

Ans

# Mock Test 02 Marking Scheme

## Section A - Macro Economics

- Ans 1 (b) ex-post Aggregate Demand
- Ans 2 (c) Redistribution of Income
- Ans 3 (b) Both the Statement are false
- Ans 4 (b) Reduce availability of Credit
- Ans 5 (a) Cash Reserve Ratio
- Ans 6 (b) 10.0
- Ans 7 (d) All transfer receipts are recorded as debit item
- Ans 8 (b) - Depreciation - Net indirect Tax
- Ans 9 (d) MPS, APC
- Ans 10 (d) 60

Ans 11

- (a) Export of jute to Sri Lanka! - it is record in credit side means (+) item in current A/c because it leads to inflow of foreign currency.
- (b) Sale of machinery to abroad! - it record in credit side it means (+) item in current A/c because it leads to inflow of foreign currency.
- (c) Remittance received from a relative in America! - it is record in credit side it means (+) items in current A/c because it leads to inflow of foreign currency.

Ans 11 or

(a) managed floating exchange rate! - it is a system in which exchange rate is determined by the market forces of demand & supply in international money market, but when domestic currency is heavily depreciated then RBI intervention to place some influence on the exchange rate so that it remains within the desired limits.  
RBI sells foreign exchange in international money market. So that supply of foreign exchange increase managed floating is a hybrid of a fixed exchange rate & flexible exchange rate system.

(b) merits of Fixed Exchange Rate

- Stability in the Exchange rate
- Promotes international Trade

Demerits of Fixed Exchange Rate

- Huge Gold reserve required
- undervaluation & overvaluation of currency.

Ans 12 By using value added method

$$\begin{aligned} \text{GVAmp} &= \text{Sales} + \text{Change in Stock} - \text{Intermediate Consumption} \\ &= 1,000 + 150 - 300 \\ &= 850 \end{aligned}$$

$$\begin{aligned} \text{NVA}_{\text{fc}} &= \text{GVAmp} - \text{Dep} - \text{Net Indirect Tax} \\ &= 850 - (100 - 80) - 20 \\ &= 850 - 20 - 20 \\ &= 810 \end{aligned}$$

Ans 13

$$\begin{aligned} \text{MPC} &= 1 - \text{MPS} \\ &= 1 - 0.1 = 0.9 \end{aligned}$$

At equilibrium level of Income,  $Y = C + I$   
Substituting the value of  $Y$  in  $(C + I)$

$$\begin{aligned} C + I &= \bar{C} + (\text{MPC}) Y + I \\ 25 + 0.9 \times 2000 + 25 \\ &= 1850 \text{ Crores} \end{aligned}$$

Thus, the economy is not in equilibrium at an income level of 2,000 Crores.

Ans 13 or

(a) If ex-ante savings are less than ex-ante investments, it means that the buyers are intending to buy more than what the producers are intending to produce. Thus, the inventories will fall below the desired level. To restore the desired level of inventories, producers may intend to increase output and employment in the economy. This mechanism will continue till the equilibrium is reinstated.

(b) When ex-ante Aggregate Demand is more than ex-ante Aggregate Supply, it is ~~measured~~ means that households are planning to consume more than what the firms expected them to. This will lead to ~~unintended~~ unintended fall in inventories. To restore the desired/intended level of inventories, producers may expand production. As a result, there may be increase in the level of output, employment and income in the economy.

Ans. 14 (a) GDP Deflator is the ratio of Nominal to Real GDP. It is a tool which is used to eliminate the effect of price fluctuations in the economy and to determine the real change in physical output of current year. GDP deflator helps in comparison of growth rate of the Economy.

(b) (i) Expenditure on Second hand goods is not to be included in the final consumption expenditure as the production of these goods might not be attributed to the current year.

(ii) Expenditure on 'intermediate goods' are not to be taken into account to avoid the problem of double counting of value of goods and services.

Ans 15

a) Cash Reserve Ratio! - it is a fix percentage of every initial deposit that all commercial bank have to hold as reserves with the central bank. Increase in case of inflation RBI increase LRR it automatically increase CRR because it is part of LRR.

