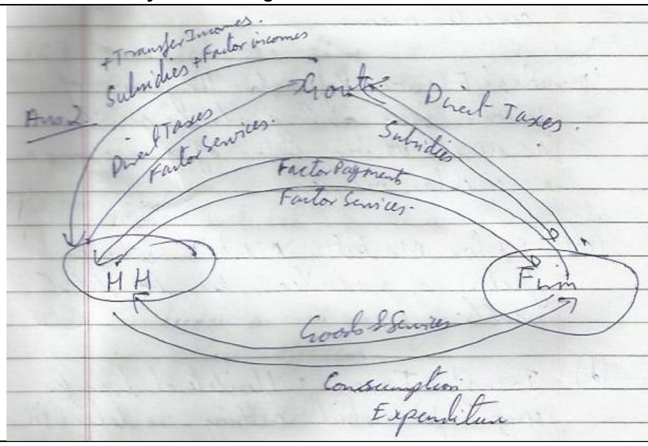
THE ASIAN SCHOOL, DEHRADUN (Marking Scheme)

CLASS 12 SUBJECT Economics CHAPTER- 2 Macro (National Income Accounting) Part- 2 MM-30

<table>
<tr><td>Ans1</td><td>a) <u>Private Income</u> : Income accruing to private sector from all sources.
b) <u>National Debt Interest</u> : Interest paid by government on public deposits to encourage savings in the economy.
c) <u>Personal Income</u> : Income accruing to household sector from all sources.
d) <u>Personal Disposable Income</u> : Income left over with the household for consumption or saving after making all necessary payments to the government.</td><td>4</td></tr>
<tr><td>Ans2</td><td><table>
<tr><th>a) Private Income</th><th>a) National Income</th></tr>
<tr><td>i) Income accruing to private sector from all sources.</td><td>i) Sum of factor incomes generated in the economy.</td></tr>
<tr><td>ii) Includes transfer payments.</td><td>ii) Include any transfer payments.</td></tr>
<tr><th>b) Private Income</th><th>b) Personal Income</th></tr>
<tr><td>i) Income accruing to private sector. ….</td><td>i) Income accruing to household sector.</td></tr>
<tr><td>ii) Includes corporate tax ad saving</td><td>ii) Include corporate tax and saving</td></tr>
</table></td><td>4</td></tr>
<tr><td>Ans3.</td><td>GDP_{MP} = 8800
- 50
- 50
NDP_{FC} = 8700
Private income = 8700 – (1300) + 100 + $\cancel{20}$ + 50 + (-) $\cancel{20}$
= 7400 + 150 = 7550</td><td>6</td></tr>
<tr><td>Ans4</td><td>NNP_{FC} = 5800
Private Income = 1700 + 50 + 150 + 50
= 1950
Personal Income = 1950 – 100 -20
= 1830
PDI = 1830 – 20- 150
= 1660</td><td>6</td></tr>
<tr><td>Ans5</td><td>Personal Income = 8800
↓
Private Income = 8800 + 100 + 25
= 8925
Income of Private Sector = 8925 – 20- 50- 100 – 150
= 8925 – 320 = 8605
NI - 8605 + 1500 + 150
= 10,255</td><td>6</td></tr>
<tr><td>Ans6</td><td>PDI is the sum of consumption and saving of the house hold as it is the income left after paying all the taxes and other payment to the government thus it can only be spent or saved thus we can say that PDI will always be the sum of house hold consumption and saving as there is no other options to use the income.</td><td>4</td></tr>
</table>

THE ASIAN SCHOOL, DEHRADUN (Marking Scheme)

CLASS 12 SUBJECT Economics CHAPTER- 2 Macro (National Income Accounting) Part- 2 MM-30

