

Economics (030)



SECTION A

1. (A) Purchase and sale of securities on behalf of general public
2. (A) 30 $C = \bar{C} + bY$ $Pd + D_{stock}$
 $130 = 100 + bY$
3. (D) (iii) and (iv) $GVD = G - int = GVA$
4. (A) Both assertion and reason are true and reason is correct explanation of assertion.
5. (c) Reference line
6. (D) Expenditure incurred on construction of flyover
7. (c) Reserve Bank of India
8. (B) (i) and (iv)
9. (A) Both assertion and reason are true and reason is correct explanation of assertion



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10.

(c) Balanced ✓

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Ramesh pays income tax which is a - Direct tax ✓

Direct tax

→ The type of tax levied by the government where the impact and incidence of tax lies on the same individual.

→ The burden of tax cannot be shifted from one individual to the other.

example - income tax, corporation tax

Indirect tax

→ The type of tax levied by the government on consumption of goods and services where the impact and incidence of tax lies on different individuals.

→ The burden of tax can be shifted from one individual to the other (seller → buyer)

example - Goods & services tax (GST).

Value added tax (VAT)



12)

Real Gross domestic product can be defined as the sum total of the money value of all final goods and services produced within the economic/domestic territory over 1 accounting year estimated at Base year prices / constant prices.

Real GDP = current year's production $\times$ base year prices

whereas,

Nominal Gross domestic product can be defined as the sum total of the money value of all final goods and services produced within the economic/domestic territory over 1 accounting year, estimated at Current year prices.

Nominal GDP = current year's production $\times$ current prices.

$\therefore$ Real GDP $\rightarrow$ adjusted for price level changes (inflation-adjusted)
Nominal GDP $\rightarrow$ not adjusted for price level changes

Hence, real GDP is a better indication of economic growth than nominal GDP.



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137 b)

The credit creation capacity of commercial banks is inversely related to the reserve ratio requirement $\Rightarrow$ with an increase in Reserve Ratio ($LRR = CRR + SLR$), funds available for lending by commercial banks for lending decreases $\rightarrow$ as a consequence, credit created by commercial banks also decrease.

We know, money multiplier/credit multiplier = $\frac{1}{LRR} = \frac{1}{CRR + SLR}$ (inversely related to LRR)

Primary deposit (£)	LRR (%)	Money multiplier = $\frac{1}{LRR}$	Total credit created = Primary deposit (£) $\times$ money multiplier
1000	20%	$\frac{100}{20} = 5$	$5 \times 1000 = 5000$
1000	25%	$\frac{100}{25} = 4$	$4 \times 1000 = 4000$

We notice, with an increase in reserve ratio (LRR) from 20% to 25%, total credit created by commercial banks drops from £5000 to £4000 i.e. decreases by £1000 ($5000 - 4000$).

{ Reserve ratio is the proportion of total deposits commercial banks have to maintain as reserves (CRR + SLR) on RBI's mandate }



14) A).

situation $\rightarrow$ Inflation

In the scenario of an inflation, there is an increase in the general price level in the economy, because of excess demand.

Actual aggregate demand (AD) exceeds aggregate supply at full employment level of equilibrium income creating an inflationary gap. (extent by which actual AD exceeds AD at full employment income (A_1)).

objective of Government $\rightarrow$ reduce aggregate demand to bring down inflationary pressure.

To achieve this, Government of India can use the following 2 fiscal policy measures, of taxation and public expenditure.

(i) Increase tax rates: By increasing tax rates disposable income available with the public will decrease.



household consumption expenditure reduces, which is an important component of AD, since people have lesser money left for consumption.



Purchasing power ~~reduces~~ decreases $\Rightarrow$ aggregate demand comes down



excess demand is corrected, and inflationary pressure is tackled.



iii) Decreasing public expenditure - Government expenditure is an important component of aggregate demand.

↓

reducing Govt. expenditure reduces Aggregate demand in the economy

↓

This corrects excess demand and reduces inflationary gap in the economy

Q14 (B) is on NEXT PAGE!

