THE VILLAGE INTERNATIONAL SCHOOL
"We Nurture Dreams"
AIM HIGH, TOGETHER WE FLY

Date:04.10.24 **GRADE: XII**	**TERM 1 Examination(2024-25)** **ECONOMICS**	**Max marks: 80** **Time: 3 Hours**

General Instructions:

I. This question paper contains two sections:
Section A- Macro Economics
Section B- Indian Economic Development
II. This paper contains 20 Multiple Choice Type Questions of 1 mark each.
III. This paper contains 4 Short Answer Type Questions of 3 marks each to be answered in 60-80 words.
IV. This paper contains 6 Short Answer Type questions of 4 marks each to be answered in 80-100 words.
V. This paper contains 4 Long Answer Type Questions of 6 marks each to be answered in 100 to 150 words.

Qn. No	SECTION A- MACRO ECONOMICS	Marks allocated
1	C..	1
2	B	1
3	C	1
4	A	1
5	B	1
6	A.	1
7	A	1

X

8	D	1
9	C	1
10	C	1
11 (A) (B)	Clearing House: Facilitates interbank transactions, clearing checks, and electronic transfers. 1. Custodian of Cash Reserves: Holds statutory cash reserves from commercial banks. 1. Provider of Liquidity: Offers short-term loans and advances. 1. Regulator and Supervisor: Oversees banking operations. 1. Currency Management: Manages currency circulation. 1. Banker to the Government: Manages government accounts. OR Emergency Loans: RBI provides short-term loans to banks facing financial difficulties, ensuring they can meet their obligations and avoid failure [1]. - Protecting Depositors' Interests: By lending to banks in crisis, RBI safeguards the interests of depositors, preventing potential losses and maintaining confidence in the banking system [1]. - Maintaining Financial Stability: RBI's intervention helps prevent the failure of one bank from triggering a broader financial crisis, ensuring the stability of the entire financial system [1].	3 3
12 (a) (b)	Money is a medium of exchange, a unit of account, and a store of value that facilitates economic transactions. It enables individuals and businesses to trade goods and services efficiently. (omponents of Money Supply: M0 (Monetary Base):	1 2

	1. Currency in circulation (coins and banknotes) 2. Central Bank reserves (commercial banks' deposits with the Central Bank) M1 (Narrow Money): 1. Currency in circulation 2. Demand deposits (checking accounts) 3. Other checkable deposits M2 (Broad Money): 1. M1 components 2. Savings deposits 3. Time deposits (less than 1 year) 4. Money Market Deposits M3 (Intermediate Money): 1. M2 components 2. Time deposits (1-2 years) 3. Certificates of Deposit (CDs) 4. Commercial paper M4 (Broadest Money):	
13 (A) (B)	To derive the consumption curve: 1. Draw a 45-degree line (Y = C) to represent the equilibrium where consumption equals income. 2. For each point on the saving curve, subtract the savings value from the corresponding income value to get the consumption value. 3. Plot these consumption values on the same diagram.	4 4

	OR Draw a 45-degree line to represent the equilibrium where consumption equals income. Step 5: Derive the Saving Curve For each point on the consumption curve: 1. Measure the vertical distance between the consumption curve and the 45-degree line. 2. This distance represents savings (S) at that income level. 3. Plot these savings values on a new graph with income (Y) on the horizontal axis and savings (S) on the vertical axis.	

14
(A)
 	
(B)
	Statutory Liquidity Ratio (SLR):
	
	- Definition: Percentage of net demand and time liabilities (NDTL) that commercial banks must maintain in liquid assets, such as:
	    - Government securities
	    - Cash
	    - Gold
	    - Approved securities
	- Purpose: Ensure banks have sufficient liquidity to meet short-term obligations
	- Requirement: Banks must hold at least the specified percentage of NDTL in liquid assets
	
	2. Cash Reserve Ratio (CRR):
	
	- Definition: Percentage of net demand and time liabilities (NDTL) that commercial banks must maintain as cash reserves with the central bank
	- Purpose: Regulate money supply, control inflation, and maintain banking system liquidity
	- Requirement: Banks must hold at least the specified percentage of NDTL as cash reserves with the central bank
	OR
	Reverse Repo Rate is the rate at which the central bank borrows money from commercial banks, absorbing excess liquidity from the banking system.
		4
		
