

ANSWERS

sch 9

1. (a) Statement 1 is true and statement 2 is false
 2. (a) Fall in the propensity to consume
 3. (c) Lowering margin requirements
 4. (a) Any of these
 5. (a) A - Profit, B - Royalty
 6. (a) ₹ 20 lakh
 7. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
 8. (c) Both statements 1 and 2 are true
 9. (a) Resources are fully and efficiently utilised.
 10. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
11. (A) The Central Bank acts as a banker and supervisor to commercial banks in various ways. Some of them are:
- (a) It provides financial assistance to banks by discounting their bills and through loans and advances against approved securities.
 - (b) It supervises, regulates and controls the activities of commercial banks.
 - (c) It provides the commercial banks with centralised clearing and remittance facilities.
 - (d) The commercial banks are required to maintain a certain percentage of deposits with the Central Bank. The sole aim of these reserves is to enable the Central Bank to provide assistance in times of financial crisis.

Or

- (B) The commercial banks are in need of funds in emergency. This happens in times when banks suffer the '**crisis of confidence**' of its depositors. The depositors start fearing that the bank may run out of its cash reserves. So they start withdrawing their deposits beyond the limit the bank can afford at a time. It is in such a crisis that the central bank acts as a '**lender of the last resort**'. It comes to the rescue of the commercial banks and advances necessary credit/loan against eligible securities. Thus, in this way the central bank helps the commercial banks to cope up with the crisis.
12. (a) 'Money supply' refers to the stock of money in the country at a particular point of time.
- (b) The components of money supply are:
- Currency with the public outside the banks. Currency includes coins and currency notes. These notes are called 'paper money'. Currency is also known as fiat money.
 - Demand deposits with the banks. Demand deposit is any deposit on which a cheque can be written. These deposits are known as 'demand deposits' because the amount in such deposits is payable on demand.
- Both these are directly usable for carrying out transactions at will.

13. (a) Revenue deficit = (ii) - (iv)
= 100 - 80 = ₹ 20 Arab.
- (b) Fiscal deficit = (ii) + (v) - (iv) - (i)
= 100 + 110 - 80 - 95 = ₹ 35 Arab.

14. (A) Problem of 'double-counting' refers to the counting of the value of output of a good more than once. It leads to overestimation of national income, which will then not be a true indicator of economic growth of a country.
- Suppose a farmer produces wheat worth ₹ 2,000. He sells this wheat to the baker who converts it into bread and sells it to the grocer for ₹ 4,000. The grocer sells the bread to the consumer for ₹ 4,400. The total output of the 3 producers is ₹ 10,400 but this is not the value of actual output, because it includes the value of wheat three times and the value of bread two times. This definitely will lead to overestimation of national income. There are two ways to avoid it.

- (a) Take the value added instead of value of total output. Let us explain this with the help of a schedule based on the above example.

| (i) Producer | (ii) Value of output | (iii) Intermediate Consumption | (iv) Value Added (ii) - (iii) or (Value of Final output) |
|-----------------|-------------------------|-----------------------------------|---|
| Farmer | 2,000 | — | 2,000 |
| Baker | 4,000 | 2,000 | 2,000 |
| Grocer | 4,400 | 4,000 | 400 |
| Total | 10,400 | 6,000 | ΣVA/Ni = 4,400 |

On the basis of this above table, we find that the sum total value added by the three producers—Farmer, baker and grocer is ₹ 4,400 (₹ 2,000 + ₹ 2,000 + ₹ 400) and this is the value which is to be counted while estimating national income (as it does not include double counting).

- (b) Take the value of final products only. We already know these products are purchased for consumption/investment or both. The total value-added is nothing else but the value of final products only.

$$\text{Value of Final Product} = \text{Value of output} - \text{Intermediate consumption}$$

Or

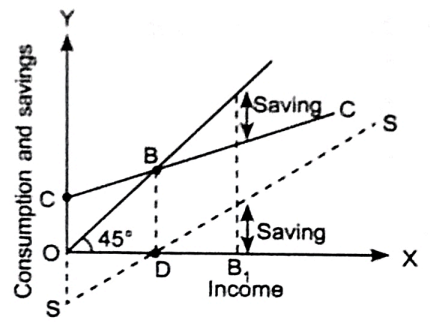
- (B) 'Non-monetary exchanges' refer to activities like services of family members provided to each other.
- There are many goods and services contributing to economic welfare but not included in GDP (Non-Monetary Exchanges). They are left out from the estimates of NI, on account of practical difficulties of measurement, like services of housewives and other family members, own-account production etc. These are left out due to non-availability of data and also because of the problem of their valuation. Thus, to depend only on GDP as such, would result in an underestimation of economic welfare.