<table>
<tr><td>Ans1</td><td>
a) Circular Flow : Circular flow refers to the flow of factor services, factor income, goods and services of consumption expenditure across the various sectors of an economy in a circular manner.
b) Real Flow : Refers to the flow of factor services and goods and services across the various sectors of an economy in a circular manner.
c) Factor Market : Market where factors of production are bought and sold.
d) Transfer Income : Unilateral transfer income for which nothing is taken in returns.
e) Flow Variable : Any variable which is measured at a given period of time.
f) National Income : Sum of all the factor incomes generated within the domestic teritory of an economy including NFIA.
</td><td>6X1</td></tr>
<tr><td>Ans2</td><td>


</td><td>3</td></tr>
<tr><td>Ans3</td><td>
a) Stock and Flow Variable
<table>
<tr><td>Stock</td><td>Flow</td></tr>
<tr><td>a) Measured at a point of time.</td><td>Measured at a period of time.</td></tr>
<tr><td>b) Doesn’t have any time dimension</td><td>Has time dimension like per day, per year etc.</td></tr>
<tr><td>c) Eg : Wealth, Water in tank</td><td>Income, water in steam.</td></tr>
</table>
b) GNP_{Mp} and NDP_{FC}
<table>
<tr><td>Refers to the market value of find goods and services produced in domestic territory economy, inclusive of depreciation and NFIA</td><td>Refers to the domestic income of an economy. Is the sum of all factor incomes generated in domestic territory of an economy exclusive of NFIA.</td></tr>
</table>
</td><td>3X2</td></tr>
<tr><td>Ans4</td><td>Value of Consumption expenditure is equal to the National income as it is the sum of all factor incomes generated is an economy, and if there is no leakage or injection the total value of consumption expenditure will be equal to the sum of all the equal to the sum of all the factor incomes. (Diagram of 2-sector model)</td><td>3</td></tr>
<tr><td>Ans5</td><td>
a) Should be included on the basis of their imputed value, as production is taking place.
b) Should be included as it is a factor income for the lawyer.
c) Included as it is the value of goods produced within the domestic territory, production taken place within domestic territory.
d) Not included as these are transfer payments.
e) Included as it is a factor income for police officers.
f) Not included as it is a transfer payment.
</td><td>2X6</td></tr>
</table>

THE ASIAN SCHOOL, DEHRADUN (Marking Scheme)

CLASS 12 SUBJECT Economics CHAPTER- 3 Macro (Money and Banking) MM-30

<table>
<tr><td>Ans1</td><td>a) Bank rate is the rate at which central bank provides loan to the commercial bank without collateral.
b) Repo rate is the rate at which central bank provides loan to the commercial bank with collateral.
c) Reverse repo rate is the rate at which commercial banks can park their surplus funds with the actual bank, for a short time.
d) Fiat Money refers to that money which is issued by authority of the government. It includes all notes and coins which the people in a country are legally to accept as a medium of exchange.
e) Fiduciary money : It is the money which is accepted as a medium of exchange between payer and payee based on trust. It is not a legal tender.
f) High powered money is equal to notes and coins held by the people as well as cash reserves of the commercial banks.</td><td>3</td></tr>
<tr><td>Ans2</td><td>a) <u>Medium of exchange</u> : Money acts as a medium of exchange for sale and purchase of goods and services.
• Transactions have become simple and easy.
• Accelerates the GDP growth.
• Production has increased for more market use, rather than self consumptions.
b) <u>Std of deferred Payment</u> : Deferred payments are those payments which are made in future. Money has made deferred payment much easier than before. The function of money has led to the emergence of financial market. The market that deals in borrowing and lending of money. Availability of credit through financial market has led to a multiple increase in consumption expenditure and investment expenditure.
c) <u>Store of Value</u> : Storing wealth has increased with the introduction of money. Wealth can be stored like FDR (Fixed Deposit Receipt) . It was not convenient to store in barter system. Stored wealth is or source of future investment. Convenient storage of wealth in terms of money has induced people to save more. Saving is a virtue when converted into investment.
d) <u>Unit of Account</u> : It means that value of each good is measured in the monetary term. Common unit of value has facilitated comparison of market value of different assets. It leads to expansion of market. It also helps in easy estimation of national income and related aggregates.</td><td>6</td></tr>
<tr><td>Ans3</td><td>Commercial banks create money in the form of credit to the borrowers. They create money in the form of cash reserves. To understand this we can consider an example : Let us assume that all banks in the economy receive cash deposits of Rs 10,000. These are demand deposits of the people. As deposits these are liability of the banks. As cash reserves these are assets of the banks. Only a part of it is kept for the deposit rest is utilized for loans to borrowers.
Let’s assume 10% CRR to be kept with RBI.
Total cash reserve = 10,000
CRR = 1,000
Excess cash reserve = 9,000
The banks can safely kind Rs 9,000 loans and earns interest income. But the banks can never lead in form of cash. Instead, they need to open an Account in the name of the borrower and the loan amount is reflected as a credit item in the account. So now their total financial ability is 19,000. Ten thousand is the primary deposit and Nine thousand is secondary deposit.
Excess Reserve = Actual reserve – Req. reserve
= 10,000 – 1900
= 8100
Total demand deposits = 10,000 (P.D) + 8100 + 9,000 (S.D)
= 27,100
Required cash reserve = 10% of 27,100 = 2710
Actual cash reserve = 10,000
Excess reserve = 10,000- 2710 = 7290
It will continue till excess reserve = 0.</td><td>6</td></tr>
<tr><td>Ans4</td><td>Qualitative Measures to control credit.
Margin Req → Rationing of Credit → Moral Suasion
Margin requirement :
It is the difference between current value of the security offered for loan and the value of loan granted.
It is raised when the supply of credit needs to be controlled.</td><td>4</td></tr>
</table>