15) Given: change in investment = $\Delta I = \text{£}2400$ m

Marginal Propensity to consume = $MPC = 0.8 \rightarrow \frac{80}{100} = 0.8$

(a) ~~we~~ to find ΔY ,

we know, investment multiplier = $\frac{1}{1-MPC} = \frac{1}{1-0.8} = \frac{1}{0.2} = \frac{10}{2} = 5$

we know, $K = \frac{\Delta Y}{\Delta I}$, hence $\Delta Y = K \times \Delta I$

$\Delta Y = 5 \times 2400 = \text{£}12000 \text{ more}$

b) to find ΔC , we know $MPC = \frac{\Delta C}{\Delta Y}$, $\frac{8}{10} = \frac{\Delta C}{12000}$, $\Delta C = \frac{8}{10} \times 12000 = \text{£}9600 \text{ more}$



Q14) (B)

Open market operations can be defined as the buying and selling of government approved securities (like bonds of government, treasury bills) etc by the central bank on behalf of the union government to commercial banks, public in the open market (capital market) with the objective of credit control.

167a) i)

~~Q14) (B)~~ to find NDPFC

Using expenditure method -

GDPMP = Private final consumption expenditure + Government final consumption expenditure + Gross domestic capital formation + net exports

$$= PFCE + GFCE + GDCF + X - M$$

where GDCF = Gross domestic fixed capital formation + Δ stock

$$\therefore \text{GDPMP} = (2000) + (1500) + (1000 + 400) + 700$$

$$= 2000 + 1500 + 1400 + 700$$

$$= 5,600$$

$$\begin{array}{r} 21 \\ 35 \\ \hline 56 \end{array}$$



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$$\begin{aligned}
 \text{NDPFC} &= (\text{NDPMP} - \text{depreciation} - \text{net indirect taxes}) \\
 &= 5600 - 50 - 200 \\
 &= 5350
 \end{aligned}$$

$$\begin{array}{r}
 5600 \\
 - 250 \\
 \hline
 5350
 \end{array}$$

$$\therefore \text{NDPFC} = \boxed{\text{₹ } 5350 \text{ crore}}$$

$$\begin{aligned}
 \left\{ \begin{aligned}
 \text{ie NDPFC} &= (1) + (2) + (3) + (4) + (8) - (5) - (7) \\
 &= 2000 + 1500 + 1000 + 400 + 700 - 50 - 200 \\
 &= 5600 - 250 = \text{₹ } 5350 \text{ crore}
 \end{aligned} \right\}
 \end{aligned}$$

ii)

Factor income

Transfer income

→ Factor income is an earned income earned by owners of factors of production for rendering factor services to production process.

→ Transfer income is an unearned income i.e. income received for FREE without rendering any productive service in return.

→ Bilateral income, included in national income accounting.

eg - wages, interest

→ Unilateral income, not included in national income accounting.

eg - remittances, grants



$$10000 - 10000 = 0$$

$$= 10000 - 10000 = 0$$

$$= 0$$

$$(1) - (2) - (3) + (4) + (5) + (6) + (7) + (8) = 0$$

$$= 10000 - 10000 = 0$$

$$= 10000 - 10000 = 0$$

Example: 10000

Factorial notation is an example of a function.

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is an account that

17) a) Balance of payments systematically summarises the economic transactions of an economy with the rest of the world, over a given period of time.

ie a systematic record of all international economic transactions ~~between~~ ^{the economy} ~~between residents of~~ ^{the residents} of a country and the rest of the world over an accounting year.

b) Current account: - Measures transfer of goods, services, income and transfers between an economy and rest of the world.

example - export of goods

• Current account transactions DON'T affect the asset liability holding of the residents with the rest of the world.

Capital account: - Reflects net changes in financial claims on rest of world.

• Capital account transactions affect asset-liability holding of residents with rest of world.

example: inflow of FDI (foreign direct investment)

Current account generally records regular transactions, while capital account shows irregular transactions.



12) Balance of payments deficit is the excess of autonomous payments over autonomous receipts over 1 accounting year.

c) (BOP)
Balance of payments deficit is the situation where the inflow of foreign exchange due to autonomous receipts falls short of outflow of foreign exchange due to autonomous payments over 1 accounting year.

ie it is the excess of autonomous payments over autonomous receipts over 1 accounting year.

$$\text{BOP deficit} = \text{autonomous payments} - \text{autonomous receipts}$$

↑

(Balance of Payments deficit)



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{ Section B }

18) (B) Human development

19) (A) Jam-Dham Yojana

20) (C) Jalless Gnomuth

21) (A) Statement 1 is true and Statement 2 is false

22) (A) Commercialisation

23) (A) Statement 1 is true and Statement 2 is false

24) (D) (i), (ii) and (iii)

25) (D) Assertion is false, Reason is true



26) (D) Self-employed

27) (D) (ii), (iii) and (iv)

AGREED.