$$\begin{aligned}
 15. \quad GVA_{MP} &= (ii) + (iv) + (iii) - (v) \\
 &= 200 + 10 + (-10) - 120 \\
 &= ₹ 80 \text{ Lakhs}
 \end{aligned}$$

16. (a) The higher the price of a foreign currency, say dollar in India, the lower is going to be its demand and vice-versa. Let us suppose that the current price of one dollar is ₹ 60. It means to buy one dollar worth of goods from USA, India has to part with ₹ 60. Now suppose, the price falls to ₹ 50 per dollar. This implies that India will now have to part with ₹ 50 to buy 1 dollar worth of American goods. This also means that now American goods have become cheaper, so at this lower price of US dollar, India is likely to buy more of American goods and vice-versa.
- (b) "Devaluation" of domestic currency is a phenomenon of the fixed exchange rate system, because it is the government which decides when to change the existing exchange rate. Whereas "Depreciation" of domestic currency is a phenomenon of the flexible exchange rate system. Under this system, the exchange rate is determined by the free play of the forces of demand and supply of foreign exchange in the foreign exchange market.

The steps involved in the derivation of the propensity to save curve from the propensity to consume curve are:

- We can find savings at different levels of income by taking the vertical distance between the consumption curve (CC) and the 45° line.
- At point B in the diagram, income and consumption expenditure are equal $Y = C$, i.e., savings are zero.
- To the left of point B, CC curve is higher than the 45° line, which denotes income. This implies savings are negative (or dissaving) to the left of point B, in the diagram.
- To the right of point B, CC curve is lower than the 45° line, this implies $C < Y$ and savings are positive.
- By plotting the distance between the CC curve and 45° line at different levels of income just below the upper part we can derive the saving curve SS. Since the CC curve is a straight line, the derived savings curve (SS), must also be a straight line. For this, we are required to locate only 2 points.
 - Plot a perpendicular from point B on the consumption curve, intersecting the OX axis, at point D, which must be on the OX axis, because savings is zero when $Y = C$.
 - Plot OS on the lower part of OY axis as equal to OC. This gives us point S, from where the saving curve will start.
- Joining points S and D and extending the straight line upwards we derive the savings curve SDS.



CC → Propensity to consume curve
SS → Propensity to save curve

Or

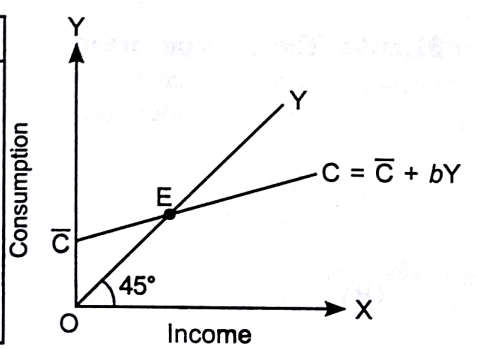
B Consumption function shows the relationship between consumption and income.

$$C = \bar{C} + bY$$

This equation states that there is a direct relation between consumption and the level of income. As the level of income increases, consumption also increases but the increase in consumption is less than the increase in income.

The concept of consumption function can be further explained by following consumption schedule and curve:

| Income | Consumption (₹ crores) |
|--------|------------------------|
| 0 | 50 |
| 100 | 100 |
| 200 | 150 |
| 300 | 200 |
| 400 | 250 |
| 500 | 300 |



The above table and diagram show that as the income increases, consumption also increases but the increase in consumption is less than increase in income.

- Purchasing Power Parity
- (iii) and (iv)
- Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- Both statements 1 and 2 are true

22. (d) All of these
23. (c) A - (iii), B - (i), C - (iv), D - (ii)
24. (a) Statement 1 is true and statement 2 is false
25. (d) only (iii)
26. (b) Export duty
27. (c) Mixed Economy
28. (A) Steps taken towards privatisation in 1991 were:
 (a) Reduction in number of reserved public sector units from 17 to 4.
 (b) Disinvestment in public sector undertakings by selling the shares of PSUs into private hands.
 (c) Increase in the share of private sector in total investment.
 (d) Corporatisation of a public department with some operational and managerial autonomy.
 (any three)

