

Mock Test 03 Marking Scheme

Section A - Macro Economics

Ans 1 (b) A-(iv), B-(ii), C-(i), D-(iii)

Ans 2 (a) Credit Current

Ans 3 (c) deficit, 0.74

Ans 4 (d) (iv)

Ans 5 (b) Cash reserve with RBI

Ans 6 (d) Assertion (A) is false, but Reason (R) is true

Ans 7 (a) $C = 30 + 0.75Y$

Ans 8 (b) a straight line parallel to x-axis

Ans 9 (a) Statement 1 is true and Statement 2 is false

Ans 10 (c) Both Statement 1 and 2 are true

Ans 11 Difference between Autonomous and Accommodating Transactions.

Autonomous Transactions	Accommodating Transaction.
Autonomous items refers to those international which occur due to some economic motive such as profit maximization e.g. Import of machinery from Japan, FDI, etc.	Accommodating items refers to those transaction which takes place to cover deficit or surplus in autonomous transactions. e.g. withdrawal from foreign exchange reserves, loan from IMF, etc to maintain BOP
These items are independent in nature	These items are dependent in nature
These items take place on both Current & Capital Ac	These items take place only on Capital Ac
These items are also known as above the line items as they are recorded as first item before calculating deficit or surplus in BOP	These items are also known as below the line items, as they are recorded item after calculating deficit or surplus in BOP

Ans 11 or → Appreciation of Domestic Currency on Exports.

Appreciation of Domestic Currency means a fall in price of foreign currency (say US dollar) in terms of domestic currency (say rupee). It means foreigners have to spend more for purchase goods from India. So with the same amount of dollar less goods can be purchased from India. It means export to USA becomes expensive. This may result a decrease of Indian export to USA.

→ Appreciation of Domestic Currency on Imports
Appreciation of Domestic Currency means a fall in price of foreign currency (say US dollar) in terms of domestic currency (say rupee). It means Indians have to spend less for purchase goods from abroad. So with the same amount of rupee more goods can be purchased from abroad. It means import from USA becomes cheaper. This may result an increase in Indian imports to USA.

Ans 12. By using Income method (NDP_{f.c.})

NDP_{f.c.} = Compensation of employees + operating surplus
+ Mixed income self employed.

$$= 600 + (60 + 40 + 25) + 0$$
$$= 725$$

NNP_{f.c.} = NDP_{f.c.} + Net factor Income from abroad

$$\text{NNP}_{f.c.} = 725 + (-5)$$

$$\text{NNP}_{f.c.} = 720$$

Ans 13. mps 10%. $\frac{1}{10\%} = 0.1$

$$\Delta I = 120$$

$$S = I$$

$$\Delta y - \Delta S = \Delta C$$

$$1200 - 120 = \Delta C$$

$$\boxed{1080 = \Delta C}$$

$$K = \frac{1}{\text{mps}} = \frac{10}{0.1} = 10 \text{ Times}$$

$$K = \frac{\Delta y}{\Delta I} = 10 \frac{\Delta y}{120}$$

$$\boxed{\Delta y = 1200}$$

Ans 14

(i) The above image indicates the situation of inflation.

(ii) To combat the situation of inflation, the two steps taken by the RBI may be:

- The government securities are sold by the RBI in the open market. It will reduce the availability of funds with commercial banks, which in turn curtails their lending capacity. Consequently, the money supply in the economy falls. Thereby decreasing aggregate demand and thus reducing inflation in the economy.

- The increase in the bank rate by the RBI, leads to an increase in the lending rates by the commercial banks. This makes borrowing costlier for the general public. Thereby, discouraging them from borrowing more. As a result, aggregate demand in the economy falls. Consequently, reducing inflation.

Ans 15

- i) Banker's Bank! - As a banker to the Bank, the Central Bank hold the Surplus Cash Reserve of Commercial Bank. it also lends to Commercial banks when they are needed of fund. Central Bank is a Supervisor and regulator of the Banking System.
- ii) Lender the last resort! - As we know, Commercial Bank Create liabilities (demand deposit) many times more than Cash reserves. However, there may be occasions when a Bank suffers crises of finance. in such a situation the Central Bank act as a lender of last resort. Central Bank helps Commercial Banks in critical situation.

Ans 15 (or)

Commercial bank is an important sources of money supply in the Economy. which contribute to money supply by creating credit in term of demand deposit.

Suppose a new deposit of 1000 is made by a Deposit - or into Bank.

Bank legal reserve ratio is 10%.

