

DIRECTORATE OF EDUCATION
Govt. of NCT, Delhi

SUPPORT MATERIAL
(2025-2026)

Class : XII

ECONOMICS

Under the Guidance of

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Published at Delhi Bureau of Text Books, 25/2, Institutional Area, Pankha Road, New Delhi-58 by **Bijender Kumar**, Secretary, Delhi Bureau of Text Books and **Printed at:** Palak printers, 6, Mohkampur Phase-II, Delhi Road, Meerut -250004 (UP.)

पांडुरंग के. पोले, भा.प्र.से
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D.O. NO. : DF. 5/228/9xun/Message/
S.M/218/249
Date : 07/11/2025

MESSAGE

The Directorate of Education remains steadfast in its vision to achieve excellence in the academic domain and its commitment to develop meaningful, engaging, and child-friendly learning content.

Each year, the Directorate carefully reviews and updates the Support Material to ensure alignment with the latest CBSE guidelines and emerging academic developments.

The Support Material provides comprehensive academic support through well-structured practice questions and exercises that strengthen conceptual understanding and exam readiness and aims to nurture students' critical thinking, analytical abilities, and problem-solving skills. Through such sustained efforts, the Directorate of Education continues to guide students towards academic excellence and holistic growth.

This Support Material is intended to bridge classroom learning and examination preparation, enabling students to consolidate knowledge through systematic practice. It has been thoughtfully designed for students, with the belief that its effective use will strengthen their understanding and support them in achieving their learning goals with confidence.

I appreciate the dedication and collaborative effort of all those involved in the development of this material and extends my best wishes to all students—may this Support Material serve as an essential academic aid, enhancing students' confidence and preparedness for examinations.

Best wishes.


(Pandurang K. Pole)

VEDITHA REDDY, IAS
Director, Education & Sports



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MESSAGE

DE-5/228/Exam/Message/S.M/2018/
402
dated - 09/05/25

Education is the cornerstone of a progressive society, and providing students with the right learning resources is essential for their academic and personal growth. Keeping this in mind, the Directorate of Education, GNCT of Delhi, develops comprehensive Support Material every year for various subjects of Classes IX to XII.

The support material serves as an additional study resource to supplement textbooks by offering clear and easy-to-understand explanation of complex topics. Our dedicated team of expert faculty members has meticulously reviewed and updated this material, aligning it with the latest CBSE syllabus, question paper pattern and assessment guidelines. Our effort is to simplify difficult concepts and make them more accessible to students, helping them save time and effort with ready references for effective preparation.

As Ruskin Bond beautifully said, "Education must inspire the spirit of inquiry, Creativity and Joy" True learning goes beyond memorisation-it encourages curiosity, fosters creativity, and makes the learning process meaningful and enjoyable.

In alignment with the vision of NEP 2020, the CBSE framework now places emphases on competency-based assessments for 50% of the evaluation, highlighting the need for students to develop critical thinking and problem-solving skills. The Support Material is designed to help students analyse concepts deeply, think innovatively, and apply their knowledge affectively, ensuring they are well-prepared not only for exams but also for real-life challenges.

I appreciate the dedicated efforts of the entire team of subject experts in developing this valuable learning resource. I am confident that both teachers and students will make the best use of these material to enhance learning and academic success.

Wishing all students great success in their exam and a bright, fulfilling future ahead.


(VEDITHA REDDY, IAS)

Dr. RITA SHARMA
Additional Director of Education
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D.O. No. DE.S/228/EXAM/Message/SM/
2018/570
Dated: .. 02/07/2025

MESSAGE

"Children are not things to be molded, but are people to be unfolded." -
Jess Lair

In line with this insightful quote, the Directorate of Education, Delhi, has always made persistent efforts to nurture and unfold the inherent potential within each student. This support material is a testimony to this commitment.

The support material serves as a comprehensive tool to facilitate a deeper understanding of the curriculum. It is crafted to help students not only grasp essential concepts but also apply them effectively in their examinations. We believe that the thoughtful and intelligent utilization of these resources will significantly enhance the learning experience and academic performance of our students.

Our expert faculty members have dedicated themselves to the support material to reflect the latest CBSE guidelines and changes. This continuous effort aims to empower students with innovative approaches, fostering their problem-solving skills and critical thinking abilities.

I extend my heartfelt congratulations to the entire team for their invaluable contribution to creating a highly beneficial and practical support material. Their commitment to excellence ensures that our students are well-prepared to meet the challenges of the CBSE examinations and beyond.

Wishing you all success and fulfilment in your educational journey.

(Dr. Rita Sharma)

DIRECTORATE OF EDUCATION
Govt. of NCT, Delhi

SUPPORT MATERIAL
(2025-2026)

ECONOMICS

Class : XII

NOT FOR SALE

PUBLISHED BY : DELHI BUREAU OF TEXTBOOKS

(vii)

भारत का संविधान

भाग 4क

नागरिकों के मूल कर्तव्य

अनुच्छेद 51 क

मूल कर्तव्य - भारत के प्रत्येक नागरिक का यह कर्तव्य होगा कि वह -

- (क) संविधान का पालन करे और उसके आदर्शों, संस्थाओं, राष्ट्रध्वज और राष्ट्रगान का आदर करे;
- (ख) स्वतंत्रता के लिए हमारे राष्ट्रीय आंदोलन को प्रेरित करने वाले उच्च आदर्शों को हृदय में संजोए रखे और उनका पालन करे;
- (ग) भारत की संप्रभुता, एकता और अखंडता की रक्षा करे और उसे अक्षुण्ण बनाए रखे;
- (घ) देश की रक्षा करे और आह्वान किए जाने पर राष्ट्र की सेवा करे;
- (ङ) भारत के सभी लोगों में समरसता और समान भ्रातृत्व की भावना का निर्माण करे जो धर्म, भाषा और प्रदेश या वर्ग पर आधारित सभी भेदभावों से परे हो, ऐसी प्रथाओं का त्याग करे जो महिलाओं के सम्मान के विरुद्ध हों;
- (च) हमारी सामासिक संस्कृति की गौरवशाली परंपरा का महत्त्व समझे और उसका परिरक्षण करे;
- (छ) प्राकृतिक पर्यावरण की, जिसके अंतर्गत वन, झील, नदी और वन्य जीव हैं, रक्षा करे और उसका संवर्धन करे तथा प्राणिमात्र के प्रति दयाभाव रखे;
- (ज) वैज्ञानिक दृष्टिकोण, मानववाद और ज्ञानार्जन तथा सुधार की भावना का विकास करे;
- (झ) सार्वजनिक संपत्ति को सुरक्षित रखे और हिंसा से दूर रहे;
- (ञ) व्यक्तिगत और सामूहिक गतिविधियों के सभी क्षेत्रों में उत्कर्ष की ओर बढ़ने का सतत प्रयास करे, जिससे राष्ट्र निरंतर बढ़ते हुए प्रयत्न और उपलब्धि की नई ऊँचाइयों को छू सके; और
- (ट) यदि माता-पिता या संरक्षक है, छह वर्ष से चौदह वर्ष तक की आयु वाले अपने, यथास्थिति, बालक या प्रतिपाल्य को शिक्षा के अवसर प्रदान करे।

Constitution of India

Part IV A (Article 51 A)

Fundamental Duties

It shall be the duty of every citizen of India —

- (a) to abide by the Constitution and respect its ideals and institutions, the National Flag and the National Anthem;
- (b) to cherish and follow the noble ideals which inspired our national struggle for freedom;
- (c) to uphold and protect the sovereignty, unity and integrity of India;
- (d) to defend the country and render national service when called upon to do so;
- (e) to promote harmony and the spirit of common brotherhood amongst all the people of India transcending religious, linguistic and regional or sectional diversities; to renounce practices derogatory to the dignity of women;
- (f) to value and preserve the rich heritage of our composite culture;
- (g) to protect and improve the natural environment including forests, lakes, rivers, wildlife and to have compassion for living creatures;
- (h) to develop the scientific temper, humanism and the spirit of inquiry and reform;
- (i) to safeguard public property and to abjure violence;
- (j) to strive towards excellence in all spheres of individual and collective activity so that the nation constantly rises to higher levels of endeavour and achievement;
- * (k) who is a parent or guardian, to provide opportunities for education to his child or, as the case may be, ward between the age of six and fourteen years.

Note: The Article 51A containing Fundamental Duties was inserted by the Constitution (42nd Amendment) Act, 1976 (with effect from 3 January 1977).

* (k) was inserted by the Constitution (86th Amendment) Act, 2002 (with effect from 1 April 2010).

भारत का संविधान उद्देशिका

हम, भारत के लोग, भारत को एक ¹[संपूर्ण प्रभुत्व-संपन्न समाजवादी पंथनिरपेक्ष लोकतंत्रात्मक गणराज्य] बनाने के लिए, तथा उसके समस्त नागरिकों को :

सामाजिक, आर्थिक और राजनैतिक न्याय,
विचार, अभिव्यक्ति, विश्वास, धर्म
और उपासना की स्वतंत्रता,
प्रतिष्ठा और अवसर की समता

प्राप्त कराने के लिए,
तथा उन सब में

व्यक्ति की गरिमा और ²[राष्ट्र की एकता
और अखंडता] सुनिश्चित करने वाली बंधुता
बढ़ाने के लिए

दृढ़संकल्प होकर अपनी इस संविधान सभा में आज तारीख
26 नवंबर, 1949 ई. को एतद्वारा इस संविधान को
अंगीकृत, अधिनियमित और आत्मार्पित करते हैं।

1. संविधान (बयालीसवां संशोधन) अधिनियम, 1976 की धारा 2 द्वारा (3.1.1977 से) "प्रभुत्व-संपन्न लोकतंत्रात्मक गणराज्य" के स्थान पर प्रतिस्थापित।
2. संविधान (बयालीसवां संशोधन) अधिनियम, 1976 की धारा 2 द्वारा (3.1.1977 से) "राष्ट्र की एकता" के स्थान पर प्रतिस्थापित।

THE CONSTITUTION OF INDIA

PREAMBLE

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a ¹**[SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC]** and to secure to all its citizens :

JUSTICE, social, economic and political;

LIBERTY of thought, expression, belief, faith and worship;

EQUALITY of status and of opportunity; and to promote among them all

FRATERNITY assuring the dignity of the individual and the ²[unity and integrity of the Nation];

IN OUR CONSTITUENT ASSEMBLY this twenty-sixth day of November, 1949 do **HEREBY ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.**

1. Subs. by the Constitution (Forty-second Amendment) Act, 1976, Sec.2, for "Sovereign Democratic Republic" (w.e.f. 3.1.1977)
2. Subs. by the Constitution (Forty-second Amendment) Act, 1976, Sec.2, for "Unity of the Nation" (w.e.f. 3.1.1977)

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Class XII

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ECONOMICS
CLASS - XII(2025-2026)

Theory : 80 Marks
Project : 20 Marks

3 Hours

Units		Marks	Periods
Part A	Introductory Macroeconomics		
	National Income and Related Aggregates	10	30
	Money and Banking	06	15
	Determination of Income and Employment	12	30
	Government Budget and the Economy	06	17
	Balance of Payments	06	18
		40	
Part B	Indian Economic Development		
	Development Experience (1947-90) and Economic Reforms since 1991	12	28
	Current Challenges facing Indian Economy	20	50
	Development Experience of India – A Comparison with Neighbours	08	12
	Theory Paper (40+40 = 80 Marks)	40	200
Part C	Project Work	20	20

Part A: Introductory Macroeconomics

Unit 1: National Income and Related Aggregates

30 Periods

What is Macroeconomics?

Basic concepts in macroeconomics: consumption goods, capital goods, final goods, intermediate goods; stocks and flows; gross investment and depreciation.

Circular flow of income (two sector model); Methods of calculating National Income - Value Added or Product method, Expenditure method, Income method.

Aggregates related to National Income:

Gross National Product (GNP), Net National Product (NNP), Gross Domestic Product (GDP) and Net Domestic Product (NDP) - at market price, at factor cost; Real and Nominal GDP.

GDP and Welfare

Unit 2: Money and Banking

15 Periods

Money – meaning and functions, supply of money - Currency held by the public and net demand deposits held by commercial banks.

Money creation by the commercial banking system.

Central bank and its functions (example of the Reserve Bank of India): Bank of issue, Govt. Bank, Banker's Bank, Control of Credit through Bank Rate, CRR, SLR, Repo Rate and Reverse Repo Rate, Open Market Operations, Margin requirement.

Unit 3: Determination of Income and Employment

30 Periods

Aggregate demand and its components.

Propensity to consume and propensity to save (average and marginal).

Short-run equilibrium output; investment multiplier and its mechanism.

Meaning of full employment and involuntary unemployment.

Problems of excess demand and deficient demand; measures to correct them - changes in government spending, taxes and money supply.

Unit 4: Government Budget and the Economy

17 Periods

Government budget - meaning, objectives and components.

Classification of receipts - revenue receipts and capital receipts; Classification of expenditure – revenue expenditure and capital expenditure. Balanced, Surplus and Deficit Budget – measures of government deficit.

Unit 5: Balance of Payments

18 Periods

Balance of payments account - meaning and components;

Balance of payments – Surplus and Deficit

Foreign exchange rate - meaning of fixed and flexible rates and managed floating. Determination of exchange rate in a free market, Merits and demerits of flexible and fixed exchange rate.

Managed Floating exchange rate system

Part B: Indian Economic Development

Unit 6: Development Experience (1947-90) and Economic Reforms since 1991:

28 Periods

A brief introduction of the state of Indian economy on the eve of independence.

Indian economic system and common goals of Five Year Plans.

Main features, problems and policies of agriculture (institutional aspects and new agricultural strategy), industry (IPR 1956; SSI – role & importance) and foreign trade.

Economic Reforms since 1991:

Features and appraisals of liberalisation, globalisation and privatisation (LPG policy); Concepts of demonetization and GST

Unit 7: Current challenges facing Indian Economy

60 Periods

Human Capital Formation: How people become resource; Role of human capital in economic development; Growth of Education Sector in India

Rural development: Key issues - credit and marketing - role of cooperatives; agricultural diversification; alternative farming - organic farming

Employment: Growth and changes in work force participation rate in formal and informal sectors; problems and policies

Sustainable Economic Development: Meaning, Effects of Economic Development on Resources and Environment, including global warming

Unit 8: Development Experience of India:

12 Periods

A comparison with neighbours

India and Pakistan

India and China

Issues: economic growth, population, sectoral development and other Human Development Indicators

Part C: Project in Economics

20 Periods

Prescribed Books:

1. Statistics for Economics, NCERT
2. Indian Economic Development, NCERT
3. Introductory Microeconomics, NCERT
4. Macroeconomics, NCERT
5. Supplementary Reading Material in Economics, CBSE Note: The above publications are also available in Hindi Medium.

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Unit -I (CHAPTER - 1)

NATIONAL INCOME AND RELATED AGGREGATES

Points to Remember

- **Consumption Goods:** Those final goods which are used by the consumers to satisfy human wants directly. All goods and services purchased by consumers are consumer goods.
- **Capital Goods:** Those final goods which are used for investment by the producers in production of goods and services. These goods are of durable nature and they increase capital assets of producer.
- **Final Goods:** Those goods which are purchased either for final consumption by consumers (consumers goods) or for investment by producers (capital goods). These are not for resale or for further processing.
- **Intermediate Goods:** Those goods and services which are purchased for as raw material for further production or for resale in the same year. These goods do not fulfill needs of mankind directly. Services used by the producers are intermediate goods, e.g. Service of Lawyer, used by firms Mechanics, Chartered Accountants, Raw Material etc.
- **Investment:** Value of addition made to the physical stock of capital during a period of time (financial year) is called investment. It is also called capital formation.
- **Depreciation:** Means fall in value of fixed capital goods due to normal wear and tear, expected obsolescence and efflux of time. It is also known as consumption of fixed capital. Depreciation can be calculated by dividing the value of fixed capital by its expected life in years.
- **Gross Investment:** Total addition made to physical stock of capital during a period of time. It included depreciation. It is also known as Gross capital formation.
- **Net Investment:** Net addition made to the real stock of capital during a period of time. It excludes depreciation.

Net Investment = Gross investment - Depreciation.

- **Stock :** Variables whose magnitude is measured at a particular point of time are called stock variable, e.g., Wealth, assets, money, Inventory etc. A stock variable is nothing but an accumulated sum of flows.
- **Flow :** Variables whose magnitude is measured over a period of time are called flow variable. Eg. National income, change in stock etc.
- **Circular flow of income :** It refers to continuous flow of goods and services and money income between firms and households in two sector economy. It is circular in nature. It has neither any end nor any beginning point. Real flow shows the flow of produced goods and services and factor services between firms and households. Money flow shows the flow of consumption/ investment expenditure and factor payments between firms and households.
- **Leakage :** It is the amount of money which is withdrawn from circular flow of income. e.g. Taxes, Savings and Imports.
- **Injection:** It is the amount of money which is added to the circular flow of income. e.g., Govt. Exp. Investment and Exports
- **Economic Territory :** Economic (or domestic) Territory is the geographical territory administrated by a Government within which persons, goods and capital circulate freely.

Scope of Economic Territory :

- (a) Political frontiers including territorial waters and airspace.
 - (b) Embassies, consulates, military bases etc. located abroad.
 - (c) Ships and aircraft operated by the residents between two or more countries.
 - (d) Fishing vessels, oil and natural gas rigs operated by residents in the international waters.
- **Normal Resident of a Country :** is a person or an institution who normally resides in a country and whose centre of economic interest lies in that country.
 - **Factor Income :** Income earned by the factors of production (Labour, Land, Capital and Entrepreneurship) for rendering factor services in the production process, e.g., Rent, Interest, wages and profit.

