

SECTION-A: MACROECONOMICS

1. (a) Statement 1 is true and statement 2 is false
2. (c) ₹ 600 crore
3. (c) 1,000
4. (d) Both statements 1 and 2 are false
5. (a) Statement 1 is true and statement 2 is false

OR

(a) Money flow

6. (a) 4

OR

(a) 270

7. (d) Decrease in money demand
8. (a) (-) ₹ 50 lakh

OR

₹ 60 crore

9. (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
10. (c) Assertion (A) is true but Reason (R) is false.

11. Net Value Added at Factor Cost

$$\begin{aligned}
 &= \text{Domestic sales} + \text{Change in stock} - \text{Single use producer goods} - \text{Depreciation} - \text{Taxes} \\
 &\quad \text{on production} + \text{Exports} \\
 &= ₹ 13 \text{ lakh} + ₹ 2 \text{ lakh} - ₹ 5 \text{ lakh} - ₹ 1 \text{ lakh} - ₹ 1 \text{ lakh} + ₹ 7 \text{ lakh} \\
 &= ₹ 15 \text{ lakh}
 \end{aligned}$$

Net value added at factor cost = ₹ 15 lakh.

[Note: Annual Depreciation = $\frac{\text{Value of durable use producer goods}}{\text{Life span of producer goods}} = \frac{₹ 10 \text{ lakh}}{10} = ₹ 1 \text{ lakh.}}$

12. Fall in the 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 of a rise in demand for foreign goods and services (leading to a rise in demand for foreign currency) are as these:

- (i) When the price of a foreign currency falls, it becomes cheaper to go abroad for higher education. Number of students going abroad will rise, leading to a rise in demand for foreign currency.
- (ii) When the price of foreign currency falls, it becomes cheaper to go abroad for medical treatment. Number of patients going abroad for medical treatment will rise, leading to a rise in demand for foreign currency.

OR

Disequilibrium in the BoP refers to a situation of either a surplus or a deficit in the BoP account. There are two types of disequilibrium:

(i) **Surplus BoP:** When the payments (debit) of the country are less than its receipts (credit), the BoP is said to be in surplus. It is a situation of favourable balance of payments (See Q. 6, page 352, 353 for further details).

(ii) **Deficit BoP:** When the payments (debit) of the country are more than its receipts (credit), then it is called deficit BoP. It is a situation of unfavourable balance of payments.

13. Given, consumption expenditure (C) = $200 + 0.5Y$

Investment expenditure (I) = ₹ 400 crore

Level of national income (Y) = ₹ 1,500 crore

At the equilibrium level,

$$Y = C + I$$

$$Y = 200 + 0.5Y + 400$$

$$Y = 600 + 0.5Y$$

$$Y - 0.5Y = 600$$

$$0.5Y = 600$$

$$Y = \frac{600}{0.5}$$

$$= 1,200$$

The equilibrium level of income = ₹ 1,200 crore. The given income (₹ 1,500 crore) is greater than equilibrium level of income (₹ 1,200 crore). Therefore, the economy is not in equilibrium.

14. (i) False. We know, $MPC + MPS = 1$. When $MPS < MPC$, the value of MPS can be anything less than 0.5 and greater than 0. Let us assume $MPS = 0.4$. The value of investment multiplier (K) in this case will be:

$$K = \frac{1}{1 - MPC} = \frac{1}{MPS}$$

$$= \frac{1}{0.4} = 2.5$$

Which is less than 5.

Similarly, when the value of $MPS = 0.3$, the value of K will be 3.33 which is less than 5 and when $MPS = 0.2$, K will be 5 which is also not greater than 5 but equal to 5.

Hence, only when the value of MPS is less than 0.2 that the value of investment multiplier will be greater than 5.

(ii) True. Value of investment multiplier varies between one and infinity. The minimum value of investment multiplier is = 1, when $MPC = 0$. The maximum value of investment multiplier is = ∞ , when $MPC = 1$.

In case $MPC = 0$,

$$K = \frac{1}{1 - MPC} = \frac{1}{1 - 0} = \frac{1}{1} = 1$$

In case MPC = 1,

$$K = \frac{1}{1 - MPC}$$

$$= \frac{1}{1 - 1} = \frac{1}{0} = \infty$$

So that value of K (multiplier) always varies between 1 and ∞ .