Bank will keep legal Reserve ratio of 100 \Rightarrow $1000 \times 10\%$ and lend the Balance money of 900 to the borrower by crediting as chequable deposits. The borrower will use the amount to pay its creditors which ultimately will deposited into Bank and Bank keeps $90 = 900 \times 10\%$ as legal reserve ratio and lends the Balances of 810 to borrower. (II Round of credit creation). This process will continue till amount become Zero and make the money 10 times the initial Deposits i.e. 10,000

Deposit multiplier (or) Money multiplier (LRR) $\frac{1}{10\%} = 10$ Times

Credit Creation	Deposits	Loans	LRR
Initial Deposit	1000	900	100
1st Round	900	810	90
2nd Round	810	729	81
All other Round	-	-	-
Total	10000	9000	1000

Ans 16

a) The image shows the trends of fiscal deficit over the year from 2011 to 2014. Fiscal deficit is the borrowing requirement of the government which are estimated in the budget every year. This picture shows that except 2012, government has always estimated the cost of fiscal deficit to be higher but in actual terms, the fiscal deficit for the corresponding year came out to be lesser than expectations. Only in FY 2012, government estimated fiscal deficit to be 45% of the GDP but it was high in actual term.

(b) Effective Demand refers to that level of Aggregate Demand, which can be met by the corresponding Aggregate Supply in the economy.

If ex-ante Aggregate Demand is more than ex-ante Aggregate Supply it means that the households and firms are planning to consume more than what the firms intend to produce. Thus the inventories will fall below the desired level. To restore the desired level of inventories, producers may increase output and employment in the economy. This mechanism will continue till the equilibrium is reinstated and effective demand can be restored.

Ans 16 or

(a) Difference between Revenue Receipts & Capital Receipts

Basis	Revenue Receipts	Capital Receipts
Meaning	These are those Receipts of the government which don't lead to reduction in any assets nor creation of any liabilities.	These are those receipts of the government which leads to reduction in any assets or creation of any liabilities.
Nature	These are recurring in nature.	These are non-recurring in nature.
Debt Creation	Revenue receipts are not debt creating.	Some Capital Receipts like Borrowing are debt creating.
Example	Taxes, Receipts, fees, fines, interest, penalties, etc.	Recovery of loans, Disinvestment (SOI) & Borrowing.

(b) As indicated in the given chart:

(i) Transport:- The expenditure on transport accounted for 3.32 lakh crore in the year 2021-22. In the year 2022-23, a Revenue expenditure 3.90 lakh crore was allotted for this sector. out of the total budget expenditure of the year 2023-24, 5.17 lakh crore was allocated to transport

(ii) Rural Development:- In the year 2021-22 the expenditure on rural development accounted for 2.29 lakh crore. In the year 2022-23 of the total revenue expenditure 2.43 lakh crore was allocated for rural development. 2.38 lakh crore was allocated for the development of rural sector from the total budget expenditure in the year 2023-24.

Ans 17

(a) Externalities! - Externalities refers to good and bad impact of an activity without paying the price or penalty for that.

eg. Positive externalities occur when a beautiful garden is maintained by Mr. X raises welfare of Mr. Y even Mr. Y is not paying for it. There is no valuation of in the estimation of GDP. Negative externalities occur when smoke emitted by a factory cause air pollution. This cause a loss of social welfare. But no body is penalised for it. impact of externalities is not accounted in the index of social welfare.

(b) Problem of double counting is the problem of estimating the value of goods and services more than once. In production method we take the value of final goods & services only. If we mistakenly taken the value of intermediate goods this leads to double counting or ~~over~~ overestimation of national income because value of intermediate goods is already included in value of final goods.

- So avoid the problem of Double Counting.

(i) Take value added instead of total output! - for this, it is first necessary to identify the value added at each stage than sum total of the value added by each producing unit should be taken in the national income.

(ii) Final output method! - According to this method, value of only final goods should be added to determine the national income.

Section B - Indian Economic Development

- Ans 18 (C) (ii), (i), (iii), (iv)
- Ans 19 (C) C - III
- Ans 20 (a) A - (iii), B - (iv), C - (i), D - (ii)
- Ans 21 (C) Assertion (A) is true but Reason (R) is false
- Ans 22 (b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- Ans 23 (d) 1st China, 2nd India, 3rd Pakistan
- Ans 24 (a) Karve
- Ans 25 (C) C - (iii)
- Ans 26 (d) Jobless growth
- Ans 27 (d) Assertion (A) is false, but Reason (R) is true.

Ans. 20

As per the given figure, following important observations are

- (i) Self employment is a major source of livelihood in both rural area 56% and urban area 43%. Because rural people work on their own field. In urban area both self employment and regular wages salaried job are greater.
- (ii) Casual wage worker is the second major source of employment in rural areas 35% as compared to 15% in urban area due to availability of regular job in rural area.
- (iii) Regular salaried worker are major sources of employment in urban areas with 42% as compared to just 9% in rural area. Because there are more organised job opportunities in urban area.

Ans 28 or

(a) Jobless growth:- It refers to a situation where GDP of an economy increase due to innovative technology without increase in level of employment. Because companies are trying to achieve their target through efficient technology without use of manpower.

(b) Worker population ratio:- worker population ratio is defined as the number of person employed per 1000 persons.

$$\text{Worker Population Ratio} = \frac{\text{No. of workers}}{\text{Total Population}}$$

Ans 29

Air Pollution is a mixture of solid particles and gases in the air.