28) The following constitutes 'health expenditure' which is a source of human capital formation → YES, I AGREE with this statement.

- Expenditure on health improves productivity and efficiency of the production process ⇒ because a healthy person can work with higher energy, efficiency than an unwell person → hence increases production of goods & services.
- Supply of labour of a healthy person is continuous and uninterrupted as opposed to the interrupted supply of unhealthy labour.
- expenditure on health directly leads to an increase in healthy workforce - hence is a source of human capital formation.

eg - Preventive medicines: vaccines

- curative medicines: medical intervention during illness



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- social medicine - health literacy
- clean drinking water facilities
- sanitation

29)

As a part of the economic reform process, ~~then~~ in 1978, China adopted a dual pricing policy -

This involved the fixing of prices in 2 ways -

↳ farmers, industrial units would buy and sell specified quantities of inputs & outputs at prices specified by the government.

↳ The rest of the market would transact at market price (prices fixed by market forces of DD & SS).



30>

Under the British rule-

(i) India became an exporter of primary raw material like cotton, wool, jute, silk, indigo sugar and an importer of finished goods like - cotton, silk, woollen clothes and capital goods like light machinery.
(consumer goods)

(ii) The British maintained a monopoly over India's foreign trade, more than 50% occurred with just Britain.

Some other countries whom India traded with included - China, ~~Lat~~ Ceylon (Sri Lanka), Persia (Iran)

Opening up of SUEZ CANAL in 1869 further intensified India's trade with Britain (by reducing time and cost of transportation)

(iii) India had a huge export surplus, however this led to a shortage of essentials like - food grains, kerosene, clothes in domestic market



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(iv) export surplus of India didn't lead to flow of gold/silver due to
Drain of wealth from India to Britain -

- import of inessential goods
- expenditure on setting up colonial government offices in Britain.
- expenditure on wars fought by British government.

31)

In India, the highest proportion of population is employed in agriculture sector ~~at~~ at 43%, while in China, lowest proportion of population is employed in agriculture at only 26%.

Both India and China have similar proportions of population in industry with India at 25% and China at 28%.

China has a much larger chunk of population in services at 46%, which is the highest employer in the country. India has 32% of population employed in services.

In both China and India, highest contribution to GVA comes from services sector with China at 52% and India at 54%.

While China has 41% of GVA coming from industries India has a lesser contribution of industries to GVA at 30%. In agriculture sector, India is ahead of China as 16% of India's GVA comes from agriculture compared to only 7% in China.



• While both countries have seen service-sector growth, India's service sector has failed to create more jobs while China's service sector has not only contributed to GVA, but also created employment.

• China has a strong Industrial sector, while India's industrial sector is not very developed.

• India has the largest chunk of population in agriculture, which contributes least to GVA. This highlights lopsided structure in India with jobless growth, disguised unemployment.

While in China, agriculture that contributes least to GVA also employs least number of people.



32>b)

Yes, I AGREE with this statement.

Micro-credit programmes help in rural development because-

→ The formal banking system in India leaves out a large chunk of marginal farmers, landless labourers etc who are unable to produce a collateral.

Micro-credit programmes therefore fill this gap and compensate for inadequacies in formal credit system.

→ Micro-credit programmes like Self-help Groups (SHGs) encourage a minimum contribution from each member ⇒ this facilitates thrift, savings, efficient utilisation - utilisation of resources and deposit mobilisation.

→ They give loans to needy members at { low interest rates
repayable in small installments
favourable terms of repayment

→ They help in women empowerment - a large number of women receive loans through such micro-credit programmes. This enables them to set up small businesses, and gain sustainable means of livelihood.



33) a) i)

Arguments in favour of subsidies -

- ~~Agua~~ Agriculture in India continues to be a risky business. Therefore subsidies should be provided to protect farmer welfare.
- Many farmers won't be able to afford necessary inputs without subsidies.
- If subsidies are removed, economic inequality between rich and poor farmers will widen.

