



**SAMPLE PAPER\_180925**  
**Subject: ECONOMICS (030)**  
**ANSWER KEY**



S. No	SECTION A – MACRO ECONOMICS	Marks
1	A: (a) Both assertion and reason are true. Reason is the correct explanation of assertion	1
2.	A: b	1
3.	A: a	1
4	A: d	1
5	A: a) Statement 1 is true and Statement 2 is false.	1
6	Answer: (a) Both assertion and reason are true. Reason is the correct explanation of assertion.	1
7	A: d) D-2	1
8	A: a) Statement 1 is true and Statement 2 is false.	1
9	A: c	1
10	A: c	1
11	<p>We know, <math>NDP_{fc} = \text{Compensation of employees (CoE)} + \text{Rent} + \text{Interest} + \text{Profit} + \text{Mixed income}</math> <math>\Rightarrow GDP_{mp} - \text{Depreciation} - NIT = \text{CoE} + \text{Rent} + \text{Interest} + \text{Profit}</math> <math>\Rightarrow 200 - 50 - 10 = \text{CoE} + 25 + 45 + (20 + 5)</math> <math>\Rightarrow 140 = \text{CoE} + 95</math> <math>\Rightarrow \text{CoE} = ₹ 45 \text{ crores}</math></p> <p style="text-align: center;"><b>OR</b></p> <p>A: No. This is because Gross Domestic Product (GDP) by expenditure method takes into account the aggregate spending on all the final goods and services in the domestic territory, whether incurred by the residents or non-residents during a given period of time. (To be marked as a whole)</p>	3
12	<p>a. Revenue receipt – as it does not add to liability or does not lead to reduction in assets.</p> <p>b. Capital receipt – it involves reduction in assets</p> <p>c. It is a capital receipt as it reduces the assets of the government.</p>	1+1+1
13	<p>a. USA has a valid point of argument as devaluation of a currency encourages exports of a country. As exported goods become cheaper in the international market giving a competitive edge for the goods of domestic country (China). Devaluation of the value of domestic currency promotes the exports of the country and may adversely impact the production and sale of importing country (U.S.A)</p> <p>b. Devaluation and depreciation are different terms.</p> <p>Devaluation is the fall in the value of the domestic currency in relation to foreign currency as planned by the government in a situation when the exchange rate is not</p>	2+2

	<p>determined by the forces of supply and demand, but is fixed by the government of different countries.</p> <p>Depreciation, on the other hand, is the fall in the value of domestic currency in relation to foreign currency in a situation when the exchange rate is determined by the forces of supply and demand in the international money market, i.e. the system is flexible.</p> <p>However, both devaluation and depreciation lead to a fall in the value of the domestic currency in relation to the foreign currency. Consequently, domestic goods become cheaper in terms of foreign currency. Accordingly, exports tend to rise (while imports are discouraged).</p>	
14	<p>Given, <math>Y = ₹ 40,000</math> crore</p> <p>Marginal Propensity to Consume (MPC) = 0.8</p> <p>Autonomous Consumption = ₹ 100 crore</p> <p>At equilibrium level of income, <math>Y = C + I</math></p> <p><math>Y = \bar{C} + (MPC)Y + I</math></p> <p><math>40,000 = 100 + (0.8) \times 40,000 + I</math></p> <p>Investment Expenditure (I) = 7,900 crore</p> <p style="text-align: center;">OR</p> <p>When ex-ante Aggregate Demand is more than ex-ante Aggregate Supply, it means that households are planning to consume more than what the firms expect them to. This will lead to an unintended fall in inventories.</p> <p>To restore the desired /intended level of inventories, producers may expand production. As a result, there may be an increase in the level of output, employment, and income in the economy</p>	4
15	<p>An economy is said to be operating at under employment equilibrium level, if the planned aggregate expenditure falls short of available output in the economy, corresponding to the full employment level. It results in excess of output available over the anticipated aggregate demand at full employment level.</p> <p>To tackle such a situation the aggregate demand has to be increased up to the level that the stocks can be cleared.</p> <p>The following measures may be taken for the same:</p> <ul style="list-style-type: none"> <li>• Decrease in taxes: The government under its fiscal policy may decrease the rate of taxes (both direct and indirect taxes). This will ensure greater purchasing power in the hands of the general public. This will help to increase aggregate demand and remove the deflationary gap.</li> <li>• Increase in money supply: Central bank through its expansionary monetary policy can increase the money supply in the economy. Central banks can use tools like bank rates, cash reserve ratios, repo and reverse repo rates etc. to ensure greater money in the hands of the general public which would in turn increase the aggregate demand in the economy and be helpful in reducing/removing the deflationary gap.</li> </ul>	<p>2</p> <p>1</p> <p>1</p>
16	<p>a. The function being discussed here is the Bank Of issue or Currency Authority.</p> <p>In India, the Central bank has the sole authority for issuing currency in the economy. This ensures uniformity in the issue of currency and it gives the central bank, control over the money supply.</p> <p>b. Advantages of digital rupee.</p>	2