	Rationing of Credit : It refers to the fixation of credit quotas for difference business activities. This limit is fixed by RBI and cannot be changed by the commercial bank. It is introduced when the flow of credit is checked particularly for speculative activities in the economy. Moral Suasion : The central bank makes the member banks agree through pressure to follow the directives. The banks in advised to restrict the loans during inflation and be liberal during deflation.	
	OR	
	Quantitative Measures Policy Rates — Open Market Operation — Policy Ratio Repo Rate — Bank Rate — CRR — SLR Policy Rates : a) Repo Rate : It is raised during the condition of inflation when commercial banks need loan from RBI and keep collateral as the security . b) Bank Rate : It is raised during the condition of inflation when commercial banks need loan from RBI and need not to keep collateral as the security. Open Market Operation : this is the process of selling and purchasing the securities in the open market by the central bank RBI sells the security during the condition of inflation to soak the liquidity (cash) from the economy and purchases the security during the condition of deflation . Policy Ratio : a) Cash Reserve Ratio : It refer s to the proportion of total deposits of the commercial bank which they must keep as cash reserve with RBI. Higher CRR lowers the value of credit multiplier . CRR value is increased during inflation and vice versa during deflation. b) Statutory Liquidity Ratio : It refers to the liquid assets of the commercial bank which they must maintain as a minimum percentage of their total deposits . It is another policy ratio used as instrument of monetary policy. SLR value is increased during inflation and vice versa during deflation.	
Ans5	Difficulties faced through barter system. Double Coincidence of Wants: Barter system of exchange is the system in which commodities are exchanged for commodities. This is called as C-C economy. Double co-incidence of wants is a core feature of barter system of exchange. It implies the two individuals are in a possession of such goods which they are willing to exchange for the satisfaction of their wants. But it is not easy to find a person whose want coincide with the desire of the second party. At times double coincidence of want creates difficulty in fulfilling the need and desire of a person.	4
Ans6	The various components of money supply are : a) M1 : C + DD + OD C = currency with the public DD = Demand deposits of public with the commercial banks OD = other deposits which include i) DD with RBI ii) DD of international financial institutions b) M2 = M1 + deposits with PO saving A/C c) M3 = M1 + Net time deposit with commercial banks. d) M4 = M3 + Total deposits in PO	4
Ans7	a) **<u>Banker to the Government</u>** : Central Bank is a banker agent and financial advisor to the government. As a banker to the government it manages account of the government, securities on behalf of the government. As an advisor it frames policies of the government to regulate the money market. Central bank also offers loans to the government against government securities. In case government revenue reduces it seeks loans from RBI also called as 'Deficit Financing through borrowing from RBI.' b) **<u>Lender of the Last Resort</u>** : At time when commercial bank faces the situation of financial crisis, or depositors starts withdrawing their deposits from the bank, in such a situation central bank acts as a lender of last resort. It offers loans to cope up the crisis situation. c) **<u>Bank of Issue</u>**: RBI has an exclusive and monopoly right to issue notes. This is called currency authority function of bank. The central bank is known as bank of issue. The notes issued by central bank are unlimited legal tender.	3