- **Transfer payments:** refers to income received without rendering any productive service in return. They are one sided payments made without getting anything in return e.g., old age pension, taxes, scholarships etc.
- **Capital gain :** An increase in the value of capital assets or financial assets over the time that gives it a higher worth than the purchase price. The gain is not realized until the asset is sold.
- **Compensation of employees :** Payment to labour factor (employees and workers) in cash or kind for providing factor services during the production of goods and services. It includes salary, wages, bonus, pension, contribution by employer in social security schemes etc.
- **Operating Surplus :** During the operation of production, money left after the payment of compensation of Employees is called operating surplus. It is the sum of Rent, Interest and Profit.
- **Subsidies :** A subsidy is an amount of money given directly to firms by the government to encourage production and consumption. It reduce the market price.
- **Value of Output:** Market value of all goods and services produced by an enterprise during an accounting year. Value Output = Sales + Change in Stock.
- **Value added :** It is the difference between value of output of a firm and value of intermediate goods bought from the other firms during a particular period of time. Value added = value of output- intermediate consumption.

DOMESTIC AGGREGATES

- **Domestic Income (NDP_{FC}):** It is the factor income accruing to owners of factors of production for supplying factor services within domestic territory during an accounting year.
 $NDP_{FC} = GDP_{MP} - \text{Depreciation} - \text{NIT}.$
- **Gross Domestic Product at Market Price (GDP_{MP}):** is the market value of all the final goods and services produced by all producing units located in the domestic territory of a Country during an accounting year.
- **Net Domestic Product at Market Price (NDP_{MP}) :** $NDP_{MP} = GDP_{MP} -$

Depreciation (Consumption of fixed capital)

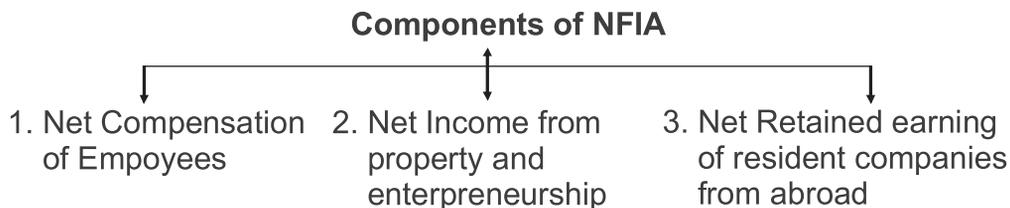
NATIONAL AGGREGATES

- **Gross National Product at Market Price (GNP_{MP})** is the market value of all the final goods and services produced by normal residents (in the domestic territory and abroad) of a country during an accounting year. $GDP_{MP} + NFIA = GNP_{MP}$
- **National Income (NNP_{FC})** : It is the sum total of all factors incomes earned by normal residents of a country in the form of wages, Rent, Interest and profit during an accounting year in domestic economic territory as well as abroad.

$$NNP_{FC} = NDP_{FC} + NFIA = \text{National Income.}$$

Some Important Relations

- Gross = Net + Depreciation (consumption of fixed capital)
- National = Domestic + NFIFA (Net factor income from abroad)
- Market Price = Factor Cost + NIT (Net Indirect Tax)
- Net Indirect Tax (NIT) = Indirect Tax - Subsidies
- Net Factor Income from Abroad (NFIFA) = It is difference between factor income received/earned by normal residents of a country and factor income paid to nonresidents of the country.



Methods of estimation of National Income

1. Value Added Method (Product Method) :

Gross Value Added at Market Price (GVA_{MP})

= Sales + change in stock - Intermediate Consumption.

$$= \text{GDP}_{\text{mp}} = \Sigma \text{GVA}_{\text{mp}} \text{ of all sectors}$$

OR

= Value of output - Intermediate consumption

$$\text{NDP}_{\text{fc}} = \text{GDP}_{\text{MP}} - \text{Depreciation} - \text{NIT}$$

■ National Income = $\text{NNP}_{\text{FC}} = \text{GDP}_{\text{mp}} - \text{Depreciation} + \text{NFIFA} - \text{NIT}$

Steps to be followed :

1. Write Sales value (Add sales of all sectors if given sector wise)
2. Add : Change in stock (Closing stock - opening stock if given separately).
If Decrease in stock is given, Deduct it.
3. Subtract: Intermediate consumption (Capital goods are not intermediate good).

You have reached GDP_{mp}

$$\text{National Income (NNP}_{\text{FC}}) = \text{GDP}_{\text{MP}} - \text{Depreciation} + \text{NFIA} - \text{NIT}$$

2. Income Method (Factor Income distribution method):

Domestic Income (NDP_{FC}) = Compensation of Employees + Operating Surplus + Mixed Income

$$\text{National Income (NNP}_{\text{FC}}) = \text{NDP}_{\text{FC}} + \text{NFIA}$$

Steps to be followed :

1. Write compensation of Employees (if not given add salary, wages, bonus, contribution by employer in social security schemes).
2. Add : Operating Surplus (If not Given add interest, Rent & Royalty and Profit).
3. Add : Mixed Income of self employed. You have reached NDP_{FC}

$$\text{National Income (NNP}_{\text{FC}}) = \text{NDP}_{\text{FC}} + \text{NFI}_{\text{FA}}$$

3. Expenditure Method :

$$\text{GDP}_{\text{MP}} = C + G + I + (X-M)$$

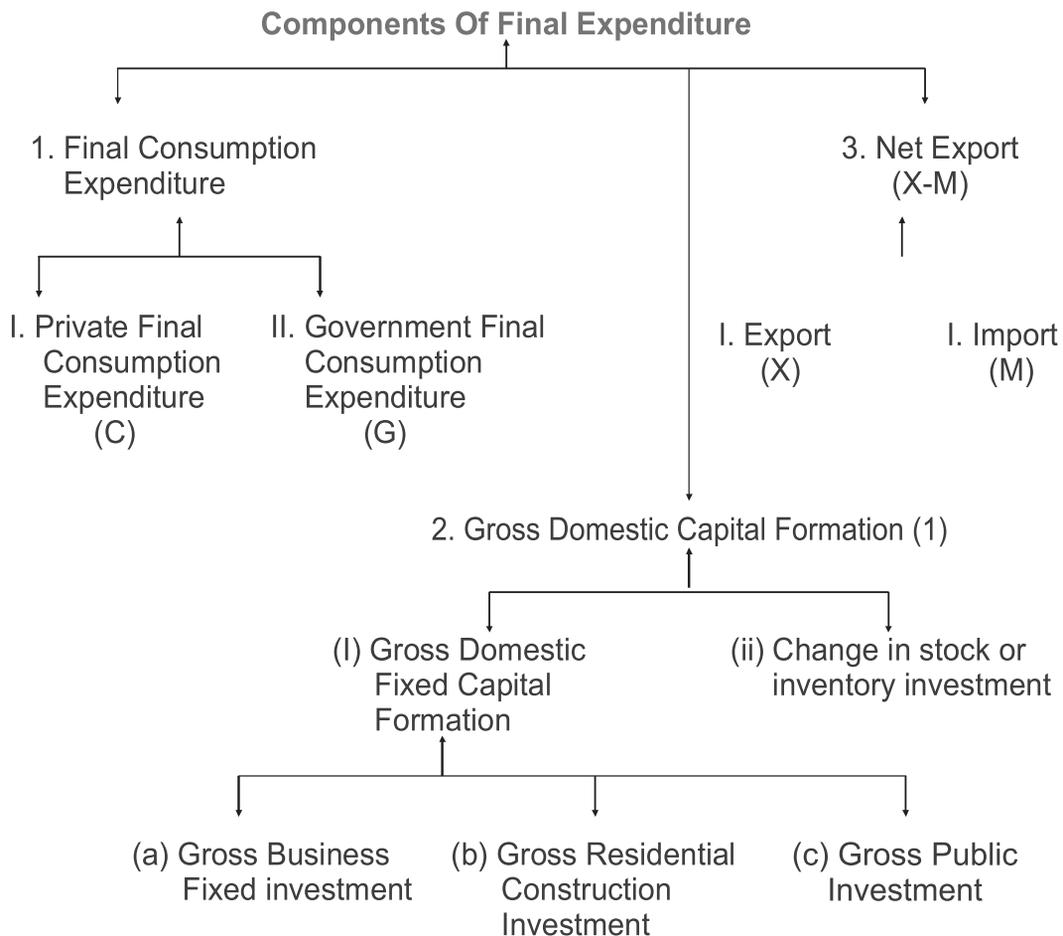
Steps to be followed :

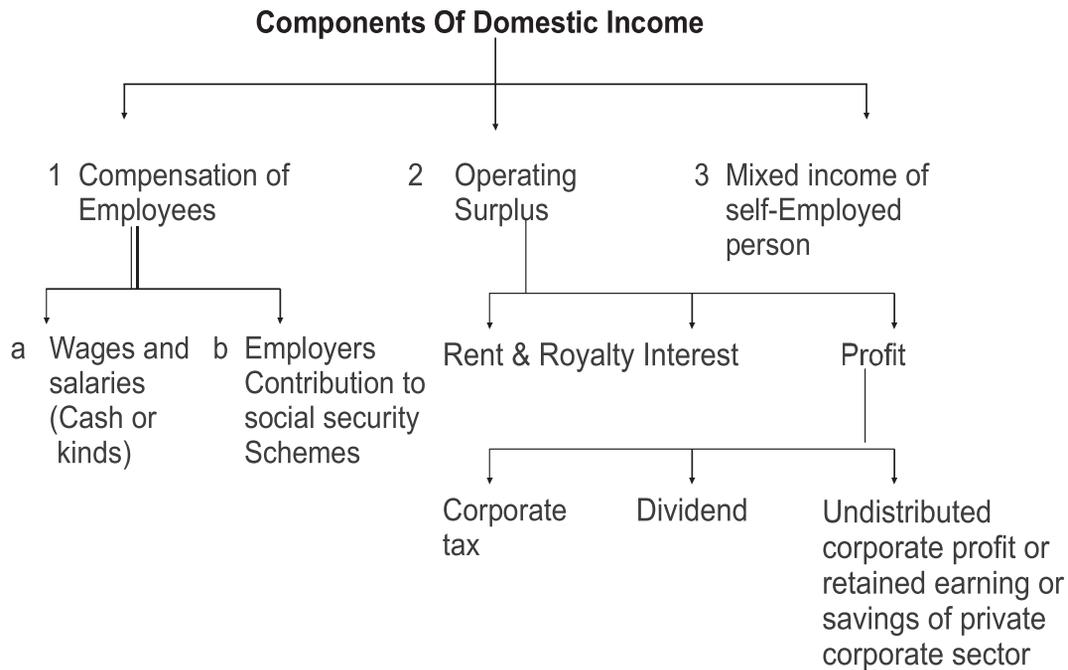
1. Write Private Final Consumption Expenditure
2. Add : Government Final Consumption Expenditure
3. Add : Gross Domestic Capital Formation
4. Add : Net Exports (Export - Imports)

You have reached at GDP_{MP}

National Income (NNP_{FC}) = GDP_{MP} - Depreciation + NFIA - NIT

- **Problem of Double Counting :** Counting the value of a commodity more than once while estimating national income is called double counting. It leads to overestimation of national income. So, it is called problem of double counting.





- **GDP and Welfare :** In general Real GDP and welfare are directly related with each other. A higher GDP implies that more production of goods and services. It means more availability of goods and services. But more goods and services may not necessarily indicate that the people were better off during the year. In other words, a higher GDP may not necessarily mean higher welfare of the people.
- **Real GDP :** When the goods and services are produced by all producing units in the domestic territory of a country during an accounting year and valued at base year's prices or constant price, is called real GDP or GDP at constant prices. It changes only by change in physical output not by change in price level. It is called a true indicator of economic development.
- **Nominal GDP :** When the goods and services are produced by all producing units in the domestic territory of a country during an accounting year and valued at current year's prices or current prices, is called Nominal GDP or GDP at current prices. It is influenced by change in both physical output and price level. It is not considered a true indicator of economic development.
- **Conversion of Nominal GDP into Real GDP**

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

Price index plays the role of deflator deflating current price estimates into constant price estimates. In this way it may be called GDP deflator.

- **Welfare:** Mean material well being of the people. It depends on many economic factors like national income, consumption level quantity of goods etc and non- economic factor like environmental pollution, law and order etc. The welfare which depends on economic factor is called economic welfare and the welfare which depends on non- economic factor is called non- economic welfare. The sum total of economic and non- economic welfare is called social welfare. The limitations in taking GDP as welfare measure are as follows.

1. **Externalities:** Externalities refer to benefits or harms of an activity caused by a firm or an individual, for which they are not paid or penalized. For example, environmental pollution caused by industrial plants is a negative externality and building a flyover is a positive externality
2. **Composition of GDP:** GDP does not exhibit the structure of the product. If the increase in GDP is mainly due to increased production of war equipment's and ammunitions, then such an increase cannot improve welfare in economy.
3. **Distribution of GDP :** When GDP is unevenly distributed, increase in GDP does not increase welfare. It increases Income of rich people only.
4. **Non-monetary exchanges :** Many activities in an economy are not evaluated in monetary terms, they are not included in GDP, due to non availability of data. However, such activities influence the economic welfare of people of the economy.

Finally. It can be concluded that GDP may not be taken as a satisfactory measure of economic welfare due to above mentioned limitations, yet it does reflect some index of economic welfare.

PRECAUTIONS IN MAKING ESTIMATES OF NATIONAL INCOME

1. **Value added (Production) method :**

- (a) Avoid including Intermediate Consumption/Goods
- (b) Do not include sale of second hand goods.
- (c) Self-consumed output must be included.

2. Income Method

- (a) Avoid transfer income
- (b) Avoid capital gain
- (c) Income from sale of second hand goods should not be included but the Commission earned on such sale should be included.

3. Final expenditure Method

- (a) Avoid intermediate expenditure
- (b) Do not include expenditure on second hand good and financial assets
- (c) Include expenditure on self use of own produced final products.
- (d) Avoid transfer expenditure

National Income and related aggregates

Very short answer questions (1 Mark)

1. Identify which of the following is an intermediate goods? (Choose the correct alternative)
 - (a) Car purchased by a taxi driver for taxi use
 - (b) payment to an electrician by a school
 - (c) Computers purchased by an IT services firm
 - (d) Gas stove purchased by a restaurant
2. An annual allowance for wear and tear of capital goods is called..... (Fill up the blank with correct alternative)
 - (a) capital allowance
 - (b) maintenance reserve

- (c) devaluation
(d) depreciation
3. National Income is the sum of factor income accruing to: (Choose the correct alternative)
- (a) Nationals
(b) Economic territory
(c) Residents
(d) Both residents and non-residents
4. A resident' of a country is one (Choose the correct alternative)
- (a) who was born in that country
(b) who lives in that country
(c) who is the citizen of that country
(d) who lives, earn, spend and accumulates in that country
5. Identify the correct pair from the following column I and II:
(Choose the correct ternative)
- | Column I | Column II |
|-----------------------|----------------------------------|
| A. Consumption goods | i. Recreation Services |
| B. Capital goods | ii. Fan purchased by household |
| C. Final goods | iii. Wood purchased by carpenter |
| D. Intermediate goods | iv. Machine purchased by a firm |

Alternatives:

- (a) A-i (b) B-ii (c) C-iii (d) D-iv
6. Which of these is not a flow?
- (a) Income (b) Saving
(c) Consumption (d) Assets

7. Which of the following is not a Capital goods?
- (a) Car Taxi (b) Desks in School
(c) Car purchased by household (d) Gas stove in a restaurant
8. Which of the following is an intermediate goods?
- (a) Services provided by a lawyer to a firm
(b) Television purchased by Household
(c) Machinery purchased by a firm
(d) Computers in school
9. Which of the following is not depreciation?
- (a) Normal wear and tear.
(b) Decrease in the price of machinery.
(c) Expected obsolescence.
(d) Consumption of fixed capital.
10. Which of the following is an example of leakage?
- (a) Savings (b) Investments
(c) Government Expenditure (d) Exports
11. Which of the following is not included in Domestic Economic territory of India?
- (a) Territorial waters
(b) Branches of foreign banks situated in india.
(c) Indian Embassies located abroad.
(d) Foreign Embassies located at new Delhi.
12. Which of the following is a transfer payment.
- (a) Salary
(b) Scholarship
(c) Bonus

- (d) Contribution by employers in social security schemes
13. Which of these is not a part of Operating surplus ?
- (a) Bonus (b) Rent
(c) Interest (d) Dividend
14. Which of the following is not correct about income method?
- (a) Transfer income is included in income method.
(b) Income from self- consumed output is included.
(c) Capital gain is avoided in income method.
(d) Compensation of Employees included
- 15: Which of the following is not an example of Externalities
- (a) Increase in the pollution due to increase in industrial plants
(b) Depreciation in domestic currency due to higher imports
(c) Saving of petrol due to Construction of Flyover at crossing.
(d) Depletion of ground water level due to excessive mining in the area.
16. Indian embassy situated abroad is a part of our..... territory (Choose the correct alternative)
- (a) geographical (b) economic
(c) political (d) national
17. 'When goods and services produced in a year are valued at current year's prices. it is called ? (Choose the correct alternative)
- (a) Real GDP (b) Domestic income
(c) Nominal GDP (d) Definated GDP
18. Identify which of the following is true? (Choose the correct alternative)
- (a) $GNP_{mp} > GDP_{mp}$ when $NFIA < 0$ ($NFIA =$ Net factor income from abroad)
(b) $GNP_{mp} > GDP_{mp}$ when $NFIA = 0$

(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

(c) Assertion (A) is true but Reason (R) is false.