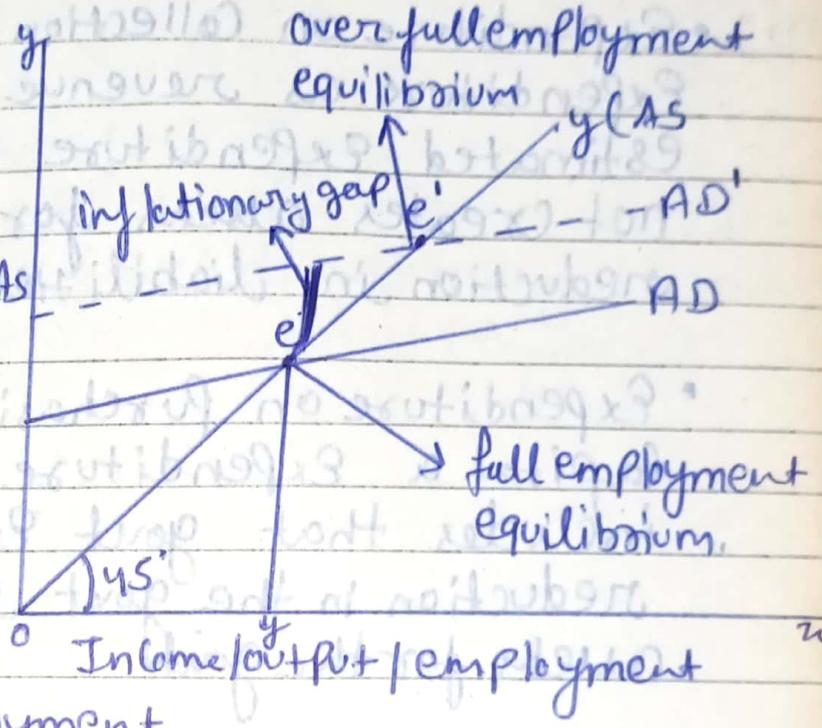
b) open market operation! - it refers to sale & purchases of government securities by central bank in case of inflation RBI sell govt securities to public it leads to decrease the money supply in the economy.

It refers to the situation when aggregate Demand (AD) is the excess of aggregate supply (AS) corresponding to full employment level of output in the economy.

$AD > AS$

Inflationary Gap is the difference between AD at full employment level and AD at excess employment level i.e.,

$AD' - AD$



Ans 16

(a) Tax revenue collection by the government may be

Categorized as:

- Direct Taxes! - it refers to those whose impact and incidence lie on the same entity. In other words, the liability of paying direct taxes can't be shifted.
- Indirect Taxes! - it refers to those taxes whose impact and incidence may lie on different entities. In other words, the liability of paying indirect taxes can be shifted.

Ans 16 (b) The highlighted Statement exhibits the Revenue Expenditure. Revenue Expenditure is the Expenditure that neither leads to creation of assets nor leads to reduction in liabilities of the government. The indicated objective of the government budget is the Redistribution function. Free medical treatment under the Ayushman Bharat Scheme aims to bring equity in the income distribution in the Economy. Such services to poorer sections of society reduce their medical expenses, leaving higher disposable income in their hands. There bridging the gap between the rich and the poor.

Ans 16 (or)

(a) (i) The highlighted government budget objective is the allocation function. The government with the proposed allocation of 22,138 crore to the Micro, Small and medium Enterprise ministry may seek to enhance national output and employment opportunities. In a Country like India, such steps are fruitful for achieving Socio-economic goals and overall growth of the nation.

(ii) Fiscal Deficit = Total Expenditure - Total Receipts  
(Excluding borrowings)

Revenue Deficit = Revenue Expenditure -  
Revenue Receipts

(b) (i) Fiscal Deficit =  $10 + 15 - 10$   
 $= 1500000$

(ii) Primary Deficit = Fiscal Deficit - Interest Payment  
 $= 15 - 4$   
 $= 1100000$

Ans 17 a) Difference between Stock & flow

Basis	Stock	Flow
Meaning.	it refers to that variable which is measured at a particular point of time	it refers to that variable which is measured at a particular period of time
Time Dimension	Stock is not time dimensional as it is measured at a particular point of time	Flow is time dimensional as measured only for a particular period of time
Nature	it is a static concept	it is a dynamic concept
Example	wealth, money supply, Stock of water in tank	Flow of water from tank, Demand, Supply.

- (b) (i) Yes, it is a part of Compensation of employees  
(ii) Yes, it is a part of Private final Consumption Expenditure  
(iii) Yes, it is a part of Govt final Consumption Expenditure.

## Section B - Indian Economic Development

Ans 18 a) 1974, Air & water

Ans 19 (a) Statement 1 is true and Statement 2 is false

Ans 20 (c) Q and R only

Ans 21 (c) C-(iii)

Ans 22 (b) Medical intervention during illness

Ans 23 (c) Greater import possibilities

Ans 24 (a) Statement 1 is true and Statement 2 is false

Ans 25 (b) Both Assertion (A) and Reason (R) are true, but

Reason (R) is not the correct explanation of Assertion (A).

Ans 26 (b) Casual workers, Self employed

Ans 27 (b) liberty

Ans 28

The given Statement is true. Disguised Unemployment is a situation where the marginal productivity of labour is zero. In India, this situation is after witnessed, as farming is more of a family affair in rural areas and most of the members are generally engaged on the farms without any direct contribution to the production process. This problem persists in rural India due to lesser availability of jobs.

Ans 28 (or)

Rapid Expansion of the banking System had positive effect on rural farm and non-farm output, income and employment in spite of it, following problems have been faced in the rural banking.