THE ASIAN SCHOOL, DEHRADUN (Marking Scheme)

CLASS 12 SUBJECT Economics CHAPTER- 4 Macro (Determination of Income and Employment MM-30

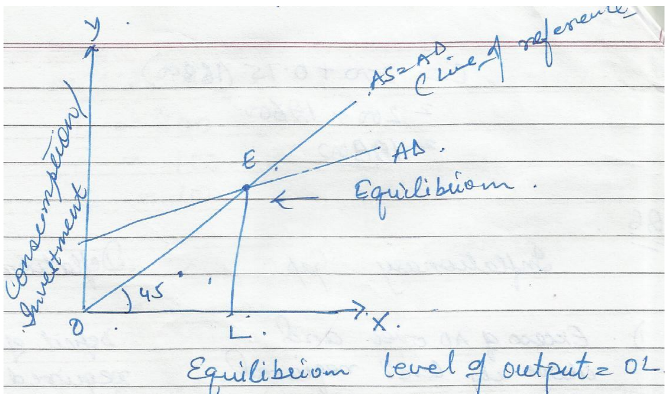
Ans1	MPC + MPS = 1	1
Ans2	a) MPC = 0, K= 0 False K = $\frac{1}{1-MPC}$ = $\frac{1}{1-0}$ K = $\frac{1}{1}$ = 1 K = 1 b) K = ∞ True when change in income results in increase in investment, Investment multiplier value will increase infinite.	3
Ans3.	Economy is in equilibrium when AD = AS $\cancel{C} + I = \cancel{C} + S$ I = S 'C' Function is : $\underline{C}$ = C + by C = autonomous consumption b = MPC Y = National Income	3
Ans4	MPC = ? $\underline{Y}$ = 800 C = 100 I = 100 Y = $\underline{C}$ + I C = $\underline{C}$ + by Y = C + by + I 800 = 100 + b (800) + 100 800 = 200 + 800 b $\frac{800-200}{800}$ = b 3 $\frac{\cancel{600}}{\cancel{800}}$ = b 4 b = 0.75 MPC = 0.75	3
Ans5	C = 200 + 0.75Y I = 4,000 Y = C + I Y = 200 + 0.75Y + 4000 = 4200 + 0.75 Y. Y - 0.75 Y = 4200 Y = $\frac{4200}{0.25}$ = 16800 C = 200 + 0.75 (16800) = 200 + 12600 = 12800	4

Ans6 (4 marks)

Inflationary Gap	Deflationary Gap
1. Excess of AD over and above its level required to maintain full employment equilibrium	1. Deficit of AD required to maintain full employment.
2. Inflationary gap occurs when AD >AS.	2. Deflationary gap occurs when AD <AS
3. It is rise in general price level without any rise in the level of output/ employment	3. It shows factors of production are not fully utilized which results in unemployment.

Ans7 (6 marks)

In an economy equilibrium level of income and employment is determined when AD = AS. According to Keynes, where full employment cannot be achieved in the economy, it can attain equilibrium even under underemployment condition. Accordingly AD becomes the principal determinant of equilibrium level of income .