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

Answer of 1 mark questions

- | | | | | | | | | | |
|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| 1. | (b) | 2. | (d) | 3. | (c) | 4. | (d) | 5. | (a) |
| 6. | (d) | 7. | (c) | 8. | (a) | 9. | (b) | 10. | (a) |
| 11. | (d) | 12. | (b) | 13. | (a) | 14. | (a) | 15. | (b) |
| 16. | (b) | 17. | (c) | 18. | (d) | 19. | (d) | 20. | (c) |
| 21. | (b) | 22. | (a) | | | | | | |

SHORT ANSWER TYPE QUESTION

(3-4 MARKS)

1. Calculate gross value added of factor cost:

- | | |
|-------------------------------------|-------|
| (i) Units of output sold (units) | 1000 |
| (ii) Price per unit of output (Rs.) | 30 |
| (iii) Depreciation (Rs.) | 1000 |
| (iv) Intermediate cost (Rs.) | 12000 |
| (v) Closing Stock (Rs.) | 3000 |
| (vi) Opening Stock (Rs.) | 2000 |
| (vii) Excise duty (Rs.) | 2500 |
| (viii) Sales Tax (Rs.) | 3500 |

Ans. $GVA_{FC} = (i \times ii) + (v - vi) - (iv) - (vii + viii)$
 $= (1000 \times 30) + [3000 - 2000] - 12000 - [2500 + 3500]$
 $= \text{Rs. } 13000$

2. Calculate Net Value added at factor cost:

(i) Consumption of Fixed Capital (Rs.)	600
(ii) Import Duty (Rs.)	400
(iii) Output sold (units)	2000
(iv) Price per unit of output (Rs.)	10
(v) Net change in stock (Rs.)	(-50)
(vi) Intermediate cost (Rs.)	10000
(vii) Subsidy (Rs.)	500

Ans. $NVA_{FC} = (iii \times iv) + v - vi - ii + vii - i$
 $= (2000 \times 10) + (-50) - 10000 - 400 + 500 - 600$
 $= \text{Rs. } 9450.$

3. Find Net Value added at market price :

(i) Output sold (units)	800
(ii) Price per unit of output (Rs.)	20
(iii) Excise duty (Rs.)	1600
(iv) Import duty (Rs.)	400
(v) Net Change in Stock (Rs.)	(-500)
(vi) Depreciation (Rs.)	1000
(vii) Intermediate Cost (Rs.)	8000

Ans. $NVA_{mp} = (i \times ii) + v - vii - vi$
 $= (800 \times 20) + (-500) - 8000 - 1000$
 $= \text{Rs. } 6500.$

4. Assuming real income to be Rs. 200 Crore and price index to be 135, Calculate nominal income.

Ans. $\text{Real Income} = \frac{\text{Nominal income}}{\text{Price index}} \times 100$

$$\text{Nominal income} = \frac{200 \times 135}{100} = \text{Rs. } 270 \text{ Cr.}$$

5. Given nominal income to be Rs. 375 Crore and price index 125 calculate real income.

Ans.
$$\text{Real Income} = \frac{\text{Nominal Income}}{\text{Price Index}} \times 100$$

$$= \frac{375 \times 100}{125}$$

Real Income = Rs. 300 Crore.

6. If the real gross product is Rs. 200 and the nominal gross product is Rs. 210. calculate the price index (base=100)

Ans.
$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

$$\text{Price index} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100 = \frac{210}{200} \times 100$$

Price Index = 105

7. Giving reasons classify the following into intermediate products and final products:

- (i) Computer purchased by a school.
- (ii) Cold drinks purchased by a school canteen.

- Ans. (i) It is final product because it is purchased for final investment
 (ii) These are intermediate products because these are taken for resale in the same year.

8. Giving reasons, explain how should the following be treated while estimating national income.

- (i) Family members working free on the farm owned by the family.

(ii) Payment of interest on borrowings by general government.

Ans. (i) Imputed salaries of these members will be included in national income.

(ii) It will not be included in national income because it is non-factor payment as it is considered that general government borrows only for consumption purpose.

9. Giving reasons, explain how should the following be treated While estimating national income.

(i) Payment of pocket money by parents.

(ii) Interest free loan given by employer to employee.

Ans. (i) Not included, as it is transfer payment from parents to children.

(ii) Included, as it is treated in national income because it is part of compensation of employees in kinds.

10. Explain the basis of classifying goods into intermediate and final goods. Give suitable examples.

Ans. Goods which are purchased by a production unit from other production units and meant for resale or for using up completely during the same year are called intermediate goods. For example: raw material.

Goods which are purchased for consumption and investment are called final goods.

For Example : Purchase of machinery for installation in factory.

11. Giving reason classify the following into intermediate and final goods,

(i) Machine Purchased by a dealer of machine,

(ii) A car purchased by a household.

Ans. (i) It is an intermediate good because it is meant for resale in the market.

(ii) It is a final good because it is meant for final consumption.

12. How will you treat the following in estimating national income of India? Give reasons for your answer.

(i) Value of bonus shares received by shareholders of a company.

- (ii) Interest received on loan given to a foreign company in India.
- Ans. (i) It is not included in national income because it is the return of financial capital and not of the goods and services.
- (ii) It is included in the national income as interest is a factor income and a part of domestic income.
13. Government spends on child immunization programme. Analyse its impact on gross domestic product and welfare of the people.
- Ans. Government expenditure on child immunization programme, raises GDP because it is government's final consumption expenditure. It also raises welfare of the people because child immunization programme improve health and thus raise efficiency of the people.
14. Sale of petrol and diesel cars is rising particularly in big cities. analyse its impact on gross Domestic Product and welfare.
- Ans. Final sales of cars raises GDP, because they are final products. Cars provide convenience in transportation but at the same time it causes traffic jams, air pollution and noise pollution reducing the welfare of the people. Pollution reducing the welfare of the people. Pollution thus, has had bad effects on the health of the people.
15. Why does change in the inventory of firm is treated as investment?
16. Differentiate between final goods and intermediate goods?
17. Why does services used by firms are always considered as intermediate goods?
18. Explain 'Distribution of GDP' as a limitation to use GDP as welfare index.
19. What is depreciation ? How do we calculate depreciation ?
20. Differentiate between national income at current prices and national income at constant prices. Which of the two reflects the growth of economy and why?
21. Explain 'externalities' as a limitation in using GDP as welfare measure.
22. Why do we deduct aggregate imports expenditure incurred by the economy, while Calculating GDP with expenditure method?
23. Explain 'non- monetary exchanges' as limitation in using GDP as welfare index.

24. Nominal GDP of a country is 1650 during a given year and GDP deflator for that year is 1.5. Calculate Real GDP.

Long Answer type questions (6 Marks)

1. How will you treat the following while estimating national income of India? Give reasons.
- (a) Dividend received by an Indian from his investment in shares of a foreign company.
 - (b) Money received by a family in India from relatives working abroad.
 - (c) Interest received on loans given to a friend for purchasing a car
 - (d) Dividend received by a foreigner from investment in shares of an Indian company.
 - (e) Profit earned by a branch of an Indian Bank in Canada
 - (f) Scholarship given to Indian students studying in India by a foreign company.
 - (g) Fees paid by students to school.
 - (h) Profits earned by branch of a Foreign Bank in India.
 - (i) Interest paid by an individual on a loan taken to buy a car
 - (j) Expenditure on machines for installation in a factory.
 - (k) Government expenditure on street lighting.
 - (l) Increase in prices of the shares of a company.
 - (m) Interest received by an Indian resident from firms abroad,
 - (n) Expenditure incurred by a foreign tourist in the country.
 - (o) Construction of a new house.
 - (p) Rent paid by embassy of Japan in India to an Indian resident,
 - (q) Imputed rent of self occupied house
 - (r) Interest received on debentures.
 - (s) Financial help received by flood victims.

(t) Furniture purchased by household.

- Ans.
- (a) It is factor income from abroad so will be included in national income.
 - (b) It is transfer receipts, so it is not included in national income.
 - (c) Not included in National Income, because it is a non-factor receipt as it is used for consumption.
 - (d) Not included as Factor income to abroad.
 - (e) It is a part of NFIA and will be included in national income.
 - (f) It is transfer receipts, so it is not included in national income.
 - (g) It is included in national income because it is a part of the private/final consumption expenditure of the house hold.
 - (h) Not included in national income because it is part of factor income to abroad.
 - (i) Not included because it is a non-factor income as loan is not used for production but for consumption.
 - (j) Included because it results in flow of income through productive activities.
 - (k) Includes, because it is final consumption expenditure by government.
 - (l) Not included, because it is capital gain and nothing to do with production.
 - (m) Included, as it is the part of factor income from abroad.
 - (n) Included, as it is produced within domestic territory of country.
 - (o) Included, because it is currently produced output
 - (p) included as it is paid to an Indian resident out side domestic territory of a country. It will be included as factor income from abroad.
 - (q) Included, as a part of rent as it is payment to self for housing services.
 - (r) Included, because it is a factor earning
 - (s) Not included as it is a transfer payment.
 - (t) Included, because it is a private final consumption expenditure.

2. How will you treat the following while estimating domestic factor income of India? Give reasons.

- (1) Remittances from non-resident Indian to their families in India.
- (ii) Rent paid by the embassy of France in India to a resident Indian.
- (iii) Profit earned by branches of Foreign Bank in India.
- (iv) Payment of salaries to its staff by embassy located in India
- (v) Interest received by an Indian resident from firms abroad
- (vi) Scholarships given by the Government of India.

- Ans.
- (i) Not included as it is a transfer payment
 - (ii) Not included because French embassy in India does not fall within the domestic territory of India.
 - (iii) Included because it falls with in the domestic territory of India.
 - (iv) Not included as an embassy located in India is not fall with in the domestic territory of India.
 - (v) Not included in domestic income as it is does not fall with in the domestic territory of India.
 - (vi) Not included, as it is transfer payment.

3. Giving reasons explain how should the following be treated in estimating gross domestic product at market price?

- (i) Fees to a mechanic paid by a firm
- (ii) Interest paid by an individual on a car loan taken from a bank.
- (iii) Expenditure on purchasing a car for use by a firm.

- Ans.
- (i) Fees paid to mechanic by a firm is not Included because it is an intermediate cost of the firm and to avoid double earning.
 - (ii) Interest paid by an individual is not included because the loan is taken to meet consumption expenditure and therefore interest paid on such a loan is not a factor payment
 - (iii) Expenditure on purchase a car by a firm is included because it is an investment expenditure, a final expenditure.

NUMERICAL EXERCISE

1. Calculate “Sales” from the following data : (Rs. in Lakh)
- | | | |
|-------|--------------------------------|-------|
| (i) | Net value added at factor cost | 560 |
| (ii) | Depreciation | 60 |
| (iii) | Change in Stock | (-)30 |
| (iv) | Intermediate cost | 1000 |
| (v) | Exports | 200 |
| (vi) | Indirect taxes | 60 |
2. Calculate NVA_{FC} from the following data (Rs. Crore)
- | | | |
|--------|------------------------------------|-----|
| (i) | Susbidy | 40 |
| (ii) | Sales | 800 |
| (iii) | Depreciation | 30 |
| (iv) | Exports | 100 |
| (v) | Closing stock | 20 |
| (vi) | Opening stock | 50 |
| (vii) | Intermediate purchases | 500 |
| (viii) | Purchases of machinery for own use | 200 |
| (ix) | Import of raw material | 50 |
3. From the following information about a firm in an economy calculate GVA_{MP} of the firm.
- | | | |
|-------|---------------------------------|-------------|
| | | (Rs. Crore) |
| (i) | Domestic Sales | 300 |
| (ii) | Exports | 100 |
| (iii) | Production for self-consumption | 50 |
| (iv) | Purchases from firm X | 110 |

(v)	Purchases from firm Y	70
(vi)	Imports of raw materials	30
(vii)	Change in stock	60
4.	Calculate (a) NNP_{FC} by expenditure method and (b) NNP_{FC} by value added method :	(Rs. Crore)
(i)	Gross Domestic capital formation	250
(ii)	Net Export	50
(iii)	Private final consumption expenditure	900
(iv)	Value of output	
(a)	Primary sector	400
(b)	Secondary sector	300
(c)	Tertiary sector	100
(v)	Value of inrmediate consumption	
(a)	Primary ector	900
(b)	Secondary sector	800
(c)	Tertiary sector	400
(vi)	Consumption of fixed capital	80
(vii)	Indirect Tax	100
(viii)	Government final consumption expenditure	100
(ix)	Subsidy	10
(x)	Net factor income from abroad	(-) 20
5.	From the following data calculate National Income by income and expenditure method	(Rs. Crore)
(i)	Government final consumption expenditure	100
(ii)	Subsidies	10

(ii)	Rent	200
(iv)	Wages and Salaries	600
(v)	Indirect Taxes	60
(vi)	Private final consumption expenditure	800
(vii)	Gross domestic capital formation	120
(viii)	Social security contribution by employers	55
(ix)	Royalty	25
(x)	Net factor income paid to abroad	30
(xi)	Interest	20
(xii)	Net domestic capital formation	110
(xiii)	Profit	130
(xiv)	Net Export	70

6. Calculate 'Intermediate consumption' from the following data :

		(Rs. Lakh)
(i)	Value of output	200
(ii)	Net value added at factor cost	80
(iii)	Sales tax	15
(iv)	Subsidy	5
(v)	Depreciation	20

7. Calculate (a) GDP_{MP} (b) Factor income earned from Abroad:

		(Rs Crore)
(i)	GNP_{FC}	2800
(ii)	Profit	500
(iii)	Export	40

(iv)	Compensation of Employees	1500
(v)	Change in Stock	50
(vi)	Net Indirect Tax	250
(vii)	Net domestic capital formation	650
(viii)	Gross domestic fixed capital formation	700
(ix)	Net current transfers from rest of the world	90
(x)	Factor income paid to abroad	120
(xi)	Interest	400
(xii)	Rent	300

8. Calculate (a) Domestic Income (b) Compensation of employees.

		(Rs. Crore)
(i)	Net factor income from abroad	-20
(ii)	Net exports	10
(iii)	Net indirect taxes	50
(iv)	Rent and royalty	20
(v)	Consumption of fixed capital	10
(vi)	Private final consumption expenditure	400
(vii)	Corporate tax	10
(viii)	Interest	10
(ix)	Net domestic capital formation	50
(x)	Dividends	22
(xi)	Government final consumption expenditure	100
(xii)	Undistributed profits	5
(xiii)	Mixed income	23

9. Calculate Net National Product at Market Price

	(Rs. Crore)
(i) Net current transfers to abroad	10
(ii) Private final consumption expenditure	500
(iii) Current transfers from government	30
(iv) Net factor income to abroad	20
(v) Net exports	(-)20
(vi) Net indirect tax	120
(vii) National debt interest	70
(Viii) Net domestic capital formation	80
(ix) Income accruing to government	60
(x) Government final consumption expenditure	100
10. Calculate value of output from the following data :	
	(Rs. Crore)
(i) NVA_{FC}	100
(ii) Intermediate consumption	75
(iii) Excise duty	20
(iv) Subsidy	5
(v) Depreciation	10
11. Calculate GDP_{FC} and factor income to abroad from following data:	
	(Rs. Crore)
(i) Compensation of employees	800
(ii) Profit	200
(iii) Dividends	50
(iv) Gross National Product at Market price	1400
(v) Rent	150

(vi)	Interest	100
(vii)	Gross Domestic fixed capital formation	200
(viii)	Net Domestic capital formation	2100
(ix)	Change in stock	50
(x)	Factor income from abroad	60
(xi)	Net indirect taxes	120

12. Given the following data, find the value of “Gross Domestic Capital formation” and "Operating surplus".

	Particulars	(Rs Crore)
a)	National Income	22,100
b)	Wages and Salaries	12,000
c)	Private final consumption expenditure	7,200
d)	Net Indirect Taxes	700
e)	Gross domestic capital formation	?
f)	Depreciation	500
g)	Government final consumption expenditure	6,100
h)	Mixed income of self employed	4,800
i)	Operating Surplus	?
j)	Net Exports	3,400
k)	Rent	1,200
l)	Net factor income from abroad	(-) 150

13. Given the following data, Calculate the ‘change in stock’ and ‘Rent’.

Sr. No	Particular	(Rs Crore)
1	Current transfers from rest of the world	700
2	Private final consumption expenditure	1150

3	Net national product at factor cost	2060
4	Profit	200
5	Net domestic fixed capital formation	90
6	Mixed Income	440
7	Net indirect taxes	120
8	Net imports	40
9	Consumption of fixed capital	2 50
10	Government final consumption expenditure	650
11	Net factor income from abroad	80
12	Compensation of employees	1050
13	Interest	180
14.	Given the following data. Calculate the 'Intermediate Cost' and Interest	

Sr. No	Particular	Amount (Crore Rs)
1	Current transfers from rest of the world	700
2	Net national product at factor cost	2060
3	Profit	200
4	Mixed Income	440
5	Net indirect taxes	120
6	Net imports	40
7	Consumption of fixed capital	250
8	Sales	2750
9	Net factor income from abroad	80
10	Compensation of employees	1050
11	Rent	150
12	Change in stock	250

Solution of Numerical Exercise

1. Sales = (i) - (iii) + (iv) + (ii) + (vi)
= 560 - (-30) + 1000 + 60 + 60
= Rs. 1710 Lakh

2. NVA_{FC} = Sales + ΔS - IC - NIT - Depr.
= (ii) + (v - vi) - (vii) + (i) - (iii)
= 800 + (-30) - 500 + 40 - 30
= Rs. 280 lakh.

3. GVA_{MP} = Sales + Change in stock - IC
= [(i) + (ii) + (iii)] + (vii) - [(iv) + (v) + (vi)]
= (300 + 100 + 50) + 60 - [110 + 70 + 30]
= Rs. 300 crore.

4. NNP_{FC} (Expenditure Method)
= (i) + (ii) + (iii) + (viii) - (vii) + (ix) - (vi) + (x)
= 250 + 50 + 900 + 100 - 100 + 10 - 80 + (-20)
= Rs. 1110 Cr.

NNP_{FC} (Value added method)
= (iv) - (v) - (vi) - (vii) + (ix) + (x)
= (900 + 800 + 400) - (400 + 300 + 100) - 80 - 100 + 10 + (-20)
= Rs. 1110 Cr.

5. National Income NNP_{FC} (Income Method)
= (iv) + (viii) + (iii) + (ix) + (xi) + (xii) - (x)
= 600 + 55 + 200 + 25 + 20 + 130 + (-30)
= Rs. 1000 Cr.