The government introduced subsidies in order to incentivize the adoption of green revolution technology. When green revolution was introduced, farmers were skeptical about high risk and costs of a new technology.

Therefore, to encourage adoption + to ensure both rich & poor farmers benefit from this technology, government introduced subsidies.

Certain economists believe, despite subsidies' limitations as being a financial



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burden + benefiting fertilizer industry and rich farmers → they should NOT be abolished, rather should be reformed.

ii) (1) Privatization - Refers to the process of transfer of ownership, management, control of public sector enterprises to the private sector.

(2) Privatization can be carried out in 2 ways

OUT-RIGHT SALE of
public sector enterprises through
DENATIONALISATION

Refers to complete sale of government assets to the private sector.

~~Disinvestment~~ DISINVESTMENT
→ refers to sale of government's equity holding or shares in public sector units either wholly or partly to private individuals.



34) a)

Sustainable agriculture means - those farming practices that meet today's requirements while preserving resources for future generations.

This means adopting those methods that protect the environment, reduce dependence on chemical inputs, efficiently using water & land and ensuring socio-economic equity for farmers.

(b)

Yes, I AGREE.

Climate change refers to a surge in extreme weather like droughts, droughts, floods, landslides, receding coastlines and melting glaciers including increased wildfires.

Climate change occurs because of burning of fossil fuels, generating greenhouse gases that cause global warming, land degradation, due to wastage of resources, etc.

Sustainable agriculture reduces climate change by tackling its causes, since it focuses on-

- reducing dependence on ~~chemical~~ & inputs → thereby reducing greenhouse gas emissions



- efficiently using water and land resources
- Choosing and adopting methods that protect the environment
- ensuring socio-economic equity for farmers.
- It uses → (i) Organic farming → eco-friendly agriculture that sustains, maintains, enhances ecological balance.
- (ii) Climate smart technology → reducing greenhouse emission
- (iii) modern irrigation systems

(c) To achieve sustainable development,

- (i) use of non-conventional sources of energy like - wind power and solar power
that are more environmentally friendly, reducing greenhouse emissions.



(ii) Mini-hydel plants should be set up in hilly areas - utilizing perennial streams to rotate blades of turbines to generate electricity for local demand.

(iii) Biocomposting - use of organic wastes as green manure instead of chemical fertilizers.

EXTRA QUESTIONS

167 b) i)

The statement is Refuted. $\rightarrow$ National income can also be equal to (greater than domestic income

National income = Domestic income + net factor income earned from abroad (NFYA)

NFYA can be ≥ 0 ; i.e. greater than, lesser than, or equal to 0.

$\therefore$ national income can be greater than, equal to, lesser than 0.

NFYA = factor income from abroad - factor income to abroad

• when NFYA > 0 , i.e. factor income from abroad $>$ factor income to abroad,
National income $>$ domestic income

• when NFYA $= 0$, i.e. factor income from abroad = factor income to abroad,
National income $<$ domestic income

• when NFYA < 0 , i.e. factor income from abroad $<$ factor income to abroad,
National income ~~less~~ $<$ domestic income.



ii) • sewing machine → final good

It is a final investment good, since it contributes to process of further production of goods & services without undergoing a physical transformation.

• fabric, buttons, thread → intermediate good

These goods are used ^{up} in the process of production and undergo physical transformation in the production process hence treated as an intermediate good.

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As a part of the external sector/foreign exchange reforms of 1991,

• The Indian Rupee was devalued → this made our exports more competitive & cheaper in international market, ~~leads~~ and imports more expensive.

This increased exports, decreased imports → leading to increase in supply of foreign exchange → ~~such that~~ by improving BOP situation.

• India became one of the largest foreign exchange ^{reserve} holders in the world.

• India also switched to a system of market-determination of exchange rate.



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(ii) Public sector was given leading role in economic development because -

- lack of capital with private sector - The private sector lacked necessary capital to undertake huge investment & set up industries.
- lack of incentive with private sector due to small ^{size} of market in India
- To ~~fast~~ fulfill social welfare objective of government.

~~3rd Q~~ → Direct employment refers to

Q87a). No, Danish made investment in physical capital, not human capital.

Physical capital → stock of real, physical assets that contribute to further production.

Human capital → skills, experience, knowledge possessed by a person that adds to their productivity in production process.

Since Danish has invested in machines, infrastructure