		4

	Role in controlling credit 1. Absorbs excess liquidity: RRR helps reduce excess funds in the banking system, curbing inflationary pressures. 2. Reduces money supply: By absorbing liquidity, RRR decreases the amount available for lending, controlling credit growth. 3. Influences interest rates: RRR affects the interest rate structure, influencing borrowing costs for consumers and businesses. 4. Regulates bank reserves: RRR impacts commercial banks' reserve requirements, influencing their lending capacity.	
15	To address the issue of deficient demand and stimulate economic growth, the Government of India can consider implementing the following two fiscal measures: - Increase in Government Expenditure: By increasing government spending, the government can inject more money into the economy, creating demand and boosting economic activity. This can be achieved through various means, such as investing in infrastructure projects, defense spending, or social welfare programs [1,2]. - Reduction in Taxes: Decreasing taxes can increase disposable income in the hands of individuals and businesses, encouraging consumption and investment. This can lead to an increase in aggregate demand, helping to correct the deficient demand situation. For instance, reducing income tax rates or lowering goods and services tax (GST) rates can have a positive impact on consumer spending These measures can help stimulate economic growth, address deficient demand, and mitigate the impact of the lockdown. Additionally, the government can consider other measures, such as monetary policy interventions, to support the economy. It's worth noting that, as of August 2024, India's economy has shown resilience, with an 8.15% year-over-year growth rate, driven by strong domestic demand and continuous government reforms . However, the measures mentioned above can still be relevant in addressing specific economic challenges and promoting sustainable growth.	4

16 (A) (B)	‘he statement "Interest on National Debt should not be included in the estimation of National Income" is actually true. Here's why: Interest on national debt is considered a transfer payment, not a factor payment [1] [2]. This means it's not directly related to the production of goods and services, which is what national income aims to measure. National income is defined as the value of goods and services produced by a country within a financial year [3][2). Think of it this way: when a government pays interest on its debt, it's essentially moving money from one pocket to another. It's not creating new value or wealth, but rather redistributing existing funds. This doesn't contribute to the overall production of goods and services, so it's excluded from national income calculations. In contrast, interest paid by banks to individuals or businesses is considered a factor payment, as it's a return on investment and contributes to the overall income of individuals and businessesHow is Real GDP different from Nominal GDP? Explain using a numerical example.	3+3
17 (A) (B) (C)	220 lakh Payments for which no service is rendered in return should be excluded from the estimation of national income. Definition of National Income: National income measures the value of goods and services produced within an economy. Payments without corresponding services don't contribute to production. OR [Imagine a graph with Disposable Income (Yd) on the horizontal axis and Consumption (C) on the vertical axis] Consumption Function: upward-sloping line	3+3 6

	Key Features: 1. Autonomous Consumption (a): minimum consumption level (100) 2. Marginal Propensity to Consume (b): slope of the line (0.5) 3. Break-even Point: where consumption equals disposable income Interpretation: 1. As disposable income increases, consumption also increases, but at a decreasing rate. 2. Autonomous consumption represents essential expenses. 3. MPC (b) represents the proportion of additional income spent on consumption.	
	Section – B **Indian Economic Development**	
18	(a)	1
19	(b)	1
20	(c)	1
21	(d) 1st April, 1951	1
22	Both statements are true.	1
23	(a)	1
24	(c) SSI is capital intensive and therefore increases productivity	1
25	(a)	1
26	(d) all of the above	1
27	(a)	1
28 (A) (B)	Imposition of heavy taxes: British imposed excessive taxes on Indian handicrafts, making them uncompetitive. 2. Disruption of traditional markets: British East India Company's monopoly on trade disrupted traditional markets and distribution channels. 3. Import of cheap British goods: Cheap, machine-made British goods flooded Indian markets, undercutting handicraft prices.	3 3

	4. Decline of royal patronage: British abolition of native kingdoms and princely states reduced royal patronage for handicrafts. 5. Lack of technological upgrade: British discouraged modernization of Indian handicrafts, maintaining their colonial interests. 6. Forced import of raw materials: British policies forced Indian artisans to import raw materials, increasing costs. 7. Exploitation by middlemen: British-created middlemen exploited artisans, reducing their earnings. . OR nfrastructure Development: 1. Railways (1853): Connected India, facilitating trade and communication. 2. Roads and Highways: Improved transportation networks. 3. Ports and Shipping: Developed ports, enhancing trade and commerce. 4. Telecommunications: Introduced telegraph (1854) and telephone (1881) services. 5. Irrigation Systems: Built canals, dams, and reservoirs for agriculture. Education and Healthcare: 1. Western Education: Introduced English language, modern sciences, and liberal arts. 2. Universities: Established universities like Calcutta (1857), Bombay (1857), and Madras (1857). 3. Medical Institutions: Founded medical colleges and hospitals. 4. Public Health Measures: Implemented sanitation, vaccination, and disease control programs. Administrative Reforms: 1. Unified Administrative System: Introduced a centralized administration. 2. Judiciary: Established a modern judicial system. 3. Police Force: Created a professional police force. 4. Land Revenue System: Implemented a systematic land revenue collection. Economic Reforms:	