National Income (Exp. Method)

$$\begin{aligned}
&= (\text{vi}) + (\text{i}) + (\text{vii}) + (\text{xv}) - (\text{vii} - \text{xiii}) - (\text{v} - \text{ii}) - (\text{x}) \\
&= 800 + 100 + 120 + 70 - 10 - 50 - 30 \\
&= \text{Rs. } 1000 \text{ Cr.}
\end{aligned}$$

6. Intermediate consumption

$$\begin{aligned}
&= \text{Value of output} - \text{NVA}_{\text{FC}} - \text{NIT} - \text{Depreciation} \\
&= 200 - 80 - (15 - 5) - 20 \\
&= 200 - 80 - 10 - 20 \\
&= \text{Rs. } 90 \text{ Lakh.}
\end{aligned}$$

7. (a) $\text{NDP}_{\text{FC}} = (\text{iv}) + (\text{ii}) + (\text{xi}) + (\text{xii})$

$$\begin{aligned}
&= 1500 + 500 + 400 + 300 \\
&= 2700
\end{aligned}$$

$$\begin{aligned}
\text{GDP}_{\text{MP}} &= \text{NDP}_{\text{FC}} + \text{depreciation} + \text{NIT} \\
&= 2700 + [(\text{viii} + \text{v}) - \text{vii}] + (\text{vi}) \quad (\because \text{dep.} = \text{GD} - \text{NDC}) \\
&= 2700 + [(700 + 500) - 650] + 250
\end{aligned}$$

$$\text{GDP}_{\text{MP}} = \text{Rs. } 3050 \text{ Cr.}$$

(b) Factor Income from abroad (FIFA)

$$\begin{aligned}
\text{GNP}_{\text{FC}} &= \text{GDP}_{\text{MP}} - \text{NIT} + \text{NFIA} \\
2800 &= 3050 - 250 + \text{NFIA} \\
2800 &= 2800 + (\text{FIFA} - \text{FITA}) \\
0 &= \text{FIFA} - 120 \\
\text{FIFA} &= \text{Rs. } 120 \text{ cr.}
\end{aligned}$$

8. (a) Domestic Income = (ii) + (vi) + (ix) + (xi) - (iii)

$$\begin{aligned}
&= 10 + 400 + 50 + 100 - 50 \\
&= \text{Rs. } 510 \text{ Cr.}
\end{aligned}$$

(b) Compensation of employees

$$\begin{aligned}
&= \text{Domestic Income} - (\text{iv}) - (\text{viii}) - (\text{vii}) - (\text{x}) - (\text{xii}) - (\text{xiii}) \\
&= 510 - 20 - 30 - 10 - 22 - 5 - 23 \\
&= \text{Rs. 400 Cr.}
\end{aligned}$$

$$\begin{aligned}
9. \quad \text{NNP}_{\text{MP}} &= (\text{ii}) + (\text{viii}) + (\text{vii}) + (\text{v}) - (\text{iv}) \\
&= 500 + 100 + 80 + (-20) - (20) \\
&= \text{Rs. 640 Cr.}
\end{aligned}$$

10. Value of output

$$\begin{aligned}
\text{NVA}_{\text{FC}} &= \text{VO} - \text{IC} - \text{NIT} - \text{Depreciation} \\
\text{VO} &= \text{NVA}_{\text{FC}} + \text{IC} + \text{NIT} + \text{Depreciation} \\
&= 100 + 75 + (20 - 5) + 10 \\
\text{VO} &= \text{Rs. 200 Cr.}
\end{aligned}$$

$$\begin{aligned}
11. \quad (a) \quad \text{GDP}_{\text{FC}} &= (\text{i}) + (\text{ii}) + (\text{v}) + (\text{vi}) + [(\text{vii} + \text{ix}) - \text{viii}] \\
&= 800 + 200 + 150 + 100 + [(200 + 50) - 200]
\end{aligned}$$

$$\text{GDP}_{\text{FC}} = \text{Rs 1300 Cr.} \quad [\because \text{Dep} = \text{GDChF} - \text{NDChF}]$$

(b) Factor income to abroad

$$\begin{aligned}
\text{GNP}_{\text{MP}} &= \text{GDP}_{\text{FC}} + \text{NIT} + \text{NFIA} \\
1400 &= 1300 + 120 + (\text{FIFA} - \text{FITA}) \\
1400 &= 1300 + 120 + 60 - \text{FITA} \\
1400 - 1480 &= - \text{FITA} \\
\text{Rs. 80 Cr.} &= \text{FITA}
\end{aligned}$$

Unit -II

MONEY & BANKING

Money:

Money is any object that is generally accepted as medium of exchange; measures of value, a store of value; and , a standard of deferred payment.

According to the official definition of R. B. I (Reserve Bank of India); "Money can be defined as the sect of liquid financial assets which could impact on aggregate economic activity".

Limitations of Barter System:

Money has travelled a long journey before reaching its current state. In the initial phases, the barter system was prevelant which was also known as commodity money. Under this system, the people used to exchange goods with each other to satisfy their wants. However, Barter system also suffered from various limitations which were as follows:

- 1) **Lack of doubele coincidence of wants:** under barter, it was essential that the wants fo two different persons for each other's commodity should arise at the same time. If such double coincidence does not take place, exchange cannot be materialized.
- 2) **Lack of comon measure of value:** Under the barter system, there wasn't any common unit to measure the value of different goods.
- 3) **Problem is storing the value:** although the value can be stored in the form of goods also, but it also had a lot of problems like warehousing. deterioration, spoilage etc.
- 4) **Lack of standard for deferred payments:** deferred payments are those which have to be made at regular time intervals in future like salaries, rent, etc, Under barter, there was no standard for fixation of such deferred payments.

On account of all these limitations, metallic money and then paper money were introduced.

Money performs various functions which can be classified as primary functions and secondary functions:

A) PRIMARY FUNCTIONS:

(i) Medium of Exchange:

Money is generally accepted and hence acts as a medium of exchange to carry out the transactions in the market. Money has resolved the problem of double Coincidence of wants because of its acceptability by all Money has done this by dividing the exchange transaction into two parts-sale and purchase.

(ii) Common measure of value:

Money acts as a yardstick on which the value of all the goods, and services can be measured. This not only helps exchange but also facilitates comparisons among the value of the goods. This function of money is the most important function as until the value of the goods is determined, they cannot be brought to the market and hence can't be exchanged for money.

B) SECONDARY FUNCTIONS:

(i) Store of value:

Though the value can be stored in the form of goods, but money is the most easy and convenient way of storing the value. This is because of the reason that there is no problem of warehousing, deterioration, spoilage or instability of value.

(ii) Standard for deferred payments:

All the deferred payments like salaries, rent, etc. can be determined in the terms of money without any conflict. This means that money acts as a standard for measuring all such payments which are to be made regularly in future at fixed time intervals.

Supply of Money:

The money supply is the total value of money available in an economy at a point of time. The money supply is also known as the money stock. It is a stock variable of economy.

There are several ways to measure “money supply”. but standard measures usually include currency in circulation and demand deposits that can be used

almost as easily as currency.

$$M^s = C + DD$$

Where 'C' denotes the currency in circulation or currency held by public and 'DD' known as demand deposits. The both are controlled and regulated by RBI.

1. **Currency in Circulation:** Currency in circulation includes the coins, notes (government notes & bank notes) and bills that circulate in an economy and held by the public.
2. **Demand deposits:** These are the amounts held in accounts in which payment are payable through cheques with commercial banks. They are called demand deposits because the banking institution must give the deposit holder his money "On demand" when a check is written or a debit card is used.

Demand deposits are closely related to currency because these are **chequable** deposits. Hence demand deposits are also known as **chequable deposits**.

Money Creation (Credit Creation) by the commercial banking system: Money creation is one of the most important activities of commercial banks. Through the process of money creation, commercial banks are able to create credit, which is in far excess of the initial deposits.

Central bank and its functions (example of the Reserve Bank of India)

Central bank: A central bank is an apex financial institution that is responsible for overseeing the monetary system and policy of a nation. The Reserve bank of India (RBI) is India's central bank. It was established on 1 April 1935. The RBI was nationalised on January 1, 1949.

Functions of Reserve Bank

1. **Bank of Issue of Notes:** The Reserve Bank has a monopoly for printing the currency notes in the country. It has the sole right to issue currency notes of various denominations except one rupee note (Which is issued by the Ministry of Finance). The Reserve Bank of India has adopted the Minimum Reserve system for issuing/ printing the currency notes. Since 1957, it maintains gold and foreign exchange reserve of Rs, 200 Cr. of which at least Rs. 115 Cr. Should be in gold and remaining in the foreign currencies/ foreign exchange reserves & foreign securities.

2. **Banker, Agent & Financial Advisor to the Government:** The second important function of the Reserve Bank is to act as the Banker , Agent and adviser to the Government of India and states. It performs all the banking functions of the state and Central Government and it also tenders useful advice to the government on matters related to economic and monetary policy. It also manages the public debt of the government.
3. **Banker's Bank:-** The Reserve Bank performs the same function for the other commercial banks as the other banks ordinarily perform for their customers. RBI lends money to all the commercial banks to the country.
4. **Controller of Credit:**

CREDIT CONTROL INSTRUMENTS

- a). **Bank Rate Policy:** Bank rate is the rate of interest at which the central bank lends the money to the commercial banks for long period. The central bank changes the bank rate to regulate the supply of credit in the economy.
- b). **Repo Rate Policy:** Repo rate is the rate of interest at which the central bank lends the money to the commercial banks for short period. The central bank changes the repo rate to regulate the supply of credit in the economy.
- c). **Reverse Repo Rate:** Reverse repo rate is the rate at which the commercial banks park their excess funds with the central bank.
- d). **Open Market Operations :** Buying and selling of government securities by the central bank to the commercial banks its known as open market operations.
- e). **Cash Reserve Ratio:** It may be defined as the minimum percentage of the total deposits of a commercial banks which it has to keep with the central bank in the form of cash reserves.
- f). **Statutory Liquidity Ratio:** It refers to the minimum percentage of the total deposits of a commercial bank which it has to maintain in the form of liquid assets like cash, marketable bonds, gold reserves etc.
- g). **Margin Requirements:** It refers to the percentage difference between the market value of the collateral and the Amount of loan extended against it.

Very short answer or MCQ type Questions

(1 - Marks)

1. Money is a medium of
 - (a) Communication
 - (b) Barter
 - (c) Exchange
 - (d) Speculation
2. Supply of money in India is regulated by-
 - (a) Govt. of India
 - (b) Reserve Bank of India
 - (c) Finance Ministry
 - (d) Commercial Banks
3. Supply of money refers to the quantity of money in the economy-
 - (a) Flow of money during a calendar year
 - (b) Flow of money during a financial year
 - (c) Stock of money as on 31 march, only
 - (d) Stock of money as on any point of time
4. Money supply is equal to
 - (a) Money seved in post office savings bank only
 - (b) Total stock of money held by government.
 - (c) Total stock of money circulating in an economy
 - (d) Total flow of money circulating in an economy.
5. Supply of money refers to
 - (a) Currency held by the police
 - (b) Currency held by Reserve Bank of India (RBI)
 - (c) Currency held by the public and demand with commerial bank
 - (d) Currency held by by government

6. The process of money creation or credit creation is done by
 (a) Ministry of finance (b) World bank
 (c) Central bank (d) Commercial bank
7. What do you mean by credit creation by commercial banks?
 (a) It is the process of loan creation
 (b) It is the process of creation of foreign exchange
 (c) It is the process of total withdrawal creation
 (d) It is the process of total deposit creation
8. Central bank is an
 (a) Apex bank (b) International bank
 (c) Regional bank (d) Commercial bank
9. One of the measures of money supply is
 (a) demand deposit (b) fixed deposit
 (c) time deposit (d) recurring deposit
10. An example of flow concept is
 (a) money creation (b) money supply
 (c) demand deposit (d) currency in circulation
11. The credit creation is a function of central bank. True/False
12. The 'State bank of India' is a Banker to the Government True/False
13. The 'Central bank of India' is a commercial bank True/False
14. Sita: I want one kilogram of apples.
 Geeta: What do you have to offer against it?
 Sita: I have 2 dozen bananas.
 Geeta: Sorry, I don't eat bananas, Rather I want some grapes.

Which shortcoming of the barter system is highlighted in the above conversation

- a. Lack of double coincidence of wants
 - b. Lack of common measure of value
 - c. Problem in storing the value
 - d. All of the above
15. Read the following statements_ Assertion (A) and Reason (R). Choose one of the correct alternatives given below.

Assertion (A): Qualitative credit control tools control the total volume of credit.

Reason (R): Qualitative tools discourage or encourage lending which is done through selective credit control, margin requirements etc.

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

Short Answer type questions

(3-4 marks)

- 1. What do you mean by money supply and its components?
- 2. Define the money multiplier and explain with suitable numerical example.
- 3. Explain the function of central bank as Govt. Bank or banker to the Government.
- 4. How the RBI play a role of issue of notes/currency for economy of India?
- 5. Calculate the value money multiplier and the total deposit created if initial

deposit is Rs. 5000 crores and LRR is 10%.

6. If total deposits created by commercial banks are Rs.12,000, LRR is 25%, Calculate initial deposit.
7. What is meant by problem of double coincidence of wants? How does money solves this problem?
8. Explain the store of value and standard for deferred payments function of money.

III. Long Answer type Questions (6 - Marks)

1. What do you mean by credit creation or money creation? Explain the process of Money creation by the commercial banks with the help of anumerical example.
2. Explain any two functions of RBI as a central bank.
3. Describe any two of following.
 - i) Money supply
 - ii) Money multiplier
 - iii) Issue of bank note or currency system in India.

Chapter-III

Unit -3

Determination of Income & Employment

Points of Remember

- **Aggregate Demand (AD):** AD refers to total value of all final goods and services that are planned to be bought by all the sectors of the economy at a given level of income during a period of time. AD represents the total planned expenditure on final goods and services in an economy during a period of time.

- **Components of Aggregate demand are :**

- (i) Household consumption expenditure (C).
- (ii) Investment expenditure (I)
- (iii) Govt, consumption expenditure (G).
- (iv) Net export (X-M).

$$\text{Thus, AD} = C + I + G + (X-M)$$

$$\text{In two sector economy AD} = C + I$$

- **Aggregate supply (AS)** refers to total value of all final goods and services that are planned to be produced by all the producing units in the economy during a given period of time. It is also the value of total planned output in an economy during a given period of time. Aggregate supply is always equal to National Income in two sector economy.

$$AS = C + S$$

- Aggregate supply represents the national income of the country. $AS = Y$ (National Income)

- **Consumption function** shows functional relationship between income and consumption.

$$C = f(Y)$$

where C= consumption expenditure

Y = National income

f = Functional relationship

Equation of consumption function

$$C = \bar{C} + MPC.Y$$

\bar{C} = Autonomous Consumption.

■ **Autonomons Consumption:**

Autonomous consumption (C) does not change with a change in income. Consumption expenditure at zero level of income is called autonomous Consumption.

- Propensity to consume is the tendency to spend on goods and services. It is of two types:

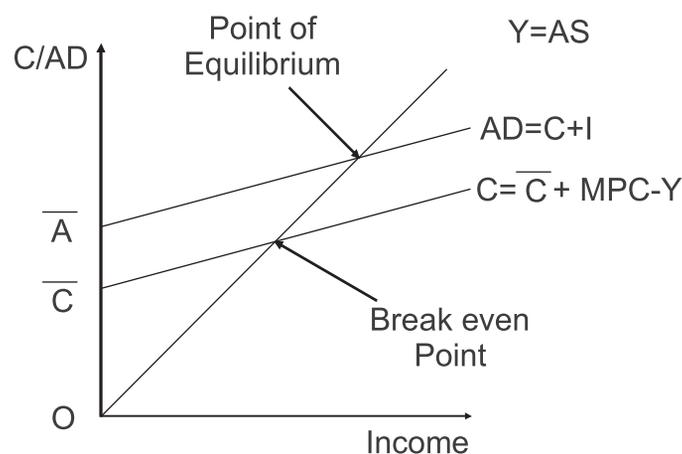
(a) Average propensity to consume (APC)

(b) Marginal propensity to consume (MPC)

- Average propensity to consume (APC): It refers to the ratio of aggregate consumption expenditure to the aggregate income.

$$APC = \frac{\text{Consumption}(C)}{\text{Income}(Y)} = \frac{C}{Y}$$

Break even point $C = Y$



■ **Important Points about APC**

- (i) **APC is more than 1:** as long as consumption is more than national income. It means before the break-even point, $APC > 1$,
- (ii) **APC = 1**, at the break-even point, consumption is equal to national income. $C < Y$
- (iii) **APC is less than 1:** beyond the break-even point. Consumption is less than national income. $C < Y$
- (iv) **APC falls** with increase in income.
- (v) **APC can never be zero :** because even at zero level of national income, there is autonomous consumption.

- **Marginal Propensity to Consume (MPC):** Marginal propensity to consume refers to the ratio of change in consumption expenditure to change in income.

$$MPC = \frac{\text{Change in Consumption}}{\text{Change in Income}} = \frac{\Delta C}{\Delta Y}$$

■ **Important Points about MPC**

- **Value of MPC varies between 0 and 1:** But if the entire additional income is consumed, then $\Delta C = \Delta Y$, making $MPC = 1$. However, if entire additional income is saved then $\Delta C = 0$, making $MPC = 0$.

- **Savings function** refers to the functional relationship between saving and national income.

$$S = f(Y)$$

Equation of savings function

$$S = -\bar{C} + MPS.Y$$

where S = savings

Y = National Income

f = Functional relationship

- Propensity to save is the tendency to save a part of Income . It is of two types:

- (i) Average Propensity to Save (APS)
- (ii) Marginal Propensity to Save (MPS)

- **Average Propensity to Save (APS)** : Average propensity to save refers to the ratio of aggregate savings to the aggregate income.

$$APS = \frac{\text{Savings}}{\text{Income}} = \frac{S}{Y}$$

- **Important Point about APS**

1. APS can never be 1 or more than 1 : As saving can never be equal to or more than income.

$$Y = C + S, C \neq 0$$

2. **APS can be zero** : At break even point $C = Y$, hence $S = 0$.
3. **APS can be negative** : At income levels which are lower than the break-even point, APS can be negative when consumption exceeds income.
4. APS rises with increase in income.