(explain the diagram)

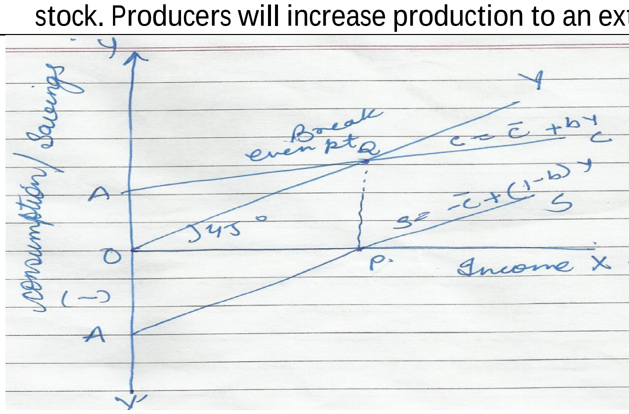
When economy is not in equilibrium.

a) AS > AD ii) AD > AS

AS>AD, flow of goods and services in the economy tends to exceed their demand. As a result, some goods remain unsold. To clear unwanted stock, producers will out down the production. Consequently, AS would reduce and will be equal to AD.

AD > AS, flow of goods and services will reduce than the demand. The existing stock of the producers would be sold out and producers will suffer the loss of unfulfilled demand. To rebuild the desired stock. Producers will increase production to an extend that AS = AD.

Ans8 (6 marks)



It involves following steps :

a) We take OA = OA’, ‘OA’ = savings when Y = 0 and is equal to minimum consumption when Y = O.

b) Point Q on the Y line (45^0 angle) is marked corresponding to point P. on the saving curve because at point. P saving = 0 and at pint Q , C =Y (S = 0)

c) Joining point A and Q and Stretching it in form of straight line. We get ‘C’ curve ‘C’ function is linear as it is derived from a linear S – function.

THE ASIAN SCHOOL, DEHRADUN (Marking Scheme)

CLASS 12 SUBJECT Economics CHAPTER- 5 Macro (Government Budget & Economy) MM-30

Ans1.	Tax revenue are those receipts from all types of direct and indirect takes as income tax, corporation tax, wealth tax, sales tax etc. Non tax revenue - these are receipts from interest dividend, profit, external grants.	1
Ans2	Direct tax is helpful in reducing income inequalities.	1
Ans3	Grants given to state government is a revenue expenditure because it neither reduces liability nor adds to assets of government. (by matter o convention all grants by centre to the state government are treated as revenue expenditure, even when some grants may result in the creation of the assets).	1
Ans4	Fiscal Deficit = Borrowings = 75000 crores	1
Ans5	a) Fees – A fee is a payment to the government for the services that it renders to the people eg : passport fees. b) Fines are those payments which are made by the law breakers to the government by the way of economic punishment. c) Grants/ Donations : In the event of some natural calamities like earthquakes, floods or wars citizens of the country often make some donations and grants to the government.	3
Ans6	Fiscal Deficit = Tax Expenditure – Tax Receipts excluding borrowings. Fiscal deficit highlights the extent to which the government resorts to borrowing to cope with its expenditure. Higher borrowings means higher burden of repayment of loans resulting in burden on future generations. Inflation is another serious implication of Fiscal deficit. Investment is reduced and GDP growth is impeded.	3
OR		
	-same as above-	
Ans7	a) **Subsidies** : Revenue expenditure as it does not reduce liability nor adds to the asset of the government. b) **Repayment of Loans** : Capital expenditure because it reduces the assets of the government. c) **Construction of school building** : It is capital expenditure as adds to the asset of the government. d) **Grants given to State Government** : Revenue expenditure as a matter of convention.	4
Ans8	**Direct Tax** : A tax fixed on income and wealth and its final burden cannot be shifted on others. **Indirect Tax** : A tax where the incidence and impact is on different people. It is a tax levied on goods and services and its final burden can be shifted on others, example : excise tax.	4
Ans9	Optimal allocation of resources does not mean efficient allocation of resources in terms of social welfare. Through its budgetary polices the government makes sufficient provision for supply of public goods. It also addresses environmental causes by offering subsidies or use of cleaner energies. **Economic growth** : The government seeks to accelerate the pace of economic growth through investment in efficient enterprises. **Redistribution of income and wealth** : The government seeks to distribute income and wealth is sought to be improved through subsidies and taxation.	6
Ans10	Fiscal deficit can create problems of inflation and payment of interest on the future generations. Fiscal policy can be used to control fiscal deficit where inflation can be reduced by higher taxes on higher income group and broadening the tax base. In addition the government can use subsidy as an effective tool to encourage productive investment + help the poorer sections of the society.	6