	<ul style="list-style-type: none"><li>• Easier</li><li>• Cheaper</li><li>• Faster</li></ul> (Any other valid explanation to be allotted marks) c. Money multiplier d. Reserve bank of India				2  1 1									
17	<table><tr><th>Nations/Years</th><th>2018-19</th><th>2019-20</th><th>Growth rate of GDP Change in GDP/Base year GDP X100</th></tr><tr><td>X</td><td>Rs 2,000 crore</td><td>Rs 4,000 crore</td><td>2000/2000 x 100 = 100%</td></tr><tr><td>Y</td><td>Rs 1,20,000 crore</td><td>Rs 2,00,000 crore</td><td>80000/120000 x100 = 66.67%</td></tr></table> <p>Nation X has registered a GDP growth rate of 100% and has performed better on the front of GDP rise as compared to Nation Y that has registered a GDP growth rate of 66.67%</p> <p>b. The increased sales of electric vehicles may have positive impacts on both GDP and welfare. An increase in sales of E-vehicles directly contributes to the value addition in the economy which in turn leads to increase in Gross Domestic Product. Electric vehicles are generally considered environment-friendly and improve public welfare. (To be marked as a whole)</p> <p style="text-align: center;"><b>OR</b></p> <p>a. The given statement is incorrect. The same good may be a final good or an intermediate good. It all depends on the end use of the goods. Sugar is a final good when used by households but it is an intermediate good when used by candy makers.</p> <p>b. In the past few decades, Indian economy has experienced a rapid rise in infrastructure. Infrastructural development is a core element in promoting economic growth and attracting foreign investment for sustainable production and productivity. The benefits of infrastructural development may be enjoyed by the people without paying for the same. Hence, such infrastructural development adds to the welfare in an economy and creates positive externalities. (To be marked as a whole)</p>	Nations/Years	2018-19	2019-20	Growth rate of GDP Change in GDP/Base year GDP X100	X	Rs 2,000 crore	Rs 4,000 crore	2000/2000 x 100 = 100%	Y	Rs 1,20,000 crore	Rs 2,00,000 crore	80000/120000 x100 = 66.67%	3+3
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	<b>SECTION B – INDIAN ECONOMIC DEVELOPMENT</b>													
18	A: b				1									
19	A: c				1									
20	A: a				1									
21	A: b				1									
22	A: b				1									
23	A: d				1									
24	A: b				1									
25	A: b				1									
26	A: c				1									
27	A: d				1									
28	a. No, it is false, Disinvestment is not a compulsion for the government to tackle budgetary deficit. The fact of the matter is that the government resorts to disinvestment only when the public				3									

	<p>sector enterprises are found to be in losses, inefficient or corrupted, once disinvestment is done it helps the government to manage budgetary deficit.</p> <p>b. India owing to the following advantages:</p> <p>(i) Availability of Cheap Labour: India is a country with a large population and thus, an abundant supply of labour. Due to this reason, labour in India is available at low wage rates. This helps foreign companies in reducing cost of operation by outsourcing their business processes to India.</p> <p>(ii) Skill and Accuracy: India has a wide pool of talent in the form of educated and trained youth who have the required skills and can work with accuracy in the business processes such as accounting, record keeping, IT consultancy, etc.</p> <p>(iii) Continuity and Risk Management: Periods of high employee turnover add uncertainty to the operations of a company. Outsourcing will provide a level of continuity to the company while reducing the risk that a substandard level of operation would bring to the company.</p>	
29	<p>A: The given statement is correct.</p> <p>i) 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 taxes.</p> <p>(ii) The reform process also involved 'dual pricing'. This means fixing the prices in two ways- farmers and industrial units were required to buy and sell fixed quantities of inputs and output on the basis of prices fixed by the government and the rest were purchased and sold at market prices. Over the years, as production increased, proportion of goods and inputs transacted in the market also increased.</p> <p>iii) In order to attract foreign investors, special economic zones were set up.</p>	3
30	<p>The important implication of the 'one child norm' in China is the decline in the growth of the population. This measure also led to the fall in the sex ratio in China i.e. the proportion of females per thousand males. A lack of skilled workers because of one child norm since late 1970s is pushing up wages and adding to the burden of companies already facing shrinking global markets. However, the country believes that in the coming decades there will be more elderly people in proportion to the young people. This will force China to take steps to provide social security measures to fewer workers. This lead China to allow couples to have two children in 2016 and then three children's 2021. (To be marked as a whole)</p>	4
31	<p>1. Use of nonconventional sources of energy: India is hugely dependent on thermal and hydro power plants to meet its power needs both of these have adverse environmental impacts, thermal powerplants emit large quantities of carbon dioxide which is a greenhouse gas. Hydroelectric project inundates forests and interfere with the natural flow of water in catchment areas and the river basins.</p> <p>2. LPG, Gobar gas in rural areas: Households in rural areas generally use wood, dung cake or other biomass as fuel. This practice has several adverse implications like deforestation reduction in green cover, wastage cattle dung and air pollution. To rectify the situation subsidized LPG is provided and gobargas plants are provided. LPG is a clean fuel it reduces household pollution to a large extent. Also, energy wastage is minimised.</p> <p>3. CNG in urban areas: In Delhi, the use of compressed natural gas (CNG) as fuel in public transport system has significantly lowered airport and the air has become cleaner</p>	1+1+1+1