- **Marginal Propensity to save (MPS)**: Marginal propensity to be save refers to the ratio of change in savings to change in total income. It can't be negative.

$$MPS = \frac{\text{Change in Savings}}{\text{Change in income}} = \frac{\Delta S}{\Delta Y}$$

- **MPS varies between 0 and 1**, but

(i) If the entire additional income is saved. In such a case, $\Delta S = \Delta Y$, then $MPS = 1$,

(ii) If the entire additional income is consumed. in such a case $\Delta S = 0$, then $MPS = 0$.

- **Relationship between APC and APS**

The sum of APC and APS is equal to one. it can be proved as under we know:

$$Y = C + S$$

Dividing both sides by Y, we get

$$\frac{Y}{Y} = \frac{C}{Y} + \frac{S}{Y}$$

$$1 = APC + APS$$

$$APC = 1 - APS \text{ or } APS = 1 - APC$$

because income is either used for consumption or for savings.

■ **Relationship between MPC and MPS**

The sum of MPC and MPS is equal to one. It can be proved as under:

$$\Delta Y = \Delta C + \Delta S$$

Dividing both sides by ΔY , we get

$$\frac{\Delta Y}{\Delta Y} = \frac{\Delta C}{\Delta Y} + \frac{\Delta S}{\Delta Y}$$

$$1 = MPC + MPS$$

$$\left[\because \frac{\Delta C}{\Delta Y} = MPC, \frac{\Delta S}{\Delta Y} = MPS \right]$$

$MPC + MPS = 1$ because total increase in income is either used for consumption or for savings.

- Capital Formation / Investment refers to increase in the stock of capital goods during a financial year.
- The investment expenditure is classified under two heads :
 - (i) Induced investment
 - (ii) Autonomous investment.
- **Induced Investment** : Induced investment refers to the investment which depends on the profit expectations and is directly influenced by income level (**only for reference**).
- **Autonomous Investment** : Autonomous investment refers to the investment which is not affected by changes in the level of income and is not induced solely by profit motive. It is income inelastic.

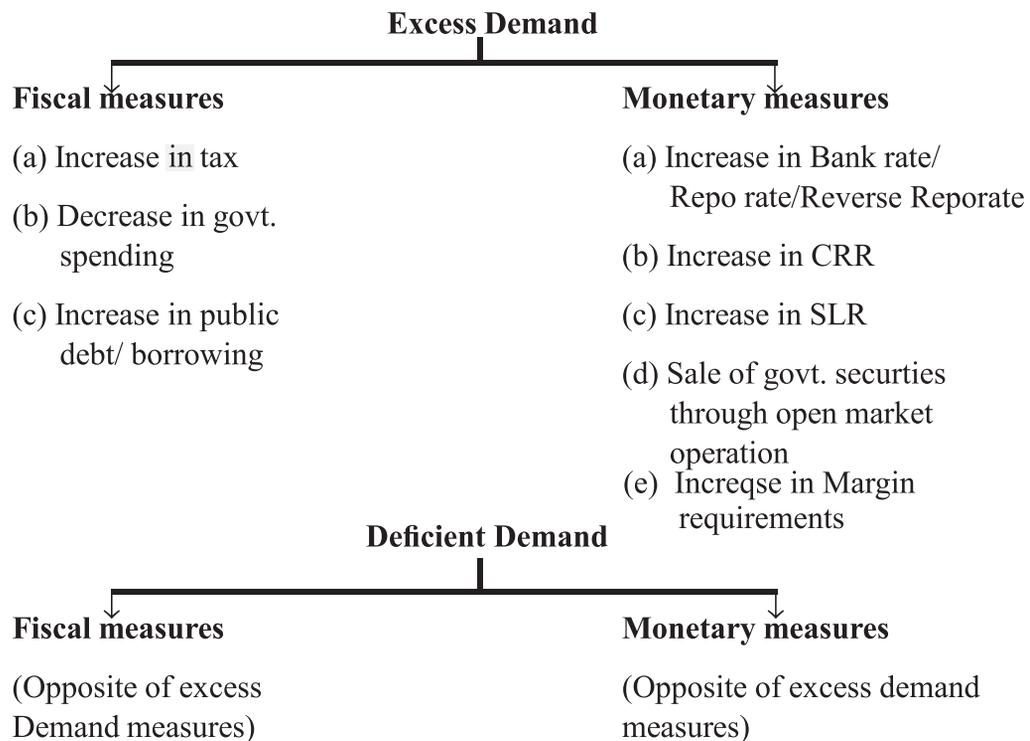
- **Ex-Ante Savings** : Ex-ante savings refers to amount of savings which all the household intended to save at different levels of income in the economy at the beginning of period. It is also known as 'planned savings.'
- **Ex-Ante Investment**: Ex-ante investments refers to amount of investment which all the firms plan to invest at different levels of income in the economy at the beginning of the period. It is also known as 'planned investment'.
- **Ex-Post Savings** : Ex-post savings refer to the 'actual or realised savings' in an economy during a financial year at end of the period.
- **Ex-Post Investment** : Ex-post investment refers to the 'actual or realised investment' in an economy during a financial year at the end of the period.
- **Autonomous consumption**: The component of consumption expenditure which is not affected by changes in income.
- **Equilibrium level of income** is determined at the point where $AD = AS$ or $S = I$. But it is not always at full employment level. It can be at less than full employment level or over full employment level.
- **Full employment** is a situation when all those who are able and willing to work at prevailing wage rate, get the opportunity to work.
- **Voluntary unemployment** is a situation where person is able to work but not willing to work at prevailing wage rate.
- **Involuntary unemployment** is a situation where worker is able and willing to work at prevailing wage rate but does not get work.
- **Investment multiplier (K)** is the ratio of change in income (ΔY) due to change in investment (ΔI).

$$K = \frac{\Delta Y}{\Delta I} \quad \text{or} \quad K = \frac{1}{1 - MPC} \quad \text{Or} \quad K = \frac{1}{MPS}$$

- Value of Investment multiplier lies between 1 to infinity.
- **Excess demand** refers to a situation when aggregate demand exceeds aggregate supply corresponding to full employment.
- **Deficient Demand** refers to a situation when aggregate demand falls short of aggregate supply corresponding to full employment.

- **Deflationary gap** is the gap by which actual aggregate demand is less than the level of aggregate demand required to establish full employment. It is the magnitude of deficient aggregate demand.
- **Ex- ante Consumption:** Ex - ante refers to the planned consumption at certain level of national income in an economy.
- **Induced consumption:** This refers to that level of consumptions which directly depends on the level income.
- **Inflationary gap** is the gap by which actual aggregate demand is more than the level of aggregate demand required to establish full employed. It is the magnitude of excess

Measures to correct excess demand of deficient demand



Multiple Choice Questions

1. Which of the following is correct for MPS.

- (a) $0 \leq \text{MPS} \leq 1$ (b) $\text{MPS} = 1 - \text{MPC}$
- (c) $\text{MPS} = \frac{1}{\text{Investment Multiplier}}$ (d) All of the above
2. The consumption curve intersects Y axis above point of origin because
- (a) The value of MPC is never negative
 (b) Consumption expenditure increases with income
 (c) Consumption expenditure is never zero
 (d) None of the above
3. The value of investment multiplier is
- (a) $\frac{1}{1 - \text{MPC}}$ (b) $\frac{1}{\text{MPC} - 1}$
- (c) $\frac{1}{\text{MPS} - 1}$ (d) $\frac{1}{1 - \text{MPS}}$
4. Net export is zero when
- (a) Savings = Investment (b) Export = Import
 (c) Income = Expenditure (d) All of the above
5. In which of the following case the value of investment multiplier will be highest
- (a) $\text{MPC} = \text{MPS}$ (b) $\text{MPC} < \text{MPS}$
 (c) $\text{MPC} > \text{MPS}$ (d) $\text{MPC} = 0$

Fill in the blanks

6. MPC is the ratio of change in.....to change in.....
7. If $\text{MPC} = \text{MPS}$, the investment multiplier, k is equal to.....
8. The government should.....its expenditure in order to correct the situation of excess demand, (increase/decrease)
9. The consumption curve is parallel to X axis when MPC equals.....

10. APC is equal to.....at break even point of income.

True or False

11. Savings curve and consumption curve can never be parallel to each other
12. A PC can never be equal to APS.
13. MPC and investment multiplier are inversely related
14. APS is zero at break even point of income.
15. A PC falls with increase in income.
16. The minimum value of investment multiplier is zero
17. Consumption curve never intersects X axis.

CBSE Latest Format Questions

18. Read the following statements Assertion (A) and Reason (R). Choose the correct alternative from given below

Assertion (A) APS is always less than 1.

Reason (R) APC can never be zero.

Alternatives

- a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)
- c) Assertion (A) is true, but Reason (R) is false
- d) Assertion (A) is false, but Reason (R) is true
19. Read the following statements Assertion (A) and Reason (R). Choose the correct alternative given below

Assertion (A) Inflationary gap is the horizontal distance between AD curve and 45° line at full employment level of income.

Reason (R) Govt, uses contractionary fiscal policy to correct inflationary gap.

Alternatives

- a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
 - b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)
 - c) Assertion (A) is true, but Reason (R) is false
 - d) Assertion (A) is false, but Reason (R) is true
20. Read the following paragraph carefully and answer the questions on the basis of the same.

Union finance minister has said that the government will increase investment by spending extra 250 billion rupees (\$ 3.41 billion) on roads, ports and defence projects. It will offer 120 billion rupees in interest free 50-year loans to state governments for spending on infrastructure before March 31,2021. The minister said that all these measures are likely to create an additional demand of 730 billion rupees (\$9.96 billion). The govt, will also allow its employees to spend tax-exempt travel allowances on goods and services.

Hindustan Times 12 October 2020

- i. The above measures of government falls under.....
 - (a) Contractionary fiscal policy
 - (b) Expansionary fiscal policy
 - (c) Contractionary monetary policy
 - (d) Expansionary monetary policy
 - ii. What is the expected impact of above policy on future national income?
 - iii. What is the expected impact of above policy on govt debt?
21. Read the following paragraph carefully and answer the question on the basis of the same.

Finance Minister Nirmala Sitharaman on Thursday announced a fresh set of relief and stimulus measures for the economy worth Rs.1.19 lakh crore, including a scheme to boost re employment chances of formal sector

employees who lost their jobs amidst the COVID-19 Pandemic

The measures, announced a day after the Reserve Bank of India (RBI) said the country had entered into a technical recession in the first half of 2020-21, include a Rs. 65,000 crore additional outlay for providing fertiliser subsidies to farmers.

The Hindu, 12 November 2020

- i. The stimulus package is expected to
 - a. Increase aggregate demand
 - b. Increase aggregate supply
 - c. Generate employment
 - d. All of the above
- ii. Which sector of the economy has received over half of the share of this stimulus package
 - a. Primary sector
 - b. Secondary sector
 - c. Tertiary sector
 - d. None of the above
- iii. To overcome the situation of technical recession that occurred in first half of 2020-21, the government should.....the tax rates, (increase/decrease)

Answer to objective questions

- | | | |
|-----------|----------------|--------------------------|
| 1. (d) | 2. (c) | 3. (a) |
| 4. (b) | 5. (c) | 6. (Consumption, income) |
| 7. (2) | 8. (decrease) | 9. Zero |
| 10. One | 11. False | 12. False |
| 13. False | 14. True | 15. True |
| 16. False | 17. True | 18. (a) |

19. (c) 20. (i) (b) 20. (ii) (Rise in income)
 20. (iii) Rise in Govt. Debt. in short term 21. (i) (a)
 21. (ii) (a) 21. (iii) decrease

SHORT ANSWER TYPE QUESTIONS

(3-4 MARKS)

1. In an economy the MPC is 0.75. Investment expenditure in the economy increase by Rs. 75 Crore. Calculate total increase in national income.

Ans.
$$K = \frac{1}{1 - MPC} = \frac{1}{1 - 0.75}$$

$$K = 4$$

$$K = \frac{\Delta Y}{\Delta I}$$

$$4 = \frac{\Delta Y}{75}$$

$$\Delta Y = 4 \times 75 = \text{Rs. 300 crore}$$

2. An economy is in equilibrium. Its consumption function is $C = 300 + 0.8Y$ and investment is Rs. 700 find national income.

Ans.
$$C = 300 + 0.8Y$$

$$Y = C + I$$

$$Y = 300 + 0.8Y + 700$$

$$0.2Y = 1000$$

$$Y = 5000$$

National Income = Rs. 5000

3. Explain the distinction between voluntary and involuntary employment.

Ans. Voluntary unemployment is a situation where person is able to work but not willing to work at prevailing wage rate. Involuntary unemployment is a situation where worker is able and willing to work at prevailing wage rate but does not get work.

4. Explain the relationship between investment multiplier and MPC?

Ans. $K = 1/(1 - MPC)$, it shows direct relationship between MPC and the value of multiplier. Higher the proportion of increased income spent on consumption, higher will be value of investment multiplier.

5. Saving curve of an economy makes a negative intercept of Rs. 30 crores and 20% of the increased income is saved. Give savings and consumption function.

Ans. $\bar{C} = \text{Rs.}30 \text{ Crore}$

$$MPS = 0.2$$

∴ Savings function is

$$S = -\bar{C} + MPS.Y$$

$$= -30 + 0.2Y$$

$$MPC = 1 - 0.2 = 0.8$$

Hence, consumption Function is -

$$C = \bar{C} + MPC.Y$$

$$C = 30 + 0.8Y$$

Long Answer Type Questions

(6 Marks)

1. Explain the role of the following in correcting deficient demand in an economy.

(a) Open Market Operation

(b) Bank Rate

2. Explain the role of the following in correcting 'Excess Demand in an Economy'.

1. Bank Rate

2. Open Market Operation
3. Explain the role of following in correcting the deflationary gap in an economy.
 1. Govt. Expenditure
 2. Cash Reserve Ratio
4. Explain the role of margin requirements for correcting the deflationary gap.
5. in an economy 75% of the increase in income is spent on consumption. Investment increased by Rs. 1000 Crore Calculate.
 1. Total increase in income
 2. Total increase in consumption expenditure.

Ans. $MPC = 75\% = 75/100 = 3/4$.

$$MPS = 1 - 3/4 = 1/4, K = 4$$

1. $\Delta Y = \Delta I \times K$

$$\Delta Y = 1000 \times 4$$

$$= \text{Rs. 4000 crore}$$

2. $MPC = \frac{\Delta C}{\Delta Y}$

$$0.75 = \frac{\Delta C}{4000}$$

$$0.75 \times 4000 = \Delta C$$

$$\Delta C = \text{Rs. 3000 Crores}$$

6. In an economy equilibrium level of income of Rs. 1200 Crores. The ratio of MPC to MPS is 3 : 1. Calculate the additional investment needed to reach a new equilibrium level of income of Rs. 2000 crores.

Ans. $MPC = \frac{3}{4} = 0.75$

$$K = 1/(1-MPC) = 1/(1-0.75) = 4$$

$$\Delta Y = 2000 - 1200 = 800 \text{ Crores}$$

$$K = \Delta Y / \Delta I$$

$$\Delta I = \text{Rs. } 200 \text{ crores}$$

7. Assuming that increase in investment is Rs. 1,000 crore and marginal propensity to consume is 0.9, explain the working of multiplier.

Ans. Investment multiplier simply the multiplier is measured as a ratio between change in output income and change in investment.

$$(K) = \frac{\text{Change in Income}(\Delta I)}{\text{Change in Investment}(\Delta I)}$$

Also, there is a direct relationship between investment multiplier and marginal propensity to consume (MPC): Multiplier can also be estimated by using the following formula.

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

So, If MPC = 0.9, then

$$K = \frac{1}{1 - 0.9} = \frac{1}{0.1} = 10$$

Now, If the investment increase by Rs. 1,000 crore, then increase in income can be computed by substituting the values in the following formula.

$$K = \frac{\Delta Y}{\Delta I} \Rightarrow 10 = \frac{\Delta Y}{1000}$$

\Rightarrow Change in income (ΔY) = Rs. 10,000 crore.

So, if investment increase by Rs. 1,000 crore and MPC = 0.9, then in such an instance, income will increase by Rs. 10,000 crore.

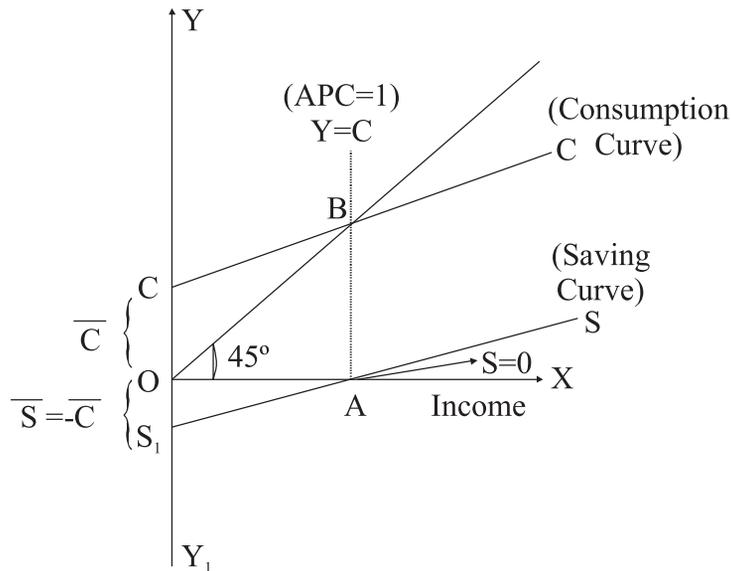
8. Explain the steps taken in derivation of the savings curve from the given consumption curve. Use diagram.

Ans. Consumption and savings are the two components of income. i.e, $Y = C + S$.

At all income levels total of consumption and savings is equal to income. This means consumption and income are complementary to one another. If consumption curve is known then savings curve can easily be made.

