

ANSWERS

1. (d) Both statements 1 and 2 are false
2. (c) Goods and Services tax, burden can be shifted
3. (a) (i) and (ii)
4. (a) Consumption demand
5. (d) A - Government budget, B - Revenue receipts, C - Capital receipts
6. (c) Assertion (A) is true but Reason (R) is false
7. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
8. (a) ₹ 750 crore
9. (c) Both statements 1 and 2 are true
10. (a) Statement 1 is true and statement 2 is false
11. Investments by large Multinational Corporations (MNCs) in India will ensure greater inflow of foreign exchange, leading to an increase in the supply of foreign currency. This situation may result into excess supply of foreign currency in the economy at the prevailing foreign exchange rate. As a result, a new equilibrium rate of foreign exchange will be determined which will be lower than the prevailing foreign exchange rate, leading to appreciation of domestic currency.
12. (A) The price of US \$ has risen considerably in India. This means, the value of rupee, in terms of US dollar has fallen. The deliberate rising of the price of foreign exchange which will be domestic currency by the government is called "devaluation" of domestic currency. Indian exports become cheaper and as a result their demand increases and more foreign exchange pours in. More exports mean more employment generation, which in turn will increase the income and standard of living of the masses, who will thus become better off.

Or

- (B) Components (or items of transactions) of current account:
- (a) Visible items:
 - Exports and imports of goods such as tea, jute etc.
 - (b) Invisible items:
 - Exports and imports of services such as shipping, insurance, banking etc.
 - Transfer receipts and payments such as gifts, donations etc.
 - Income receipts and payments such as investment income and wages and salaries etc.
13. The process of credit creation is based on the following assumptions:
- (a) There is single banking system in the economy.
 - (b) All transactions are routed through banks.

Working of the credit creation process:

Total credit creation = Money multiplier(m) × Initial deposits

$$= \frac{1}{LRR} \times \text{Initial deposits}$$

Rounds	Deposits	Loans	Legal Reserves
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Since LRR is 10%, banks keep ₹ 1,000 as reserves and give loans of ₹ 9000 which ultimately comes back to bank as deposits. Out of these ₹ 9000 banks keep 10% i.e. ₹ 900 crore as reserves and give loans worth ₹ 8100. In this way in every round 80% of the loans are converted into deposits totalling to ₹ 100000. The rule is:

$$\begin{aligned} \text{Total deposit creation} &= \text{New deposits} \left(\frac{1}{\text{LRR}} \right) \\ &= 10,000 \left(\frac{1}{10\%} \right) = ₹ 1,00,000 \end{aligned}$$

14. (A) Keeping the federal structure of India, there are two components of GST, i.e., Central GST (CGST) and State GST (SGST).

- Both centre and states levy GST across the value chain simultaneously.
- Centre levies and collects CGST and states levy and collect the SGST on all transactions within a state.
- The input tax credit of CGST would be available for discharging the CGST liability on the output at each stage.
- Similarly, the credit of SGST paid on inputs would be allowed for paying the SGST on output.

Or

(B) The government budget can be used to bring in economic stability. Economic stability refers to the minimisation of fluctuations in prices (i.e., control of inflationary and deflationary trends) in the economy. Appropriate taxation, subsidies and public expenditure policies may be used for this purpose. When there is inflation, government can reduce its own expenditure and through GST reduce aggregate demand and inflationary pressure thereby. When there is deflation, the government can increase its own expenditure. It can also reduce tax and give subsidies to encourage spending by the people, thus increasing aggregate demand and reducing deflationary pressure.

15. The situation suggests that aggregate demand is less than aggregate supply. Following two fiscal measures may be taken to control it:

- (a) **Decrease in taxes:** To curb the situation, the government may decrease the taxes. This may increase the purchasing power in the hands of the general public. This may increase the aggregate demand in the economy to bring it equal to the aggregate supply.
- (b) **Increase in government expenditure:** The government may also increase its expenditure. This may increase the purchasing power in the hands of the general public which in turn may increase the aggregate demand in the economy to bring it equal to the aggregate supply.