	1. Currency and Banking: Introduced the rupee (1835) and established banks. 2. Trade and Commerce: Encouraged trade, commerce, and industrial growth. Social Reforms: 1. Abolition of Sati (1829): Prohibited the practice of widow immolation. 2. Anti-Child Marriage Laws (1860): Restricted child marriages. 3. Women's Education: Promoted women's education and empowerment.	
29 (A)	importance of Subsidies for Indian Farmers: 1. Income Support: Subsidies help farmers cover production costs, ensuring a minimum income. 2. Risk Management: Subsidies mitigate risks associated with crop failures, price fluctuations, and natural disasters. 3. Investment Encouragement: Subsidies incentivize farmers to invest in modern technologies, improving productivity. 4. Food Security: Subsidies enable farmers to produce essential food crops, ensuring national food security. 5. Social Equity: Subsidies benefit marginalized farmers, promoting social equity. OR Economic Benefits: 1. Employment Generation: Provide livelihoods to millions, especially in rural areas. 2. GDP Contribution: Account for around 10% of India's GDP. 3. Export Earnings: Generate substantial foreign exchange through exports. 4. Local Economic Growth: Stimulate local economies, promoting regional development.	3 3

	Social Benefits: 1. Poverty Alleviation: Offer employment opportunities to low-skilled workers. 2. Women Empowerment: Provide income sources for women, enhancing their socio-economic status. 3. Rural Development: Help reduce rural-urban migration. 4. Cultural Preservation: Preserve traditional crafts and skills.	
30	orms of Economic Drain: 1. Tribute and Taxes: India was forced to pay heavy taxes and tributes to the British East India Company and later to the British Crown. 1. Exploitation of Natural Resources: British exploited India's natural resources, such as cotton, indigo, tea, and jute, without investing in their development. 1. Drain of Indian Industries: British policies destroyed Indian industries, such as textiles, leading to de-industrialization. 1. Export of Indian Capital: British invested Indian capital in British industries, rather than in India. 1. Remittances: British officials and traders remitted large sums back to Britain. Estimates of Economic Drain: 1. £9.2 billion (approx. $13.2 billion) drained from India between 1757 and 1815 (source: Utsa Patnaik) 1. £1.4 billion (approx. $2 billion) annually drained from India during the 19th century (source: R.C. Desai)	4 4

	.OR Main Features: 1. Colonial Economy: India's economy was shaped by British colonial interests, prioritizing exploitation over development. 1. Agricultural Dominance: Agriculture accounted for 50% of GDP, employing 75% of the workforce. 1. Stagnant Industrialization: Industrial growth was slow, with limited investment in manufacturing. 1. Dependence on Britain: India relied heavily on British trade, investment, and technology. 1. Poverty and Inequality: Widespread poverty, unemployment, and income inequality. 1. Limited Infrastructure: Underdeveloped transportation, communication, and energy infrastructure. 1. Foreign Trade: India's trade was dominated by Britain, with limited exports and high imports. 1. Fiscal Deficit: Government revenue was insufficient, leading to budget deficits. 1. Rural-Urban Disparity: Rural areas lagged behind urban centers in terms of development. 1. Limited Access to Education and Healthcare: Social services were inadequate.	
31	1. New Industrial Policy (1991): Encouraged private sector participation and foreign investment.	4

	1. Liberalization: Reduced regulatory barriers, simplified licensing procedures. 1. Disinvestment: Government began divesting stakes in public sector undertakings (PSUs). 1. Public Sector Restructuring: PSUs were restructured, and inefficient units were closed or privatized. 1. Foreign Investment Promotion: Simplified foreign investment procedures. 1. Trade Liberalization: Tariff reductions, quantitative restrictions removal. 1. Financial Sector Reforms: Banking, insurance, and capital market reforms. 1. Establishment of SEBI (1992): Regulated securities market. 1. National Stock Exchange (NSE) establishment (1993): Promoted electronic trading. OR The New Economic Policy (1991) introduced several fiscal reforms to stabilize India's economy and promote growth: Tax Reforms: 1. Income Tax Reforms: Simplified tax structure, reduced rates (max 40%). 2. Sales Tax Reforms: Introduced Modified Value Added Tax (MODVAT). 3. Customs Duty Reduction: Tariffs reduced from 200% to 50%. 4. Excise Duty Reforms: Simplified excise duty structure.	4