15. Yes, commercial banks are an important source of creating credit in the economy. They create credit in the form of demand deposit related to the loans offered by them. Demand deposits of the commercial banks are many times more than their cash reserves. This is based on the historical experience of the banks that cash withdrawal of funds is only a small percentage of the total demand deposits. If cash reserves are (say) ₹ 1,000 and if demand deposits are (say) ₹ 10,000, then the commercial banks are creating credit ten times of their cash reserves. Accordingly, on the basis of cash reserves of ₹ 1,000, the commercial banks are contributing ₹ 10,000 to the supply of money.

OR

If repo rate is cut, industrial growth is expected to accelerate in two ways, as under:

- (i) Cost of investment would reduce. Because a cut in repo rate (the rate at which commercial banks take loan from the RBI) is expected to lead to a cut in the market rate of interest (the rate at which investors take loan from the commercial banks). Reduction in cost of investment would lead to higher industrial investment, and therefore, higher industrial growth.
- (ii) Consumer loans would become cheaper (again because market rate of interest is expected to reduce following a cut in repo rate). This would increase the demand for credit for the purchase of consumer durables. Increase in demand for consumer durables would induce higher industrial investment, leading to higher rate of growth.

16. (a) Real GDP (or GDP at constant prices) is the value measured at constant prices of the final goods and services produced within the domestic territory of a country during an accounting year.

Nominal GDP (or GDP at current prices) is the value measured at current prices of the final goods and services produced within the domestic territory of a country during an accounting year.

Example:

Year	Output (Units)	Market Price per unit (₹)
2015	500	20
2016	550	25

Real GDP during the year 2015 = $500 \times ₹ 20 = ₹ 10,000$

Real GDP during the year 2016 = $550 \times ₹ 20 = ₹ 11,000$

Nominal GDP during the year 2015 = $500 \times ₹ 20 = ₹ 10,000$

Nominal GDP during the year 2016 = $550 \times ₹ 25 = ₹ 13,750$.

(b) (i) Compensation of employees to the resident of Japan working in Indian embassy in Japan is included in domestic factor income of India because Indian embassy in Japan is a part of domestic territory of India.

(ii) Payment of fees to a chartered accountant by a firm is not included in the domestic factor income of India as it is an intermediate expenditure of the firm.

(iii) Rent received by an Indian resident from Russian embassy in India is not included in domestic factor income of India because Russian embassy in India is not a part of domestic territory of India.

(iv) Compensation given by insurance company to an injured worker is not included in domestic factor income of India. Because this compensation is not a part of factor payment (or a part of compensation of employees).

17. (a) The above image highlights a case of surplus budget. The merits and demerits of surplus budget are:

Merits

(i) Surplus budget is desired when the economy is battling inflation due to excess AD.

(ii) This budget plugs the inflationary gap by lowering the level of AD. AD is lowered on account of: (a) rise in revenue collection by the government, and (b) fall in government expenditure.

Demerits

(i) As surplus budget tends to lower the level of AD in the economy, it is not desired during periods of depression.

(ii) If surplus budget policy is constantly pursued by the government, AD may reduce to a level that causes unemployment in the economy. The economy may slip into a low level equilibrium trap.

(b) The main differences between direct tax and indirect tax are as follows:

Direct Tax	Indirect Tax
(i) Direct taxes are those taxes the final burden of which falls on the person who is liable to pay the tax to the government	(i) Indirect taxes are those taxes the final burden of which does not necessarily fall on the person who is liable to pay the tax to the government.
(ii) The final burden of direct taxes cannot be shifted to other persons.	(ii) The final burden of indirect taxes can be shifted to other persons.
(iii) Direct taxes are generally progressive in nature. Their real burden is more on the rich and less on the poor.	(iii) Indirect taxes are generally regressive in nature. Their real burden is more on the poor and less on the rich.

OR

(a) Sources of Revenue Receipts in Government Budget:

(i) Direct and indirect taxes,

(ii) Interest, and

(iii) Dividend on investment made by the government.

Sources of Capital Receipts in Government Budget:

- (i) Recoveries of loans from state government, union territory government and other parties,
- (ii) Borrowings from the market, Reserve Bank and other sources, and
- (iii) Receipts on account of disinvestment.

(b) Disinvestment occurs when the government sells its stake/shares to the private entrepreneurs. This is a good means of tackling revenue deficit, provided the disinvestment is related to such government companies/corporations which are running into losses. To the extent, revenue deficit is funded through disinvestment, need for borrowing is reduced. Lesser borrowings are a sign of financial prudence (fiscal discipline) of the government which is good for growth and stability.