Or

- (B) Fiscal Reforms introduced under the new economic policy were:
 (a) Both direct and indirect taxes were reduced.
 (b) Reduced expenditure on administration and subsidies on food, fertilizers and exports.
 (c) To encourage tax payers, many procedures were simplified.
29. Increasing interaction of the domestic economy with the other countries of the world is termed as "Globalisation".
 The main features of Globalisation are:
 (a) With the introduction of globalisation, foreign investors can now directly invest in India. To promote this, a Foreign Investment Promotion Board (FIPB) has been set up.
 (b) New technology and management expertise is also brought along with Foreign Direct Investment (FDI). Indian industries can now make technology agreements with the foreign suppliers of technology. Government has started granting automatic approval in certain selected industries.
 (c) On account of globalisation, there is unrestricted flow of goods and services, technology and expertise between India and the rest of the world.
30. (a) On the basis of the given data, we find that the annual population growth rate in Pakistan standing at 2.1% is the reciprocal of the annual population growth rate in India at 1.2%. Pakistan's population growth rate is higher than India's because of high fertility rate and large sized families.
 (b) India has a lower sex ratio (929) as compared to Pakistan (947) which is real issue of major concern for the demographers in India.
31. (A) The given picture indicates the concept of 'globalisation' which means integrating the economy of a country with the world economy. Under this process, goods and services along with capital, labour and resources can move freely from one nation to another. The thrust of globalisation has been to increase the domestic and external competition through extensive application of market mechanism and facilitating dynamic relationship with the foreign investors and suppliers of technology.

Or

- (B) The main features of Indian Economy on the eve of independence were:
 (a) The Indian Economy was colonial in character in the sense that it had developed an industrial structure and a trade pattern that served only the interests of its colonial master.
 (b) The economy was neither wholly feudalistic nor capitalistic. It was a mixed economy which could be called "semi-feudal."
 (c) Economy remained largely stagnant during the British Rule. For a period of about 100 years during the British rule, the rate of growth in per capita income was about 5% per annum.
 (d) Indian economy had become a depreciated economy. This was because to meet the requirements of production, machinery and equipment were used very intensively, resulting in high degree of wear and tear, i.e., depreciation.

10. Suggestions for increasing employment opportunities in rural areas are:
(a) Employment can be generated by development of non-farm activities like reclamation work, machine repair, rural transport services, creation of public assets, construction etc.

(b) Diversification of activities
(c) Development of village handicraft and cottage industries as these have a larger potential for absorbing labour force
(d) Encouraging the informal sector

(or any other relevant suggestion)

11. (A) (a) The rising population of the developing countries and the affluent consumption and production standards of the developed nations have put a huge stress on the environment in terms of its functions of supplying resources and assimilating wastes.
(b) Many resources are becoming extinct since their use is beyond the carrying capacity of the environment leading to an environmental crisis.
(c) In earlier times, the demand for environmental resources and services was much less than their supply. Due to urbanisation, increased demand for goods and services has led to advanced industrialisation. This has caused pollution which is more than the absorptive capacity of the environment.
(d) The rate at which the resources are extracted by man has been more than the rate of regeneration of the resources, causing serious environmental problems.

Or

(B) To improve the agricultural marketing following suggestions are provided:

(a) Creating orderly and transparent marketing conditions for regulation of markets.

(b) Providing physical infrastructural facilities like roads, railways, godowns, cold-storage, warehouses etc.

(c) Co-operative marketing to help in realising fair price for the farmer's product.

(The success mantra of the milk co-operatives at Anand in Gujarat stands a testimony to the important role of co-operatives in an economy but in the recent past, the co-operatives have received a setback.)

(d) Policy instruments like

(i) assurance of Minimum Support Price (MSP) for agricultural products.

(ii) Maintenance of Buffer Stocks of wheat and rice by FCI.

(iii) Distribution of the essential food grains and sugar through the system of Public Distribution, i.e., P.D.S. (any three)

12. (a) In India, people migrate from rural to urban areas mainly due to poverty, high population pressure on the land, lack of basic infrastructural facilities like healthcare, education, etc. Better opportunities for education, better health facilities and sources of entertainment, etc., are also quite important pull factors for migration in India from rural to urban areas.
(b) People migrate from one place to another in search of jobs that fetch them higher salaries. Unemployment leads to rural-urban migration whereas technically qualified persons (like engineers, doctors) migrate to other countries because of higher salaries and better standard of living that they may get in such countries. Migration in both the cases involves cost of transport, higher cost of living and psychic cost of living in a strange socio culture setup. But, the enhanced earning in the new places outweigh the costs of migration and hence, expenditure on migration is a source of human capital formation.