→ The volume of rural credit in the country is still insufficient in comparison to its demand and institutional sources have failed to cover the entire rural farmers of the country.

→ Less attention has been given on the credit requirements of needy (small and marginal farmers) and the problem of overdue in agricultural credit continues.

Ans 29

Global warming :- Global warming is a gradual increase in the average temperature of the earth's lower atmosphere as result of the increase in greenhouse gases. Greenhouse gas increase due to Carbon dioxide in the atmosphere.

Some measures to control global warming areas follows :-

- Controlling the rate of deforestation
- Use of clean and efficient fuels.
- Use of renewable sources of energy
- Reducing our carbon footprints
- Use of fossil fuels can be reduced.

Ans 30(I) Regional and global economic groupings like G-20, SAARC, BRICS etc. play a vital role for developing nations like India as they help them to understand the development processes pursued by their neighbouring nations to better comprehend their own strengths and weaknesses vis-à-vis their neighbours. Moreover is the unfolding process of globalisation, as developing nations face competition not only from developed nations but also amongst themselves such groupings help them to flourish well in a shared environment.

(II) Special Economic Zone is a geographical region that has economic laws different from a country's typical economic laws.

Ans 31. Two reasons responsible for the backwardness of Indian agriculture on the eve of independence were!

- Land Settlement System:- The colonial government introduced the Zamindari System. The Zamindars used to exploit cultivators by extracting a major portion of the produce in the form of rent leading to misery among the farmers.
- Lack of infrastructure facilities:- Lack of irrigation facilities and low level of technology contributed to the dismal level of agricultural productivity, which leads added up to aggravate the plight of the farmers.

Ans 32. WTO is an intergovernmental organisation that is concerned with the regulation of international trade between nations. The WTO officially commenced on 1st January 1995 replacing GATT, which commenced in 1948.

Functions performed by WTO are

- (i) it helps in international trade through removal of tariff as well as non-tariff barriers
- (ii) To implement rules and provision related to Trade Policy
- (iii) To ensure optimum utilisation of world resources
- (iv) To protect the environment
- (v) To provide a framework for dispute settlement.

Ans 32 (or) The financial sector in India witnessed a major revamp under the economic reforms of 1991. The two main measures in this direction were:

- The role of Reserve Bank of India (RBI) was changed from regulator to facilitator. This means that the financial sector was allowed to take decisions on many financial matters without consulting RBI.
- The policy changes led to the establishment of private sector banks, both Indian as well as foreign.

Ans 33 (a) Two Strategies adopted by the Government of India to ensure that the future generation have the same quality of life as the present generation are:

- 'use of wind energy': In areas where speed of wind is usually high, windmills are used to generate electricity without any adverse impact on the environment. Though the initial cost of setting up a wind energy system is high but the benefits outweigh the cost.
- 'use of solar energy': with the help of photovoltaic cells/solar panels, solar energy is converted into electricity. It is free from pollution and is useful for remote areas where supply through power grid is either not possible or proves very costly.

(b) Self-reliance: Self-reliance under Indian conditions means overcoming the need of external assistance. In other words, it means to have development through domestic resources. The policy of self-reliance was considered a necessity because of two reasons.

- (i) To reduce foreign dependence
- (ii) To avoid foreign interference

Equity: According to equity every Indian should be able to meet his or her basic needs (food, house, education and health care) and inequality in the distribution of wealth should be reduced.

Ans 33 (or)

(a) Two steps taken by the government to improve agricultural marketing are:

- Regulation of markets by the government to create orderly and transparent marketing conditions.
- Provision of physical infrastructure facilities like roads, railways, warehouse etc

(b)

(i) Agriculture marketing is a process that involves the assembling, storage, processing, transportation, packaging, grading and distribution of different agricultural commodities across the country.

(ii) Self-help groups have emerged to fill the gap in the formal credit system in India as its delivery mechanism has not only proven inadequate but has also not been fully integrated into the overall rural social and community development. It came up as the micro finance program. Focus of SHGs is on those rural people small and marginal farmers, agricultural and non-agricultural laborers who do not have sustainable access to formal banking system.

(iii) • inadequate infrastructure and marketing  
• Compared to conventional farm products, organic products have more shorter shelf life span.

Ans 34

(a) Two problems associated with the usage of chemical fertilizers:-

- Fertilizers runoff to water bodies and subsequent nutrient overload result in eutrophication, massive algal blooms in lakes and rivers and the formation of dead zones.
- Use of chemical fertilizers accelerates land degradation and desertification by destroying the natural soil properties.

(b) Organic farming aids in reducing cumulative GHG emissions as chemical fertilizers account over 77% of agricultural nitrogen oxide emissions of India. Hence, promoting agro-forestry boosts soil organic carbon and fertility.

(c) Green growth refers to the economic growth that is achieved in such a manner that minimizes environmental damage.

Ans  
(a)