	<p>in the last year. 4. Wind power: In areas where speed of wind is usually high. Windmills can provide electricity without any adverse impact on the environment. Wind turbines move with the wind and electricity is generated. No doubt, the initial cost is high. But the benefits are such that the high costs get easily absorbed.</p> <p>4. Wind power: In areas where speed of wind is usually high. Windmills can provide electricity without any adverse impact on the environment. Wind turbines move with the wind and electricity is generated. No doubt, the initial cost is high. But the benefits are such that the high costs get easily absorbed.</p> <p style="text-align: center;"><b>OR</b></p> <p>Human Capital Formation is the process of addition made to the stock of skilled and capable people in the country over a time period. Yes, the given statement “Human Capital Formation gives birth to innovation, invention and technological improvements” is correct as this process not only increases the productivity of the available human resource but also helps in stimulating innovation among them, which ultimately helps in creating the ability to adopt new technologies.</p> <p>Simply put, by making investments in education, one can create the ability to adopt new technologies, and facilitate invention and innovation. It is because educated human resource usually moves towards modern technologies and innovation.</p> <p>(To be marked as a whole)</p>	4
32	<p>Non-farm activities like poultry, craft, animal husbandry, handloom, dairying, etc., are alternative ways of attaining sustainable livelihood and raising the income level. The income level is raised because of the fewer chances of risk faced by farmers in farm activities because of fluctuations in production and market prices.</p> <p>Besides, in India, agriculture is mainly a seasonal occupation and during the off-season, the farmers find it difficult to find other employment opportunities and stabilise their income. Therefore, the Prime Minister has urged to increase rural income by increasing non-farm activities. (To be marked as a whole)</p>	4
33	<p>1. d 2. d 3. c</p> <p>4. GDP growth in India happens to be faster than employment growth. In other words, even when production activity is expanding, job opportunities continue to be low. This is a situation of Jobless growth. This occurs when we rely more and more on labour saving western technology. Such technology is not suitable to a country where unemployment is a social challenge. But the fact is that country lacks investment capital and we are forced to depend on Foreign Direct Investment, which is linked with foreign technology which is efficient but the one which uses less of labour. So, the mismatch between GDP growth and employment growth cannot be easily corrected.</p> <p>(To be marked as a whole)</p>	1+1+1+3
34	<p>a: It is true that Aatmanirbhar Bharat was the root of the Indian planning process. The focus was to reduce the dependence on foreign countries for goods, services, technology and capital, use of domestic resources was encouraged to avoid foreign interference. It was feared that the dependence on the imported food supplies, foreign technology and foreign capital may increase foreign interference in the policies of our country. So, the main aim was to make Indian economy self-reliant and self-sufficient.</p> <p>b. It is true that the policy of colonial exploitation during the British Raj had some positive effects for the Indian economy. Start of railways, development of ports, improvement of the means of communication and a good system of administration were some critical elements of the policy of colonial exploitation, but all these implied a growth-oriented change in the Indian Economy.</p> <p style="text-align: center;"><b>OR</b></p>	3+3

	<p>a. The give statement is correct to its character. India’s foreign trade during the British colonial rule generated a large export surplus but at a huge cost to the country’s economy because:</p> <p>(i) Several essential commodities — food grains, clothes, kerosene, etc. were scarcely available in the domestic market.</p> <p>(ii) The export surplus did not result in any flow of gold or silver into India. Rather, this was used to make payments for the expenses incurred by an office set up by the colonial government in Britain, expenses on war fought for the British government, and the import of invisible items. All these led to the “drain of India wealth”</p> <p>b. Both growth and equity are dual objectives of Indian planning. While growth refers to the increase in national income over a long period of time, equity refers to an equitable distribution of this income so that the benefits of higher economic growth can be passed on to all sections of the population to bring about social justice. Growth is desirable but growth in itself does not guarantee the welfare of society. Growth is assessed by the market value of goods and services produced in the economy (GDP) and it does not guarantee an equitable distribution of income. In other words, the major share of Gross Domestic Product (GDP) might be owned by a small proportion of the population, which may result in the exploitation of weaker sections of society. Hence, growth with equity is a rational and desirable objective of planning. This objective ensures that the benefits of high growth are shared by all the people equally and hence, inequality of income is reduced along with growth in income.</p> <p>(To be marked as a whole)</p>	
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