Steps:

1. Draw a line at 45° from the origin.
2. This will intersect consumption curve CC at point B , Consumption (C) = Income (Y) at point B .
3. Draw a line segment from Pt. B which is perpendicular to X - axis, foot of the perpendicular meets x - axis at point A . Savings is zero at point A .
4. Now take a point S_1 on the negative on y -axis such that OS_1 equal OC , So S_1 is the initial point of savings.
5. In the last, draw a line from S_1 to A , and extend it upto S . Thus SS_1 is the required savings curve.

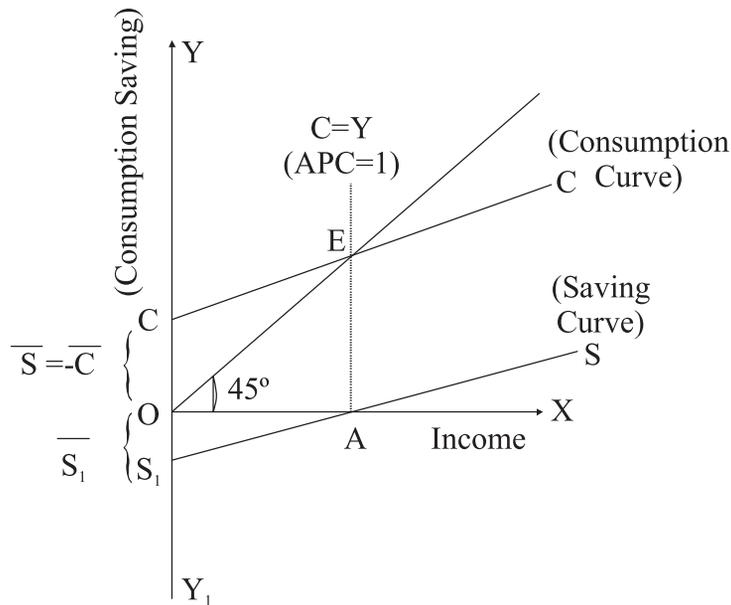


9. Explain the steps taken in derivation of the saving curve from the given consumption curve. Use diagram

Ans. From the saving curve S_1S , consumption curve can be drawn.

Steps:

1. First of all, draw a line at 45° from the origin.
2. Take a point C on the y-axis positive intercept such that $OS_1 = OC$ Thus C is the initial point of the consumption curve.
3. Point B on the x-axis represents zero saving Draw a perpendicular from B point which intersect As line at E . At Po.r E. consumption (C) = Income (Y).
4. In the last, draw a line connecting C and point E Thus CC is the required consumption curve.



SHORT ANSWER TYPE QUESTIONS

3 MARKS

1. Given reasons, state whether the following statements are true or false.
 - (i) When marginal propensity to consumer is zero, the value of investment multiplier will also be zero.

- (ii) Value of average propensity to save can never be less than zero.
- Find equilibrium national income from the following : autonomous consumption - Rs. 100, marginal propensity to consume = 0.80. investment = Rs. 50.
 - Calculate APS and MPC from the following table :

Income(Rs. 000):	0	100	200	300	400
Consumption (Rs. 000):	40	120	200	280	360

- Complete the table

Income (Rs.)	MPC	Savings	APS
0	-	-90	-
100	0.6	-	-
200	0.6	-	-
300	0.6	-	-

LONG ANSWER TYPE QUESTIONS (6 MARKS)

- Why must aggregate demand be equal to aggregate supply at the equilibrium level of income and output? Explain with the help of a diagram?
- Explain the equilibrium level of income with the help of saving and investment curves. If planned saving exceeds planned investment, what changes will bring about the equality between them?
- Explain the working of multiplier with the help of a numerical example.
- When planned investment is more than planned savings, what will be its impact on income and employment. Explain with the help of diagram.
- Distinguish between excess demand and deficient demand.

6. In an economy $S = -50 + 0.5Y$ is the saving function (when $S =$ Savings and $Y =$ national income) and investment expenditure is 700.
- Calculate.
- Equilibrium level of national income
 - Consumption expenditure at equilibrium level of national income.
7. In an economy consumption function $C = 75 + 0.9y$ and investment expenditure of Rs. 400 crore. Calculate :
- Equilibrium level of income
 - Savings at equilibrium level of national income.
8. Given below is the consumption function in an economy.
- $$C = 100 + 0.5 Y$$
- With the help of a numerical example show that in this economy, as income increases APC will decrease.
9. Draw a straight line saving curve from the given consumption curve, explaining the steps of derivation. Show a point on the consumption curve at which APC is equal to 1.
10. Briefly explain the concept of under employment equilibrium with the help of diagram. How increase in investment helps in achieving, full employment equilibrium?
11. In an economy, aggregate Demand is less than aggregate supply. Explain the changes that will take place in this economy. State one fiscal measure to correct the situation.
12. The value of marginal propensity to consume is 0.6 and initial income in the economy is Rs. 100 crore. Prepare a schedule showing income, consumption and savings. Also show the equilibrium level of income by assuming Autonomous Investments of Rs. 800 Crores.
13. If MPC in the economy is 0.8. Complete the following table.

Income (Rs.) (Y)	Consumption (Rs.) (C)	Saving (Rs.) (S)	Investment (Rs.) (I)	AD (C+I)	AS (C+S)
0		-60	40		
100			40		
200			40		
300			40		
400			40		
500			40		
600			40		
700			40		

14. In an economy total autonomous spending $\bar{A}(\bar{C} + \bar{I})$ is Rs. 50 and MPC is 0.2. Equilibrium level of income is Rs. 4000 crore, find planned AD and also explain that economy is in equilibrium?
15. As a result of increase in investment by Rs. 100 Crore, national income rises by Rs. 500 crore. Find out marginal propensity to consume and value of investment multiplier.
16. We know that value of investment multiplier directly depends upon MPC. More MPC means more value of investment multiplier. It leads to more generation of national income Why does under developed economy grow slowly even though there is more MPC? Explain.

ANSWER OF 3 MARKS QUESTIONS

2. Given, $\bar{C} = 100$, MPC = 0.8

$$I = 50$$

At equilibrium

$$Y = AD = C + I$$

$$Y = \bar{C} + MPC \cdot Y + I$$

$$Y = 100 + 0.8 \times Y + 50$$

$$Y(1 - 0.8) = 150$$

$$Y = 150/0.2 = \text{Rs. } 750 \text{ crores.}$$

3.	Income	Consumption	MPC	APS
	(Rs. 1000)	Expenditure	($\Delta C/\Delta Y$)	(S/Y)
	0	40	-	-
	100	120	0.8	-0.2
	200	200	0.8	0
	300	280	0.8	0.067
	400	360	0.8	0.1
4.	Income	MPC	Savings	APS
	0	-	-90	-
	100	0.6	-50	-0.5
	200	0.6	-10	-0.05
	300	0.6	30	0.1

6 MARKS QUESTIONS

6. Given $S = -50 + 5y$ and $I = 700$

(i) At equilibrium

$$S = I$$

$$\text{So, } -50 + .5Y = 700$$

$$.5Y = 750$$

$$Y = \frac{750}{.5} = 1500$$

(ii) $Y = C + S$

$$C = Y - S$$

$$= 1500 - 700 \text{ (as } I = S)$$

$$= 800$$

7. Here $C = 75 + .9Y$

$$\text{and } I = 400$$

So, $S = -75 + .1Y$

(i) at equilibrium

$$I = S$$

$$-75 + .1Y = 400$$

$$.1Y = 475$$

$$Y = \frac{475}{.1} = 4750, Y = 4750$$

(ii) at equilibrium

$$S = I$$

So savings = 400

13.	Income (Y)	Consumption (C)	Saving (S)	Investment (I)	AD (C+I)	AS (C+S)
	0	60	-60	40	100	0
	100	140	-40	40	180	100
	200	220	-20	40	260	200

300	300	0	40	340	300
400	380	20	40	420	400
500	460	40	40	500	500
600	540	60	40	580	600
700	620	80	40	660	700

14. Given $MPS = 0.2, Y = 4000$
 $MPC = 0.8 \quad C = \bar{C} + 0.8Y$
 $AD = C + I$ Given
 $= \bar{C} + 0.8Y + \bar{I} \quad [\bar{C} + \bar{I} = \bar{A} = 50]$
 $= \bar{A} + 0.8Y$
 $AD = 50 + 0.8Y$
 $AD = 50 + 0.8 \times 4000$
 $= 3250$

In Equilibrium

$$AS = AD$$

$$Y = AD$$

$$4000 \neq 3250$$

Economy will not be in equilibrium because AD is not equal to AS.

15. $K = \frac{\Delta Y}{\Delta I} = \frac{500}{100} = 5$

$$K = 5$$

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

$$5 = \frac{1}{1 - \text{MPC}}$$

$$5 - 5\text{MPC} = 1$$

$$5 = 1 + 5 \text{ MPC}$$

$$5 - 1 = 5 \text{ MPC}$$

$$4 = 5 \text{ MPC}$$

$$\text{MPC} = \frac{4}{5} = 0.8$$

$$\text{MPC} = \mathbf{0.8}.$$

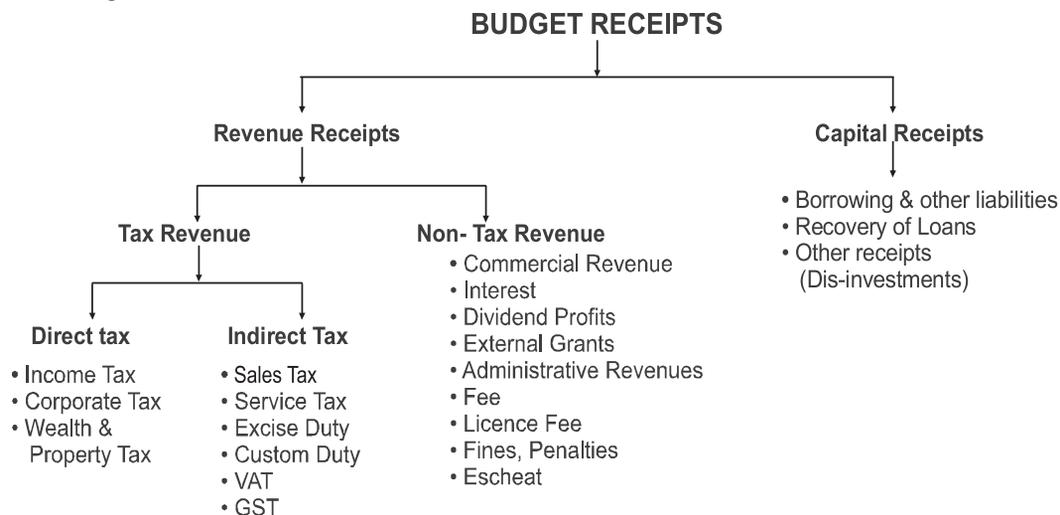
CHAPTER-4

Unit -IV

GOVERNMENT BUDGET AND THE ECONOMY

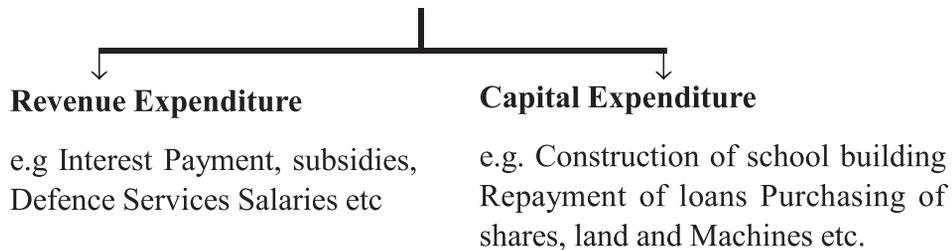
Points to Remember:

- **Government Budget** is an annual financial statement showing the expected receipt and expenditure of Govt, for the coming fiscal or financial year.
- **Main objectives of budget are .**
 - (i) Re-allocation of resources.
 - (ii) Re-distribution of income and wealth
 - (iii) Economic Stability
 - (iv) Management of Public enterprises.
- There are two components of budget:
 - (a) Revenue budget
 - (b) Capital budget
- **Revenue Budget** consists of revenue receipt and revenue expenditure of the government.
- **Capital budget** consists of capital receipts and capital expenditure of the government.



- **Direct Tax :** When Government imposes a tax on a person and paid by the same person is called direct tax. Its burden cannot not be shifted to others. For example : Income Tax, Property Tax.
- **Indirect Tax :** When Government imposes a tax on a person partially or wholly paid by other person is called indirect tax Burden can be shifted to others. For example : Sales Tax,Excise duty VAT, GST, etc.
- **Revenue Receipts :**
 - (i) Neither creates liabilities for government.
 - (ii) Nor causes any reduction in assets.
 - (iii) Recurring in nature.
- **Capital Receipts :**
 - (i) Either creates liabilities of the government.
 - (ii) or reduces assets of the government.
 - (iii) Non-recurring in nature.

BUDGET EXPENDITURE



- **Revenue Expenditure :**
 - (i) Neither creates assets
 - (ii) Nor reduces liabilities
 - (iii) Recurring Nature
- **Capital Expenditure :**
 - (i) Either creates assets
 - (ii) Nor reduces liabilities.
 - (iii) Non-recurring Nature

- Revenue deficit is the excess of total revenue expenditure over total revenue receipts of the government.

Revenue Deficit = Total revenue expenditure > Total revenue receipts

- Implications of Revenue Deficit are :

- (i) It leads to repayment burden in future without investment.
- (ii) It shows wasteful expenditures of Govt. on administration.
- (iii) It increase the burden of taxes.

- **Fiscal Deficit** = Fiscal deficit is the excess of the government total expenditure over total receipts excluding borrowing.

Fiscal Deficit = Total expenditures - Total Receipts excluding borrowing.

- **Implications of Fiscal Deficits are :**

- (i) It leads to inflationary pressure.
- (ii) A country has to face debt trap.
- (iii) It reduces future growth and development.

- **Primary Deficit** = By deducting Interest payment from fiscal deficit we get primary deficit.

Primary Deficit = Fiscal deficit - Interest payments.

TYPES OF BUDGET:

Budget can be of three types :

- (i) **Surplus Budget:** when the budget receipts of the government exceeds the budget expenditure , the budget is said to be surplus budget .
- (ii) **Balanced Budget:** When the budget receipts are equal to the budget expenditure , it is termed as balanced budget .
- (iii) **Deficit Budget :** When the budget receipts fall short of budget expenditure , the budget is said to be a deficit budget .

Budget is used as a tool by the government to ensure economic stability in the country, in the situation of inflationary conditions , the government prepares a surplus budget. Assuming that tax is the sole source of government revenue , a surplus budget will

imply that the government is collecting more taxes from the people and spending less on them . This reduces the disposable income of the people and hence reduces the demand in the economy which helps the government to control inflation .

On the other hand , if there are recessionary conditions with high unemployment , the government prepares a deficit budget which implies that government is imposing less taxes on people and spends more on them . This increases the disposable income of the people . Thus , demand in the economy increases via both increase in disposable income and direct expenditure by the government . Hence , the producers get induced to produce more and therefore , the employment opportunities increase

<p>EXAM. ORIENTED QUESTIONS WITH ANSWER</p> <p>VERY SHORT ANSWER QUESTION (1 MARKS)</p>

Multiple Choice Questions (1 Marks)

1. An example of a direct tax is-
(a) GST (b) VAT
(c) Income Tax (d) Sales Tax
2. Direct tax is the tax which is imposed on
(a) Corporations (b) Sales of goods
(c) Production of Goods (d) Services Providers
3. Which of the following is not a revenue receipts for government?
(a) Disinvestment (b) Income Tax
(c) Fee & Fines (d) Profits & dividends of PSUs
4. The policy useful to reduce inequalities of income is the
(a) Industrial Policy (b) Population policy
(c) Budgetary policy (d) Foreign policy
5. budgetary policies are implemented by
(a) Foreign Ministry (b) Finance Ministry

- (c) Reserve Bank of India (d) Commercial Banks
6. Capital Receipts are these which.....
- (a) create new assets for government
 - (b) create Liability for the government
 - (c) do not create assets for government
 - (d) do not create liability for the government
7. Disinvestment is a
- (a) Capital Expenditure (b) Revenue expenditure
 - (c) Capital Receipt (d) Revenue Receipt
8. Total interest payment on government borrowings is not a part of -
- (a) Primary Deficit (b) Revenue Deficit
 - (c) fiscal Deficit (d) Budgetary Deficit

Fill in the blanks (1 marks.)

9. Custom duty is a/an.....tax.
10. Goods and services tax is a/an.....tax

True/ false type questions.

11. The budget speech is given by the finance Minister.
12. Central excise duty is direct tax
13. A Budget is said to be a surplus budget is
- (a) Revenue receipts exceed revenue expenditure
 - (b) Capital receipts exceed capital expenditure
 - (c) Total budget receipts exceed total budget expenditure
 - (d) All of the above
14. Under inflationary conditions, the government should plan
- (a) Surplus budget
 - (b) Deficit budget

(c) Balanced budget

(d) Any of the above

Answer Key

1-c, 2-a, 3-a, 4-c, 5-b, 6-b, 7-c, 8-a

9- Indirect, 10-Indirect, 11-Ture, 12- False 13- c, 14- a

QUESTIONS WITH ANSWERS

3-4 MARKS

Q.1. Explain the ‘redistribution of income’ objective of a government budget.

OR

Explain how the government budget can help in a fair distribution of income in the economy.

Q.2. Explain the “Reallocation of resources” objective of a government budget.