THE ASIAN SCHOOL, DEHRADUN (Marking Scheme)

CLASS 12 SUBJECT Economics CHAPTER- 6 Macro (Balance of Payment) MM-50

<table>
<tr><td>Ans1</td><td>Increase in foreign direct investment increases the supply of foreign exchange. Implying decrease in price of foreign exchange.</td><td>1</td></tr>
<tr><td>Ans2</td><td>Spot market for foreign exchange is that market which handles only spot transactions or current transactions.</td><td>1</td></tr>
<tr><td>Ans3</td><td>BOT = Export - Imports
- 20000 = 30000 – 50000
Value of imports is – 50000 to show a deficit BOT of Rs – 20000.</td><td>1</td></tr>
<tr><td>Ans4</td><td>Balance of trade will show a deficit when Imports of goods is more than the exports of the goods.</td><td>1</td></tr>
<tr><td>Ans5</td><td>Appreciation of the domestic currency implies that the value of domestic currency rises in relation to a foreign currency. Now less rupees are required to buy a dollar. This means that a dollar can buy lesser amounts of goods in the domestic economy. Accordingly exports of the country are likely to fall.</td><td>3</td></tr>
<tr><td>Ans6</td><td>Autonomous items are those international economic transactions in the current and capital account that are undertaken for certain economic or profit motive. These items are also known as above the line items. Whereas accommodating items are those economic transaction that are undertaken for certain profit motive. These items are known as ‘above the line items.</td><td>3</td></tr>
<tr><td>Ans7</td><td>Fall in price of a foreign currency is a situation when less Indian rupees are needed to buy a unit of foreign currency. It leads to a rise in demand for foreign goods and services. Accordingly demand for foreign currency tends to rise.
Two examples :
a) To go abroad for higher education.
b) To go abroad for medical treatment.</td><td>4</td></tr>
<tr><td>Ans8</td><td>Components of Capital Account of BOP.
a) <u>Borrowings</u> : It includes commercial borrowing and external assistance.
b) <u>Foreign Investment</u> : It includes FDI and portfolio investment.
c) <u>NRI Deposits</u> : It refers to the transfer of funds by the non- resident Indians from rest of the world.
d) <u>Banking Capital</u> : It refers to the foreign asset holding of the commercial banking.
e) <u>Short term Credit</u> : Inflow of foreign exchange on account of short term credit is recorded in the credit side of the capital account of balance of payment.</td><td>4</td></tr>
<tr><td>Ans9</td><td><table>
<tr><th>Balance of Trade</th><th>Current Account Balance of Payments</th></tr>
<tr><td>a) It records imports and exports of goods only</td><td>a) It records i) import and export of goods ii) import and export of services iii) current transfers</td></tr>
<tr><td>b) Difference between visible exports and visible imports</td><td>b) It is the sum total of trade balances and invisibles</td></tr>
<tr><td>c) It involves international transactions relating to physical goods only.</td><td>c) It involves international transactions relating to physical goods as well as transaction relating to services which cannot be seen crossing the borders.</td></tr>
</table></td><td>6</td></tr>
<tr><td>Ans10</td><td>a) Borrowings from abroad is recorded in the capital account of the balance of payments account .It is recorded with a + sign in the BOP accounts. This is because its leads to the receipt of foreign exchange from the rest of the world.
b) As it contributes to the supply of foreign exchange to India it results in the appreciation of domestic currency.</td><td>6</td></tr>
</table>