SECTION-B: INDIAN ECONOMIC DEVELOPMENT

18. (c) To meet the official and war expenses of the British

19. (c) promoting equality in Indian agriculture

OR

(c) < ₹10 crore

20. (a) India

OR

(d) none of these

21. (b) Self Help Group

22. (c) C—(iii)

23. (c) Both statements 1 and 2 are true

24. (d) Both statements 1 and 2 are false

25. (a) National Mission on Sustainable Agriculture

OR

(d) All of these

26. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

27. (d) Assertion (A) is false but Reason (R) is true.

28. Environmental degradation points to a paradoxical situation in case of India, and it is evident from the image above. It is occurring and expanding owing to its staggering poverty and at the same time accelerating owing to its affluence in the form of rapidly expanding production activity.

(i) Poverty is the principal cause of environmental degradation in rural areas. It is owing to poverty that tree-felling becomes almost an economic compulsion for the millions of poor in rural areas. But, it leads to deforestation which is one of the principal elements of environmental degradation.

(ii) Expanding production activity is the principal cause of environmental degradation in the urban areas.

(iii) Industrial smoke is polluting the air and industrial waste is polluting the water.
(iv) Expansion of vehicular traffic (in the wake of expanding production activity) is generating noise pollution, besides contributing to air pollution and global warming.

29. Economic activity is that activity which relates to the use of scarce resources for the satisfaction of human wants. It includes: (i) production activity, (ii) consumption activity, (iii) activity of investment, and (iv) activity of exchange.

Production activity is that activity which is related to 'value-addition' for the purpose of generating factor income.

Thus, production activity is only an element of economic activity. In other words, while all production activities are economic activities, all economic activities are not production activities.

OR

Four principal sources of institutional credit in rural India are:

(i) **Cooperative Credit Societies:** The cooperative credit societies provide adequate credit to the farmers at reasonable rate of interest.

(ii) **State Bank of India and Other Commercial Banks:** The State Bank of India was set-up in 1955 with a focus on rural credit. The nationalisation of certain banks was done in 1969. The nationalised commercial banks (through their branch expansion programmes) were directed to offer credit directly to the farmers as well as indirectly through cooperative societies.

(iii) **Regional Rural Banks and Land Development Banks:** Regional rural banks and land development banks were set-up to promote credit supplies, particularly in the remote rural areas and backward districts.

(iv) **NABARD (National Bank for Agricultural and Rural Development):** NABARD is an apex institution handling policy, planning and operations in the field of rural credit and related economic activities.

30. The given data shows that China has achieved more rapid GDP growth over the years as compared to India. When many developed countries were finding it difficult to maintain a growth rate of even 5 per cent, China was able to achieve a near double-digit growth during the decade of 1980s. The growth rate of China has slided to an average of 6.8 per cent, over the period 2015-2017 and India seems to be catching up with China.

While India had maintained a reasonable growth rate of 5.7 per cent in the decade of 1980's, it has shown laudable achievement in the period 2015-2017 by registering an average of 7.3 per cent.

Nevertheless, India has to travel a long distance before it could present itself as a rival economy to that of China.

31. (a) Fiscal reforms refer to increasing the revenue of the government and lowering the expenditure in a way that it causes no adverse effect on production and economic welfare.

(b) Following observations highlight the fact that agricultural subsidy is a virtue:

(i) Since agriculture is a risky business in India, subsidies are needed.

- (ii) A large number of farmers in India are poor and do not have sufficient means to purchase the required inputs. Hence, the need for subsidies.
- (iii) To reduce the inequality between rich and poor farmers, subsidies are needed. Because, while the rich can reap the benefits of new technology, the poor cannot.

OR

Inward looking trade strategy refers to the policy of reliance on import substitution and protection to the domestic industry through import restrictions and import duties in the area of international trade. The policy of protection (in the form of import substitution) is based on the notion that industries of developing countries, like India, are not in a position to compete against the goods produced by more developed economies. Therefore, there was a need for protection and hence import substitution. Also, restriction on imports was necessary because of the risk of drain of foreign exchange reserves on the import of luxury goods.

32. (a) The given statement is true. Human capital formation (investment in education/ health) not only increases the productivity of the available human resources but also stimulates innovations and creates ability to adopt and adapt to the new technologies. In fact, human capital formation is emerging to be of central significance in the process of growth and development. It is seen as a primary determinant of not only human efficiency, but also of capital efficiency.

(b) On-the-job-training helps workers to sharpen their specialised skills. It enables them to raise the level of their efficiency/productivity. Firms are always inclined to undertake 'on-the job-training' programmes. Because, returns (on account of enhanced productivity) far exceed the cost of such programmes. Expenditure on such training programmes, therefore, is yet another important determinant (and a source) of human capital formation.