16. (A) GDP_{MP} by Income Method = (i) + (iii) + (xiv) + (viii) + (xii) - (ix)

$$\begin{aligned} &= 120 + 140 + 50 + 40 + 45 - 10 \\ &= ₹ 385 \text{ crores} \end{aligned}$$

(B) Goods are classified into final goods and intermediate goods on the basis of 'the end-use'. If goods are purchased for consumption or investment, they would be classified as final goods. For example,

(i) Milk purchased by a household is for consumption so it is a final good.

(ii) Machine purchased for use in a factory is for investment purpose so it is a final good.

When a good is purchased for resale or for using it completely in the production during the year, it is classified as intermediate good, such as raw material purchased for producing a good.

Or

(C)

$$\begin{aligned} NNP_{MP} &= (i) + (ii) + (iii) + (iv) + (v) + (ix) - (vi) \\ &= 250 + 600 + 80 + 30 + 40 + 10 - (-10) \\ &= ₹ 1,020 \text{ thousand crores} \end{aligned}$$

- (D) (i) Free medical facilities by the employer are 'part of employer's contribution towards social security scheme', which is a part of compensation of employees so it will be included in the estimation of NI.
- (ii) Any income arising out of the sale of shares, bonds etc. will not be included as the buying and selling of these shares/bonds is not directly related to the production of goods and services. (In case of any commission or brokerage charged by the agent, it should be treated as productive income, and thereby included in National Income.)
17. (a) Direct taxes are the taxes levied on the property and income of persons and the firms, whereas indirect taxes are the taxes levied on production and sale of the commodities.
- (b) In case of direct taxes, the liability of payment to the government and the actual burden of the tax lie on the same person, whereas in case of indirect taxes, the liability of payment to the government lies on one person (seller) while the actual burden of the tax lies on the other person (buyer).
- (c) Direct taxes are not shiftable whereas indirect taxes are shiftable.
- (d) Main examples of direct taxes are income tax, corporate tax, wealth tax whereas main examples of indirect taxes are sales tax, excise duty, value added tax, custom duties etc. which are now clubbed together in a single tax called "Goods and Services Tax" (GST), introduced from 1st July 2017.

18. (c) 41

19. (d) Inflationary pressure

20. (c) 1970

21. (c) C - (iii)

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

23. (b) 57

24. (d) only (iii)

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

26. (d) All of these

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

28. It is well-known fact that under the colonial regime the real motive behind the development of infrastructure was to meet various colonial interests.

Infrastructure like railways, water transport, ports, posts and telegraphs etc. did develop but only to serve various colonial interests rather than to provide basic amenities to the people of India. Roads that were built served primarily the purpose of mobilising the army within India on one hand and transferring raw materials from the countryside to the nearest railway station or the port. This was to send these to the far away country—England or other foreign destinations.

The introduction of railways by the British in 1850 also contributed to 'economic drain' during the colonial period.

Thus, under the British, the economic policies of the government were more concerned with the production and protection of British economic interests rather than with the need to develop the economic condition of the colonised country and its people.

29. (A) Some of the positive contributions made by the British in India were:

- Introduction of railways enabled the people to undertake long-distance travel. This facilitated the breaking of the geographical and cultural barriers.
- British rulers also developed water transport and introduced the air transport in 1932 by way of establishing Tata Airlines in 1932 and thereby inaugurated the aviation sector in India.
- In 1837, the British introduced the modern postal system. The expensive electric telegraph system was introduced in India, which was useful for the purpose of maintaining law and order. Thus, the postal services served a useful public purpose.

Or

- (B) The two-fold motive behind the systematic deindustrialisation of India was:
- First, to reduce India to the status of a mere exporter of important raw materials for the upcoming modern industries in Britain.
 - Second, to convert India into a big market for the finished products of those industries, in order to ensure the maximum advantage accruing to their home country, Britain.
10. The offer before green revolution under agreement was 'PL480' as mentioned in the given figure. Under this, Indians relied on food crops (specially wheat) supplies from the US against rupee payments. Later, this measure was considered as a folly.
- After green revolution which came with the use of HYV seeds, food production in India not only increased several times, infact India become self-sufficient in food production.
11. (A) • The Central Pollution Control Board (CPCB) was set up by the government in 1974, to address two major environmental concerns in India — water and air pollution.
- This was followed by the establishment of the state level boards to address the environmental concerns at the state level.
 - These boards provide technical assistance to the respective governments in promoting cleanliness of streams and wells by prevention, control and reduction of water pollution, and also to improve the quality of air and prevent air pollution in the country.
 - They carry out and sponsor investigation and research about problems of water and air pollution.
 - Mass awareness programmes are also organised by them with the help of media.
 - These boards collect, collate and disseminate technical and statistical data w.r.t water pollution.