Q.3. Distinguish between revenue receipts and capital receipts with the help of example:

Q.4. Distinguish between Revenue Expenditure and Capital Expenditure with the help of example:

Q.5. Distinguish between Direct and Indirect Tax :

6. What is meant by fiscal deficit. Write its implications.

7. What is revenue deficit ? State its implications.

8. Calculate (1) Revenue deficit (2) Fiscal Deticit (3) Primary Deficit by following Data :

(Rs. Crore)

1.	Capital Receipts other than borrowings	95
2.	Revenue Expenditure	100
3.	Interest payment	10
4.	Revenue Receipts	80

5. Capital Expenditure

110

Ans. 1. Revenue deficit = Revenue expenditure - Revenue Receipts

$$= 100 - 80 = \text{Rs. } 20 \text{ Crore.}$$

2. Fiscal Deficit = (Revenue Expenditure + Capital Expenditure) - Revenue Receipts - Capital receipts net of borrowings

$$= 100 + 110 - 80 - 95 = \text{Rs. } 35 \text{ Crore.}$$

3. Primary deficit = Fiscal Deficit - Interest Payment

$$= 35 - 10 = \text{Rs. } 25 \text{ Crore.}$$

9. Find (a) fiscal deficit (b) primary deficit.

<u>Items</u>	<u>In Rs. Crore</u>
(i) Revenue expenditure	70,000
(ii) Borrowings	15,000
(iii) Revenue Receipts	50,000
(iv) Interest Payments	25% of Revenue deficit

Sol. Revenue Deficit = Revenue exp - Revenue Rec

$$= 70,000 - 50,000$$

$$= 20,000 \text{ crore}$$

Interest Payment = 25% of Revenue deficit

$$= 25 \times 20,000$$

$$= 5,000$$

$$= 5,000 \text{ crore}$$

(a) Fiscal Deficit = Borrowings

$$= 15,000 \text{ crore}$$

(b) Primary Deficit = Fiscal Deficit - Interest Payment

$$= 15,000 - 5,000 = 10,000 \text{ crore}$$

UNIT-V
CHAPTER - 5
BALANCE OF PAYMENTS

Points to Remember

- ❑ The balance of payments is a comprehensive and systematic record of all economic transaction between normal residents of a country and rest of the world during an accounting year.

In other words BOP is a record of inflows and outflows of foreign exchange.

ACCOUNTS OF BALANCE OF PAYMENTS



Current Account

The current account records exports and imports of goods country and services and unilateral transfers.

Components of

Current Account

1. (Import and export of goods) (Visible items).
2. (Import and export of services) (Invisible items).
3. Unilateral transfers

Capital Account

It records all such transactions between normal residents of a and rest of the world which cause change in foreign assets and liabilities during an accounting year.

Components of

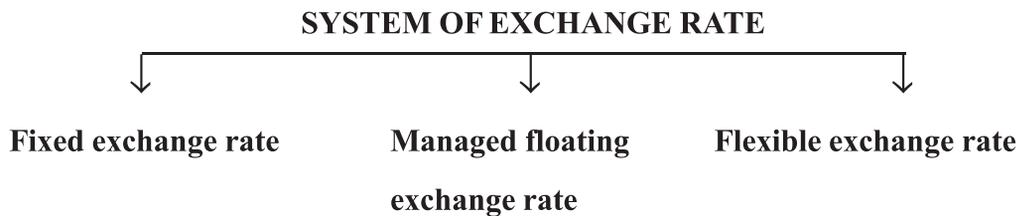
Capital Account

1. Foreign Direct investment and portfolio investment.
2. Foreign loans
3. Change in foreign exchange reserve.

- ❑ The components of current account do not cause a change in foreign assets or

Liabilities status of the residents of a country or its Government.

- ❑ The components of Capital accounts cause change in foreign assets or Liability status of the residents and the Government of a country.
- ❑ Balance of trade is the net difference of import and export of all visible items between the normal residents of a country and rest of the world.
- ❑ **Autonomous items** are those items of balance of payments which are related to such transaction as are determined by the motive of profit maximisation and not to maintain equilibrium in balance of payments. These items are generally called 'Above the Line items' in balance of payments. These items are independent of the state of Balance of Payments.
- ❑ **Accommodating items** refers to transactions that take place because of other activity in Balance of payments. These transactions are meant to restore the Balance of payments identity. These items are generally called 'Below the Line items'.
- ❑ **Deficit of BOP Account:** When total inflows of foreign exchange on account of autonomous transaction are less than total outflows on account of such transaction then there is a deficit in BoP.
- ❑ **Foreign Exchange Rate:** Foreign exchange rate refers to the rate at which one unit of currency of a country can be exchanged for the number of units of currency of another country.



- ❑ **Fixed Exchange Rate :** In fixed exchange rate system, the rate of exchange is officially fixed or determined by Government or Monetary Authority of the country.
- ❑ **Flexible or Floating Exchange Rate :** In a system of flexible exchange rate (also known as floating exchange rates), the exchange rate is determined by the forces of market demand and market supply of foreign exchange.

The demand of foreign exchange has inverse relation with flexible exchange rate. If flexible exchange rate rises the demand of foreign exchange falls and Vice versa.

Merits and Demerits of Flexible and Fixed Exchange Rate Systems

MERITS OF FIXED EXCHANGE RATE SYSTEM

1. No risk or uncertainty.

DEMERITS of the fixed exchange rate system

1. Under this system, the government has to maintain its credibility.
2. If there is a deficit in the BoP, governments will have to take care of the gap by using its official reserves (foreign exchange reserves). Compulsion to hold huge reserves of foreign exchange.
3. Fixed exchange rates are prone to speculative attacks in which govt. is forced to devalue its currency. This happens whenever people doubt the ability of the government because of inadequate official reserves.

MERITS of the flexible exchange rate system

1. Gives the government more flexibility
2. They do not need to maintain large stocks of foreign exchange reserves.
3. Movements in the exchange rate automatically take care of the surpluses and deficits in the BoP
4. Countries gain independence in conducting their monetary policies, since they do not have to intervene to maintain exchange rates which are automatically taken care of by the market.

DEMERITS of the flexible exchange rate system

1. Flexible exchange rate causes uncertainty, risk
2. Prone to massive speculative activities.

SOURCE OF DEMAND FOREIGN EXCHANGE

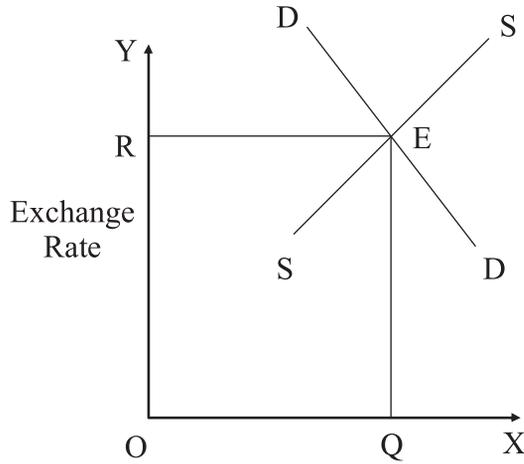
- (a) Imports & direct purchase from Rest of the world
- (b) Investment abroad
- (c) Remittances to be sent to friends & relatives settled abroad
- (d) Tourism visits to rest of the world

SOURCES OF SUPPLY OF FOREIGN EXCHANGE.

- (a) Exports & Direct Purchases by Foreign Tourists
- (b) Foreign Investments
- (c) Remittances Received from Abroad
- (d) foreigners visiting the country as tourists.

- ❑ **Determination of Equilibrium Foreign Exchange Rate:** Equilibrium foreign exchange rate is the rate at which demand and supply of foreign exchange are equal. Under free market situation, it is determined by market forces i.e., demand for and supply of foreign exchange. There is inverse relation between demand for foreign exchange and exchange rate. There is direct relationship b/w supply of foreign exchange and exchange rate. Due to above reasons demand curve downward sloping and supply curve is upward sloping curve Graphically,

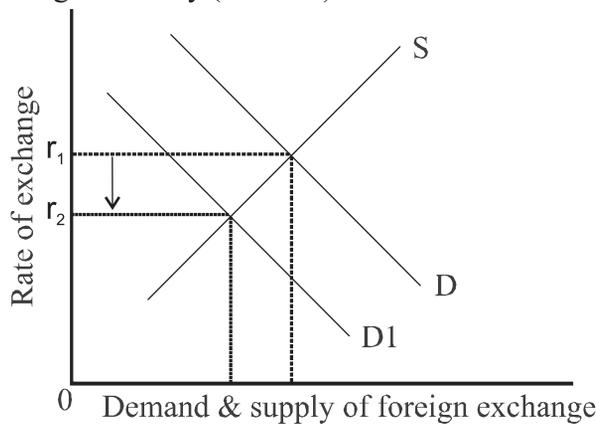
intersection of demand curve and supply curve determine the equilibrium foreign exchange rate (i.e.,).



Demand and Supply of foreign Exchange

DETERMINATION OF EXCHANGE RATE IN FREE MARKET

Suppose the demand for foreign goods and services increases (e.g increase in imports) . As a result , the demand curve shifts upward and right to the original demand curve . The increase in demand for foreign goods and services result in change in the exchange rate . Increase in exchange rate implies that the price of foreign currency (e.g. dollar) in terms of domestic currency (e.g.rupees) has increased . This is called Depreciation of domestic currency (e.g.rupees) in terms of foreign currency (e.g.dollars) . Similarly , when the price of domestic currency (rupees) in terms of foreign currency (dollars) increases , it called Appreciation of the domestic currency (rupees) in terms of foreign currency (dollars) .



- ❑ **Devaluation of a Currency :** When government or monetary authority of a country officially lowers the external value of its domestic currency (in respect of all other foreign currency) is called devaluation of a currency. It takes place

by government order under fixed exchange rate system.

- ❑ **Revaluation of a currency** : When government or monetary of a country officially raises the external value of its domestic currency (in respect of all other foreign currency) is called revaluation. It takes place by government order under fixed exchange rate system.
- ❑ **Currency depreciation** there is a fall in the value of domestic currency, in terms of foreign currency due to change in demand and supply of the currency under flexible exchange rate system.
- ❑ **Currency appreciation**, there is a rise in the value of domestic currency in terms of foreign currency due to change in demand and supply of the currency under flexible exchange rate system.
- ❑ **Managed floating system** is a system in which the central bank allows the exchange rate to be determined by market forces but intervenes at times to influence the rate. When central bank finds the rate is too high, it starts selling foreign exchange from its reserve to bring down it. When it finds the rate is too low. It starts buying to raise the rate.

It is also known as DIRTY FLOATING

Read the following headline and answer Q 1 & 2 on the basis of the same.

Rupee settles 6 paise down at 71.34 against US dollar.

1. The above news implies that rupee has ----- (depreciated/appreciated) against the US dollar.
2. This change in the value of the rupee unit leads to ----- (increase/decrease) in demand for dollar.
3. Import of machine will be entered on ----- side of ----- account of BOP.
 - (a) Credit, Capital
 - (b) Debit, Capital
 - (c) Credit, Current
 - (d) Debit, Current
4. Exports are a part of ----- account of the BOP (Capital/Current)

5. Devaluation of a currency refers to fall in the value of the currency due to demand and supply forces in the foreign exchange market (True/False)
6. Other name of managed floating is -----.
7. A surplus in BOT means
 - (a) Total Imports > total exports
 - (b) Total exports > total imports
 - (c) Visible imports > visible exports
 - (d) Visible exports > Visible imports
8. Following is not a source of demand for foreign exchange.
 - (a) Imports
 - (b) Tourism to ROW
 - (c) Borrowing
 - (d) Investment abroad.
9. Exchange rate and supply of foreign exchange are positively related. (True/False)
10. Automomens receipts = Rs.500 crore
Automomous payments = Rs. 710 crore.
Then, Official Reserve Transactions = -----
11. Positive official Resourse Transactions implies (impluse/deficial) in BOP.
12. Following is not a part of Current account of BOP
 - (a) Export of goods
 - (b) Foreign Direct Investment
 - (c) Export of services
 - (d) Import of Goods.
13. If Balance of Trade in showing a deficit of Rs.400 and visible imports are Rs.1200, How much are visible exports?

- (a) 1600
 - (b) 1000
 - (c) 800
 - (d) 400
14. A Surplus in BOT always implies a surplus in BOP (True/False)
15. Identify the correct statement
- (a) Current account includes visible trade
 - (b) A deficit in BOP means net increase in foreign exchange reserves of an economy
 - (c) Borrowings are included on debit side of capital account
 - (d) Unilateral transfers are a part of capital account
16. ORT (Official Reserve Transactions) is an (autonomous/accomodating) item.
17. Surplus in BoP means _____ in foreign exchange reserves.
18. Deficit in the BoP is NOT managed by
- (a) Selling foreign exchange
 - (b) Purchasing foriegn exchange
 - (c) Borrowing
 - (d) Selling foriegn assets
19. Following is a demerit of fixed exchange rate system
- (a) Prone to speculative attack
 - (b) Credibility of the government can never be questioned
 - (c) Automatic management of surplus and deficit in the BoP
 - (d) No government intervention needed.

ANSWER KEY

1. Depreciated
2. Decrease
3. (d) Debit, Current
4. Current
5. False
6. Dirty floating
7. (d)
8. (c)
9. True
10. Rs.210 crore
11. Deficit
12. (b)
13. c
14. False
15. (a)
16. Accomodating

SHORT ANSWER QUESTIONS

(3-4 Marks)

1. Explain the effect of depreciation of domestic currency on exports.
2. 'Devaluation and depreciation of currency are the same thing defend or refute the statement with valid reasons.'
3. 'Rate of exchange and supply of foreign currency are positively related' Give

reasons.

4. How does giving incentives for exports influence foreign exchange rate? Explain.
5. When is BOP said to be in deficit? Explain the role of official reserve transactions in this regard.
6. Distinguish between Autonomous and Accommodating items of the BOP. Give examples.
7. Study the data given below and calculate.
 - (a) Balance of trade
 - (b) Balance on Current Account
 - (c) Balance of Payment.
 - (d) Comment on the status of BOP of this economy.

Item	(Rs.)
1. Export of Good	1500
2. Export of Services	2000
3. Import of Goods	2400
4. Import of Services	2600
5. Capital receipts	5200
6. Capital Payments	4500
7. Net transfers from Abroad	500

8. Differentiate between fixed and flexible system of exchange rate.
9. Explain managed floating. How is it different from flexible exchange rate system?
10. Explain the concept of deficit in the balance of payments.
11. When is the BoP said to be in equilibrium?
12. Differentiate between surplus and deficit in the BoP
13. The war between Ukraine and Russia has resulted in a drastic fall in

exports from india to Ukraine. What is the likely impact of this on the value of the Indian rupee in the international market? Give reasons.

LONG ANSWER QUESTIONS

(6 Marks)

1. Why does demand for foreign exchange rise when exchange rate falls? Explain.
2. Explain 3 sources of demand and 3 sources of supply of foreign exchange.
3. Explain the working of managed floating.

SOLUTION TO Q7 (Numerical)

(a) Balance of Trade

$$= (1) - (3)$$

$$= 2400 - 1500 = \text{Rs.}900$$

4. Differentiate between flexible and fixed exchange rate.

UNIT - 06

DEVELOPMENT EXPERIENCES (1947 - 90) AND ECONOMIC REFORMS SINCE 1991

1. Indian Economy On The Eve Of Independence
2. Indian Economy (1950 - 90)
(Common Goals of Five Years Plan : Development During Planning Era)
3. Economic Reforms Since 1991

UNIT - 07

CURRENT CHALLENGES FACING INDIAN ECONOMY

4. Rural development
5. Human Capital Formation
6. Employment
7. Sustainable Economic Development

UNIT - 08

DEVELOPMENT EXPERIENCE OF INDIA

8. A comparison with neighbours:
 - (a) India and Pakistan
 - (b) India and China

UNIT - VI

CHAPTER - 1

INDIAN ECONOMY ON THE EVE OF INDEPENDENCE

Introduction

The structure of India's present day economy is not just of current making; it has its roots steeped in history. Before British colonization, India was known as "Sone ki Chidiya" or "The Golden Bird". The sole purpose of the British colonial rule in India was to reduce the country to being a raw material supplier for Great Britain's own rapidly expanding modern industrial base. An understanding of the exploitative nature of this relationship is essential for any assessment of the kind and level of development which the Indian economy has been able to attain over the last seven decades.

Features of Indian economy

India had an independent economy before the advent of the British rule.

- agriculture was the main source of livelihood for most people.
- India was particularly well known for its handicraft industries in the fields of cotton and silk textiles, metal and precious stone works etc.
- Worldwide high standards of craftsmanship were seen in all imports from India.

The economic policies pursued by the colonial government in India were concerned more with the protection and promotion of the economic interests of their home country than with the development of the Indian economy. Such policies brought about a fundamental change in the structure of the Indian economy transforming the country into supplier of raw materials and consumer of finished industrial products from Britain. On the eve of independence, Indian economy had the following features:

1. **Low level of National income and per capita income and its growth rate:**

There was no official body in India to prepare National Income estimate before Independence, the same was prepared by some eminent personalities in their personal capacity. Dadabhai Naoroji, called the Grand Old Man of India, was the pioneer in this field. He prepared the first estimates of National income in 1876. The first person to adopt a scientific procedure in estimating the national income was Dr. V.K.R.V. Rao in 1931. Among the notable other estimators..... William Digby, Findlay Shirras, and R.C. Desai etc. In 1947-48, per capita income was Rs.280. The average annual growth rate of national Income and per capita income in India were 2.0% and 0.5% approximately.

2. **Backwardness of Agricultural Sector:** Before 1947, over 95% of the country's income came from its agricultural activity. About 85 percent of the country's population lived mostly in villages and derived livelihood directly or indirectly from agriculture. Agricultural productivity became low due to under cultivation, forced commercialization agriculture (neel farming, chaibagan, etc), and various systems of land settlement as zamindari, ryotwari and malhalwart. Particularly, under the zamindari system which was implemented in the then Bengal Presidency comprising parts of India's present-day eastern states, the profit accruing out of the agriculture sector went to the zamindars instead of the cultivator. Due to partition the India's part of Bengal had Jute producing land and East-Pakistan had Jute Mills.

3. **Low Industrial Base Slow Industrial Growth:-** Before the British period, India's well-known industry was the handicraft and textile industry. India was well-known for its industries in cotton and silk textiles as well. And in addition, Indians were excellent in metal and precious stonework as well. When the Britishers came, they were followers of de-industrialization in India. The primary motive of the colonial government behind this policy of systematically de-industrialising was two fold-

(1) To reduce India to the status of a mere exporter of important raw materials for the upcoming modern industries in Britain.

(2) To turn India into a sprawling market for the finished products of those industries so that their continued expansion could be ensured to the maximum advantage of their home country - Britain.