33. (a) Green Revolution refers to a spurt in farm output during mid 60's, consequent upon the use of HYV seeds, chemical fertilizers and increase in crop productivity. It focused on solving food problem in India. Besides, it was expected to raise the level of farm productivity, farm output and income from farming. Golden Revolution, on the other hand, refers to a revolutionary rise in production of horticulture crops (vegetables and fruits) and honey owing to technology transformation.

(b) The main advantages of organic farming in India are as follows:

- (i) **Discards the Use of Non-renewable Resources:** Unlike conventional farming, organic farming does not use synthetic chemicals which are petroleum-based.
- (ii) **Environment-friendly:** Organic farming is environment-friendly. Chemical fertilizers pollute the groundwater by raising its nitrate content which is health-hazard and pollute the environment. Organic farming discards the use of chemical fertilizers.
- (iii) **Sustains Soil Fertility:** Use of animal manures and composts helps sustain soil fertility. Accordingly, organic farming is conducive to sustainable development of agriculture.
- (iv) **Healthier and Tastier Food:** Organic farming offers healthier and tastier food compared with conventional farming.

(v) **Inexpensive Technology for the Small and Marginal Farmers:** Organic farming offers an inexpensive farming-technology to small and marginal farmers who constitute the bulk of farming population in India.

(c) The major limitations/problems of organic farming are as under:

- Organic farming involves a labour-intensive technique of production. Therefore, it is beneficial only for the rural areas where labour supply is in abundance.
- Organic farming depends on cattle manure as a significant farm input. Therefore, it is beneficial for those countries only where there is a huge stock of cattle population.
- Organic farming is less productive as compared to conventional farming (using chemical fertilizers, insecticides and pesticides).
- Organic produce has a shorter shelf life than sprayed produce.

OR

(a) The given statement is true. First, human capital formation facilitates innovations. This is because, larger the number of skilled and trained personnel, greater the possibilities of commercialisation of inventions, which is what innovations imply. Second, human capital formation gives birth to inventions. This is because, education provides knowledge and ingenuity to invent new techniques of value addition, like the invention of railways as bulk carriers of goods as well as passengers. Third, the increase availability of educated labour force facilitates improvement in the existing technologies.

Briefly, human capital formation enhances 'know-how' and therefore, leads to cost effective techniques of production that accelerate the process of GDP growth.

(b) Formalisation of workforce is defined as a situation where percentage of workforce in the formal sector tends to decline and that in the informal sector tends to rise. Formal sector is the organised sector of the economy. It includes all government departments, public enterprises and private establishments which hire 10 or more workers. Informal sector is the unorganised sector of the economy. It includes all such private enterprises which hire less than 10 workers, besides farming and self-employment ventures.

In accordance with socialistic pattern of society (as a central goal of Development Planning launched in 1951), 'formal sector employment' should have risen and 'informal sector employment' should have declined over time. Alas! just the opposite has happened in the Indian economy. And it has happened not accidentally, but as a consequence of the strategy of development since 1991.

34. (a) The need for second Green Revolution arises primarily from the fact that the impact of first Green Revolution is tapering off. Rise in crop-yield is slowing down, while the demand for food grains is constantly rising owing to an unabated growth of population. Once again the country is facing a challenge to self-sufficiency in food grain production.

The key issues that India needs to focus upon for the second Green Revolution are as under:

- (i) Better use of resources, particularly by way of soil conservation and water harvesting. Conservation of water requires extensive use of 'drip-irrigation' technology.
- (ii) Development of agro-processing industry along with a constant rise in crop yield, so that income from farming is stabilised.
- (iii) Product diversification with a view to achieving higher and higher degree of commercialisation of agriculture.

(b) It is true that subsidies have facilitated the use of HYV technology leading to Green Revolution in India. In the absence of subsidies, it would have been impossible for the farmers (particularly the small farmers) to buy expensive inputs related to HYV technology. However, it is equally true that subsidies have caused a huge financial burden on the government. It is not only direct subsidies, but also the MSP (Minimum Support Price) which is a form of indirect subsidy which has mounted the government expenditure on agriculture. In fact, the financial burden on the government is further compounded when it is compelled to cope with 'loan waivers' for the farmers. Briefly, subsidies are useful when these are based on economic considerations of helping the 'small holders'. But these lead to a drain of wealth when based on political considerations, and when the rich farmers tend to benefit more than the poor.