(any four)

Or

- (B) Yes, certainly indiscriminate felling of trees has led to destruction of forest cover. Trees are natural consumers of carbon dioxide — one of the greenhouse gases whose built-up in the atmosphere contributes to global warming. Destruction of trees pumps into the atmosphere even more carbon dioxide, alongwith methane, another major greenhouse gas. Once forests have been cut down, essential nutrients are washed out of the soil all-together. This leads to "soil erosion" which makes the land unusable and can, in turn, lead to disastrous flooding since there is no soil to soak up the rain.
12. (a) Infant Mortality Rate is very high in Pakistan (66) as compared to India (38). This is because of large sized families and leading to more undernourished children and the poor health of the mothers.
- (b) Indeed Pakistan is more urbanised as 39% of the people living in urban areas in Pakistan in contrast to 33% living in urban areas in India.
13. (A) Yes, indeed we strongly agree to have a moral obligation to hand over the planet earth in good order to the future generation.
- Some suggestive measures to achieve the above obligation are:
- (a) Human population be limited to a level within the carrying capacity of the environment.
 - (b) Resource depletion should be minimal and its utilisation be optimal.
 - (c) Technological progress in the economy should be input-efficient and not input consuming.
 - (d) Renewable resources should be extracted on a sustainable basis.
 - (e) Rate of depletion of non-renewable resources should be lesser than the rate of creation, *i.e.*, their usage should be prudently made.
 - (f) Inefficiencies which crop up from pollution should be speedily checked upon.
 - (g) LPG as a clean fuel and gobar gas be used in rural areas.
 - (h) Usage of CNG in urban areas as a 'green fuel' for vehicles especially in public transport system, would go a long way to check air pollution.

(any five)

— 846
Or

(B) During the post-reform period, there has been a decline in the number of workers employed in the formal sector. As the new jobs are found mostly in the informal sector and the nature of jobs is mostly casual.

In India, the distribution of workforce in the last four decades (1972-2012) shows that people have moved from regular salaried employment (formal employment) to casual wage work. The process of movement from regular salaried employment to casual wage work is called 'casualisation of workforce.' The quality of employment has been deteriorating. Since the late 1970's many developing countries like India have started paying more attention to enterprises and workers in the informal sector, as employment in the formal sector is not growing.

But workers and enterprises in the informal sector do not get regular income, and also do not have any protection from the government. Lately owing to the efforts of the International Labour Organisation (ILO), the Indian government has taken the initiative to modernise the informal sector enterprises and to provide social security measures to the workers in the informal sector.

34. (a) Land degradation is the reduction or loss of the biological or economic productivity and complexity of rain-fed cropland, irrigated cropland, or range, pasture, forest or woodlands resulting from natural processes, land uses or other human activities. Land degradation is due to the activities of human hands which loses all the fertility and quality of soil.

Some of the factors responsible for land degradation are:

- (i) Loss of vegetation due to deforestation
- (ii) Unsustainable fuel wood and fodder extraction
- (iii) Shifting agriculture
- (iv) Encroachment into forest lands
- (v) Forest fires and overgrazing
- (vi) Non-adoption of adequate soil conservation measures

(b) The two principal causes behind environmental degradation are:

- (i) **Population rise:** Rising population is one of the major causes for degradation of the environment as it adds to the burden on natural resources, leading to environmental crisis.
- (ii) **Consumption levels:** It has been observed that the developing and developed nations have witnessed affluent consumption levels in the past, bringing disequilibrium in the demand and supply of the natural resources, pushing the world to the threshold of the environmental crisis.

(or any other valid point)