Causes of air pollution

- Emission of gases by motor vehicles
- Smoke emitted by the industries
- Air pollution also caused by the process of mining
- Indoor air pollution like House cleaning products, Paints.

Take few steps to control it

- Encourage people to use public transport
- Promotion of cleaner fuels in vehicles like use of electric cars
- Use of Solar Energy.

Ans 30

The fast-paced economic growth in China can be traced back to the following reforms introduced in 1978.

- In the initial phase, reforms were initiated in agriculture, foreign trade and investment sectors. For instance, in agriculture commune lands were divided into small plots, which were allocated to individual households. They were allowed to keep all income from the land after paying stipulated taxes.
- In the subsequent phase, reforms were initiated in the industrial sector. Private sector firms, in general, and township and village enterprises, in particular, were allowed to produce goods. At this stage, state owned enterprises were made to face competition.

Ans 31

(a) Expenditure on 'on the job training' :- it is a source of human capital formation it enhance the quality of labour and productivity increase. firm spend huge amount on giving on the job training to their workers. - increase the production capacity. it also increase the GDP & National Income.

(b) Expenditure on migration; People migrate from one place to another place to find better job in order to gain the advantage of location and earn higher salaries. Migration from a rural area to urban area is prime cost. Rural areas don't have sectors to provide good employment. So people migrate due to lack of infrastructure in rural area. Standard of living of people may not rise. Hence they move to urban area.

Ans 32

India has become a favourable destination of outsourcing for most of the MNC's because of following reasons:

- (i) Easy availability of cheap labour: The wages rates in India are comparatively lower than that of in the developed countries. As a result MNC outsource their business in India.
- (ii) Availability of skilled manpower: India has vast skilled manpower, which enhances the faith of MNCs.
- (iii) Favourable government policies: MNCs get various types of lucrative offer from the India govt like holidays, ~~low~~ low tax rate.
- (iv) International worthiness: - India has a fair international worthiness and credibility.

Ans 32 or

Human Development Index :- HDI is an important indicator of socio-economic development. Higher value of HDI shows the higher level of growth and development of a country. In 2019 HDI for India, China and Pakistan was estimated to be 0.645, 0.761 and 0.557 respectively.

- Life Expectancy at Birth :- Life expectancy refers to the average number of years for which people are expected to live. A country which provides better health and civic facilities, secure higher life expectancy for its citizens. China has the highest life expectancy of 76.9 years. India and Pakistan have the life expectancy of 69.7 and 67.3 years respectively.
- Mean years of Schooling :- It is highest in case of China with 0.17. while the corresponding figures for India and Pakistan are 0.05 and 0.02 respectively.
- Infant Mortality Rate (IMR) :- Infant mortality rate refers to number of infants dying before reaching one year of age per 1,000 live births in a year. It is lowest in China and highest in Pakistan.

Ans 33 Demographic Conditions during the British Rule exhibited all features of a stagnant and backward Indian economy.

The demographic conditions during the colonial rule is described in the following points.

1. High Birth Rate and Death Rate:- Both Birth Rate and Death Rate were very high at nearly 48 and 40 per thousand respectively.
2. Extremely low Literacy Rate:- The overall literacy level was less than 16%. out of this the female literacy level was ~~to~~ at a negligible low of about 7%.
3. Poor Health facilities:- Public health facilities were either unavailable to large mass of population.
4. High infant Mortality Rate:- The infant mortality rate was quite alarming - about 218 per thousand.
5. Low life Expectancy:- Life Expectancy was also very low - 32 years, in contrast to the present 69 years.

Ans 34

a) Different policy instruments introduced by the govt to improve agricultural marketing.

(i) minimum support prices (MSP) :- To safeguard farmers interest, govt fixes MSP of various agricultural products.

(ii) maintenance of Buffer Stock :- Buffer Stock is created in the year of surplus production and is used during shortages.

(iii) Public Distribution System (PDS) :- it operates through a network of ration shops & fair price shops. Fair price shop offer essential goods like wheat, rice, kerosene, etc. at a price below the market price to the weaker section of the society.

- b) After independence the government of India took several Institutional / land reforms to ensure transportation of India agriculture, such as.
- i) Land ceiling → it insured reduction of concentration of land ownership in few hands.
 - ii) Abolition of Zamindari System → it focused on elimination of farmers exploitation and promotion of agricultural growth.
- These reforms have led to stability of farming as an occupation and promoted equity.

Ans 34 or

- (a) • Environment Assimilates waste; - Production and Consumption activities generate waste. This generate lot of garbage. These are absorbed by the environment
- Provide resources for production; - it Supplies raw material from the natural resources of Soil, water, forests, minerals and marine life. Resources include both Renewable & non-Renewable.
- (b) In rural India, horticulture plays a vital role in providing food and nutrition to the rural population it also addresses the problem of unemployment in the villages. Various horticulture activities in Indian villages have improved the economic condition of many farmers. Such activities have become a lucrative source of livelihood for many women in the rural India