	Fiscal Responsibility: 1. Fiscal Responsibility and Budget Management (FRBM) Act, 2003: Aimed to reduce fiscal deficit. 2. Zero-Base Budgeting: Ensured allocation of resources based on priorities. Public Expenditure Management: 1. Prioritization of Expenditure: Focused on social sectors (education, health). 2. Reduced Subsidies: Targeted subsidies to reduce fiscal burden. Revenue Generation: 1. Disinvestment: Government sold stakes in public sector undertakings (PSUs). 2. Privatization: Encouraged private sector participation. Budgetary Reforms: 1. Unified Budget: Merged Railway Budget with Union Budget. 2. Outcome-Based Budgeting: Focused on results-oriented budgeting.	
32	nd cultures worldwide, facilitated by: Main Features: 1. Free Trade: Reduction or elimination of tariffs, quotas, and trade barriers. 1. Global Supply Chain: International networks of production, distribution, and logistics. 1. Foreign Investment: Increased flow of capital across borders.	4

	1. Migration and Mobility: Movement of people, skills, and ideas across countries. 1. Technological Advancements: Rapid growth of information and communication technologies (ICTs). 1. Cultural Exchange: Sharing of values, ideas, and lifestyles. 1. Economic Integration: Coordination of economic policies and institutions. 1. Multinational Corporations: Growth of global companies operating across borders. 1. Global Governance: Emergence of international institutions and agreements.	
33 (A) (B) (C) (D)	and ceiling refers to the maximum amount of land an individual or family can hold, as mandated by law. Equity Promotion: 1. Reduces inequality: Limits concentration of land ownership, reducing wealth disparities. 1. Protects small farmers: Ensures small farmers retain land, preventing exploitation. 1. Encourages distribution: Forces large landholders to distribute excess land to landless peasants. 1. Increases agricultural productivity: Small-scale farming promotes intensive cultivation.	3+3 3+3

	Empowers marginalized groups: Benefits scheduled castes, tribes, and women. Prevents land grabbing: Restricts acquisition of large tracts by influential individuals. Fosters social justice: Addresses historical injustices in land distribution. Abolition of Zamindari System (1950s): Ended intermediary land ownership, directly linking farmers to the state. Land Ceiling Laws (1950s-1960s): Limited individual land holdings, redistributing excess land to small farmers and landless laborers. Tenancy Reforms (1960s-1970s): Protected tenant rights, provided security of tenure, and regulated rent. . Consolidation of Holdings (1950s-1960s): Consolidated fragmented land holdings, improving efficiency. Cooperative Farming (1950s): Encouraged collective farming, enhancing resource sharing and social cohesion. OR Agricultural productivity in India is low due to several factors. Here are three main reasons: Reason 1: Small and Fragmented Land Holdings 1. Average land holding size: 1.08 hectares (2015-16) 2. Fragmented land holdings: 70% of farmers own less than 1 hectare 3. Limited economies of scale 4. Inefficient use of resources Reason 2: Inadequate Irrigation and Water ManagementRainfall	

	dependence: 60% of agriculture relies on monsoon rains 2. Limited irrigation coverage: 45% of cultivated area (2019-20) 3. Inefficient water use: flood irrigation, lack of drip/sprinkler systems 4. Water scarcity and droughts Reason 3: Limited Adoption of Modern Technology and Practices 1. Low mechanization: 25% of farms use tractors (2019-20) 2. Limited use of high-yielding varieties and hybrids 3. Inadequate crop protection measures 4. Limited adoption of precision agriculture and digital tools OR wo main causes behind infrastructural development during British rule in India: Cause 1: Economic Interests 1. Exploitation of resources: British needed infrastructure to extract and transport Indian resources (e.g., cotton, indigo, tea) to Britain. 1. Trade and commerce: Development of ports, roads, and railways facilitated trade between India and Britain. 1. Investment opportunities: Infrastructure projects attracted British investments, generating profits. Cause 2: Administrative and Strategic Requirements 1. Effective administration: Infrastructure helped British administrators govern and control India's vast territory. Military mobilization: Roads, railways, and communication networks enabled swift troop movement and strategic deployments. 1. Maintenance of law and order: Infrastructure supported British	

	law enforcement and maintenance of social order.	
34	Self-reliance was chosen as a planning objective for the Indian economy to: 1. Reduce dependence on foreign aid and loans 2. Promote domestic industries and entrepreneurship 3. Conserve foreign exchange reserves 4. Enhance economic sovereignty 5. Accelerate industrialization and technological development 6. Improve living standards and reduce poverty 7. Mitigate the impact of global economic fluctuations India's experience with colonial exploitation and dependence on foreign powers motivated the need for self-reliance. OR Self-Sufficiency: 1. Complete independence from external inputs 2. Producing all goods and services domestically 3. No reliance on international trade 4. Focus on domestic production for domestic consumption Self-Reliance: 1. Reduced dependence on external inputs 2. Emphasis on domestic production and capacity building 3. Selective reliance on international trade and cooperation 4. Focus on building domestic strength and resilience	3+3