(3) The decline of the indigenous handicraft industries created...

1. Massive unemployment in India
2. New demand in the Indian consumer market.
3. Deprived of the supply of locally made goods.
4. Increase imports of cheap manufactured goods from Britain.

1. Industry confined to cotton and jute textile mills.
2. iron and steel industries came up. Tisco was incorporated in 1907
3. Other industries included sugar, cement, paper etc. which came up during Second World War.
4. operation of the public sector was very limited in the industrial sector
5. there was a lack of basic and heavy industries.

(4) Foreign trade characteristic:

(a) Net exporter of raw material likes, silk, Cotton, Wool, Sugar, Neel, Patson, unit etc and importer of finished goods.

(b) Britain had monopoly control on foreign trade.

(c) Drain of wealth from India.

C. Drain of wealth from India

Though there was expect surplus, the money was used fro meeting administrative expenses of the British Government.

5. **Adverse Demographic condition**

- (a) The first regular census of India was conducted in 1881.
- (b) 1921 is known as theYear of Great Divide as population rate never turned negative after that.

(5) Adverse demographic condition:-

- (c) High death rate - 45 per thousand.
- (d) High infant mortality rate ; 218 per thousand.
- (e) Literacy rate-16%
- (f) Low life expectancy - 32 years
- (g) Low standard of living - people used to spend 80% to 90% of their income on basic needs.
- (h) Lack of public health facilities.

(6) **Underdeveloped infrastructure:-**

Absence of good roads, electricity generation, health, education and communication. However some efforts have been made to develop basic infrastructure like roads, railways, ports, water transport, post and telegraph by the British rulars. The main motive was not to provide basic amenties to the Indian people but for their colonial interest.

(7) **More Dependency on primary sector occupation structure:-**

- (a) Largest share of work force i.e. 72% of total work force was engaged in agriculture and allied sector.
- (b) 10% work force in manufacturing 18% workforce were engaged in service sector.

• **Some positive side - effects of the British Rule in India.**

- (a) To provide transport facilities. largely in terms of railways.
- (b) Development of ports.

- (c) Provision of post and the telegraph services.
 - (d) British govt. left a base of a strong and efficient administrative set up.
 - (e) Political and economic integration of the country.
 - (f) Evolution of Banking and monetary system.
- **Some negative side effects of the British Rule in India:-**
 - (a) Decline of Indian handicraft industry.
 - (b) Net exporter of raw material and importer of finished goods.
 - (c) Britain had monopoly control on foreign trade.
 - (d) Forced commercialisation of agriculture.

QUESTION BANK

ONE (1) MARKS QUESTIONS:-

- (1) What do you mean by infant mortality rate?
- (2) What is meant by commercialisation of agriculture?
- (3) What was the infant mortality rate of Indian during British rule?
- (4) State the life expectancy in Indian during British rule?
- (5) What does the export surplus mean?
- (6) The British official census in India occurred in which year?
- (7) Which industries were adversely effected due to partition?
- (8) Give the name of one economist who estimated India's per capita income during colonial period?
- (9) At the time of independence literacy rate was?
- (10) What percentage of India's working population was engaged in secondary sector during British rule?

THREE & FOUR (3 & 4) MARKS QUESTIONS:-

- (1) Mention four features of India's agriculture on the eve of Independence.
- (2) How would you explain the drain of wealth during the British rule?
- (3) Discuss occupational structure of Indian economy at the time of Independence.
- (4) State three main features of Indian economy at the time of independence.
- (5) Mention the state of Indian Industries on the eve of independence.
- (6) Explain positive effects of introduction of railways by colonial Govt. in India.

SIX (6) MARKS QUESTIONS:-

- (1) What are the main causes of India's agricultural stagnation during the colonial period?
- (2) Give a quantitative appraisal of India's demographic profile during the colonial period.
- (3) Critically appraisal some o the shortfalls the industrial policy pursued by the British colonial rule.
- (4) Discuss positive countribution of british in India if any.

VERY SHORT ANSWER QUESTIONS (1 Mark)

1. Read the following statements Assention (a) and Reason (R) choose the correct alternative given below.

Assertion (A): Indian became exporter of raw material and importe of finished goods during colonial period.

Reason (R): The trade policies followed by the British affected the composition, structure and volume of foreign trade.

Altenatives:

7. The first official census of India was conducted in
(a) 1891 (b) 1781
(c) 1881 (d) 1901
8. Which of the following is a cash crop?
(a) Rice (b) Wheat
(c) Jute (d) Jowar
9. The demographic profile of India on the eve of independence showed
(a) High poverty (b) High mortality rate
(c) High illiteracy (d) All of the above
10. The British developed infrastructure in India to develop the Indian economy.
(True/False)

Answer Key

1. (a)
2. (b)
3. raw material
4. Handicraft
5. commercialisation
6. (d)
7. (c)
8. (c)
9. (d)
10. false.

ANSWERS OF ONE MARK QUESTIONS

- (1) Infant mortality rate means number of deaths of children below the age of one year per thousand.

- (2) Commercialisation of agriculture means production of crops for sale in the market rather than for self-consumption.
- (3) Infant mortality rate 218 per thousand.
- (4) Life expectancy was 32 years.
- (5) When export of a country is more than import.
- (6) 1881
- (7) Jute and Textile industries.
- (8) Prof. V.K.R.V. Rao and Dada Bhai Nauroji
- (9) 16%
- (10) 10%

UNIT - VI
CHAPTER - 2
INDIAN ECONOMY (1950-1990)

Five Year Plans

After independence of India, the leaders had to decide to choose a better economic system which will suit and promote the interests of the masses of India. Nehru and the other leaders of independent India sought an alternative to the extreme types of capitalism and socialism practiced in the world elsewhere. They formed an economic system which combined the best of both capitalism and socialism i.e. mixed economy in 1948 with First Industrial Policy of India.

The government would plan for the economy while encouraging the private sector to be a part of the plan effort Planning Commission was set up in 1950 and the Prime Minister was its chairperson. With the setting up of the planning commission, the era of five year plans had begun.

- **Common Goals of Five Years Plans**

Any five plan should have strategic and specific goals which it should aim to fulfill. The common goals of the five year plans are:

(i) Growth

(ii) Modernisation

(iii) Self reliance

(iv) Equity

(i) **Growth:** Growth refers to the increase in the production capacity of our country i.e. more production of goods and also the increase of services within the country. This means a large stock of productive capital or a large quantity of supporting services like transport and banking or an increase in the efficiency of the productive capital and services of the country.

(ii) **Modernisation:** In order to increase the production of goods and services, the producers have to use new technology. Adoption of new technology is modernisation. For example, farmers can use a new hybrid seed variety instead

of the old ones to increase crop yield. Modernisation just not refer to just adoption of new technology. It also refers to changes in the thinking and social outlook of the people of our country. Giving equal rights to women is an example of modernisation. In a traditional society, women are restricted to do only household chores, whereas in a modern society they are given opportunities to work in all the sectors like banking, schools, factories etc. This kind of modernisation makes a society more civilized and prosperous.

(iii) **Self Reliance:** The economic growth and modernisation of a nation can be promoted in two ways:

- (i) Using resources imported from other countries.
- (ii) Using its own resources

The first seven five year plans stressed and gave a lot of weightage to self reliance meaning avoiding import of goods which can be produced in our country itself. This policy was considered essential in a bid to reduce our dependence on other nations, mostly for food. A newly independent nation would obviously stress on the need for self reliance. It was also feared that a dependence on foreign nations would make our sovereignty vulnerable.

(iv) **Equity:** All the above three mentioned goals by themselves would not lead to the betterment of the standard of living of the people of a nation unless there is equality. If modernisation, growth and self-reliance does not reach the poorer sections of a country then only the rich would enjoy the benefits of economic prosperity. So apart from modernity, growth and self-reliance, every Indian should be able to meet his or her basic needs like food, clothing, housing, education and healthcare, Inequality in the distribution of wealth and economic prosperity had to be reduced.

Planning in current Scenario:

1. Planning commission was replaced by NITI Aayog (National Institution for Transforming India) on 1 January 2015
2. Its objective are
 - (a) to work as think tank of India
 - (b) To promote cooperative federalism

- (c) to promote sustainable development
- (d) To ensure decentralisation in policy making.

I - AGRICULTURE

In 1951, about 59 percent of national income was generated in the agriculture sector. About three-fourths of India's total population found their livelihood in agriculture. During the colonial rule, there was neither growth nor equity in the agriculture sector. Therefore planners gave top priority to the agricultuer sector.

- **Role of agriculture sector**
 1. Largest Share in national income
 2. Largest Share in employment
 3. Base of industrial development
 4. Important role in the Foreign Trade.
 5. Major part of household consumption.

- **Problems of Indian agriculture**

Indian agriculture face a number of prolems which are stated below:

Problems of Indian Agriculture

General Problems	Institutional Problems	Technical Problems
1. Social Problems	1. Defective Tendency of/land reforms	1. Obsolete Techniques of production
2. Pressure of population on land	2. Lack of credit Availability	2. Cropping pattern
3. Subsistence farming	3. Marketing facilitie	3. Lack of irrigation facilities
4. Land degradation	4. Size of land holdings	4. Illiteracy
5. Crop losses		

- **Agricultural policies and programmes during 1950-90**

AGRARIAN REFORMS

Land Reforms	Technological Reforms	General Reforms
	(Green Revolution)	
1. Abolition of intermediaries	1. Use of HYV Seeds facilities	1. Expansion of irrigation
2. Regulations on rent	2. Extensive use of fertilizers	2. Institutional Credit
3. Land Ceiling	3. Use of Pesticides	3. Improvement in agriculture marketing
4. Cooperative farming	4. Agricultural Mechanisation	4. Price support policy.
5. Consolidation of Land holdings	5. Irrigation	

- **Green Revolution**

The New agricultural strategy was put into practice for the first time in India in the kharif season of mid-sixty. This was termed as 'High-Yielding Varieties programme' (HYVP) as the basic element of this strategy was the application of HYVP. The programme was introduced in the form of a 'Package Programme'.

Phases of Green Revolution-

- (a) First Phase - mid 1960s upto mid 1970s.
- (b) Second Phase - mid 1970s upto mid 1980s.

- **Features of Green Revolution**

1. Use of High Yielding Varieties of Seeds (HYVS).
2. Use of chemical fertilizers.
3. Adequate irrigation facilities.
4. Use of pesticide.

- **Effects of Green revolution**

1. Marketable Surplus = Total Production - Self Consumption.

2. Attaining marketable surplus.
3. Buffer stock of food grains.
4. Benefits to low income groups.

- **Drawbacks of Green revolution**

1. Confined to food crops and limited area of country.
2. Limited coverage
3. Inequality among farmers. Big farmers received greater benefits.

- **Subsidies to the farmer**

It means supply of certain inputs to the farmers at lower than the market rate.

- **In favour of subsidies**

1. Most farmers in India are poor and will not be able to afford the required inputs without subsidies.
2. Elimination of subsidies will increase the inequality between rich and poor farmers.

- **Against the subsidies**

1. The purpose of subsidies has been served so it should be phased out.
2. Subsidy does not benefit the target group it only benefits the farmers in the prosperous regions.

II - Industry

- **Importance of Industry**

1. Employment generation
2. Development of agriculture
3. Exploitations of resources
4. Productivity of labour
5. High potential for growth
6. Key to high volume of exports

7. Leads to self- sustaining development
 8. Promotion of regional balances.
- **Industrial policy of 1956 (Industrial Policy Resolution)**
 1. Classification of Industries - This policy classified industries into three categories.
 - (a) The first category included 17 industries which would be exclusively owned by the state, i.e. Public Sector. **(Schedule A)**
 - (b) The second category included 12 industries in which the private sector could supplement the effort of the state. But the state takes the sole responsibility for starting new units. **(Schedule B)**
 - (c) The third category consisted of the remaining industries which were to be in the private sector, i.e. Open for all public or private sector. **(Schedule C)**
 2. Industrial Licensing - Private sector was kept under state control through a system of license. No New industry was allowed unless License was obtained from the government.
 3. Development of small scale industries.
 4. Emphasis on industrial development.
 5. Technical Education and training.
 - **Role of Public sector**
 1. Creation of strong industrial base.
 2. Development of the infrastructure.
 3. Development of the backward areas.
 4. To mobilise savings and earn foreign exchange.
 5. To prevent concentration of economic power.
 6. To promote equality of income and wealth distribution.
 7. To generate employment, i.e. Job creation.
 8. To promote import substitution.
 - **Role of Small Scale Industries**

1. Labour intensive technique.
2. Self employment
3. Less capital intensive.
4. Low import, i.e. Import substitution.
5. Export promotion
6. Equal distribution of income
7. De-centralisation of industries.
8. Seed beds for large scale industries.
9. Sustaining agricultural development.

- **Problems of Small Scale Industries**

1. Problems of finance.
2. Shortage of raw material.
3. Difficulties in marketing.
4. Outdated machines and equipments.
5. Underutilised export potential.
6. The Bureaucratic hurdles.
7. Competition from large scale industries.

III-Trade Policy : Import Substitution Policy

India adopted import substitution policy for a large part of the period 1950-90. The policy of import substitution is commonly called an Inward looking trade strategy. Government made use of two ways to protect goods produced in India from imports-

- (a) Tariff - It refers to taxes levied on imported goods.
- (b) Quotas - It refers to imposing the maximum limit on the imports of a commodity by a domestic producer.

- **Reasons For Import Substitution**

- (1) Industries of development countries, like India are not in a position to compete against the goods produced by more developed economies.
- (2) To save scarce foreign exchange for the import of essential goods.

Objective Type Questions (1 Marks)

- (1) Which institution replaced planning commission?
 - (a) Finance commission
 - (b) Labour commission
 - (c) Five Year Plan
 - (d) NITI Aayog
- (2) When was planning commission established?
 - (a) 15 March 1951
 - (b) 15 March 1950
 - (c) 1 April 1950
 - (d) 26 January 1950
- (3) The full form of NITI is
 - (a) National Institute for Transforming India
 - (b) New India from Traditional India
 - (c) National Institution for Transforming India
 - (d) National Initiative for Transforming India
- (4) The period of first Five Year Plan was
 - (a) 1950 - 1955
 - (b) 1951 - 1956
 - (c) 1947 - 1952
 - (d) 1949 - 1954
- (5) Who is regarded as the architect of Indian planning?

- (a) Pt. Jawahar Lal Nehru
 - (b) Planning Commission
 - (c) Prasanta Chandra Mahalanobis
 - (d) Finance Minister
- (6) Which one is not a common objective of Five Year Plans in India?
- (a) Developing good relations with neighbouring countries
 - (b) Increase in national income of the country
 - (c) Reducing inequality
 - (d) Self reliance.
- (7) Ownership of resources is in private hands in _____ form of economic system. (capitalist/socialist)
- (8) Soviet union had _____ economic system. (capitalist/socialist).
- (9) P.C. Mahalanobis' birthday (29th June) is celebrated in India as
- (a) National Planning Day
 - (b) National Statistics Day
 - (c) National Policy Day
 - (d) International Statistics Day
- (10) Policy of import substitution was targeted to protect _____ industries. (Domestic/Imported)
- (11) Which is not a main problem of agriculture in India in 1950?
- (a) Low productivity
 - (b) Poor technology
 - (c) Monsoon dependence
 - (d) Over production
- (12) Which of the following is not part of land reforms in India
- (a) Land ceiling

- (b) Import substitution
 - (c) Zamindari abolition
 - (d) Land consolidation
- (13) New Agricultural Strategy is the other name of
- (a) Agriculture revolution
 - (b) Farm revolution
 - (c) Farmer revolution
 - (d) Green revolution
- (14) Green revolution is most successful in the crops of
- (a) Wheat and rice
 - (b) Wheat and potato
 - (c) Rice and coffee
 - (d) Rice and fish
- (15) Which is not one of the major initiative under Green Revolution
- (a) Use of pesticides
 - (b) Use of chemical fertilisers
 - (c) Better irrigation facilities
 - (d) Better transportation facility
- (16) The first phase of green revolution was between
- (a) 1960 - 1970
 - (b) 1965 - 1975
 - (c) 1970 - 1980
 - (d) 1975 - 1985
- (17) India imported food grains during early years of independence mainly from which country?

- (a) England
 - (b) Germany
 - (c) USA
 - (d) Did not import
- (18) The share of agriculture sector in GDP is _____ than its share in occupational structure. (larger/smaller)
- (19) The licence policy aimed at
- (a) Regional equality
 - (b) Control on industrial output
 - (c) Either (a) or (b)
 - (d) Both (a) and (b)
- (20) Tariffs make imported goods cheaper (True/False)
- (21) Quotas put restrictions on imports which prevent the drain of foreign exchange reserves on the import of goods. (True/False)
- (22) "In the first seven plans, trade was characterised by what is commonly called an inward looking trade strategy."
- (a) Licensing
 - (b) Self reliance
 - (c) Mixed economy
 - (d) Import substitution
- (23) Read the following statements Assertion (A) and Reason (R). Choose the correct alternative from given below

Assertion (A) The economic justification of subsidies in agriculture is, at present, a hotly debated question.

Reason (R) Subsidy increases the effective price of farm inputs.

Alternatives

- (a) Both Assertions (A) and Reason (R) are true and Reason (R) is the

correct explanation of Assertion (A)

- (b) Both Assertions (A) and Reason (R) are true but Reason (R) is not the correct explanation of Assertion (A)
- (c) Assertion (A) is true, but Reason (R) is false.
- (d) Assertion (A) is false, but Reason (R) is true.

(24) Match the following and select the correct option

- | | | |
|------------------------------------|---|------|
| i. First Five Year
Plan Started | A | 1955 |
| ii. Karve Committee | B | 1956 |
| iii. TISCO | C | 1951 |
| iv. Industrial Policy | D | 1907 |

Resolution

- (a) i (C) ii (B) iii (A) iv (D)
- (b) i (C) ii (D) iii (B) iv (A)
- (c) i (A) ii (B) iii (C) iv (D)
- (d) i (C) ii (A) iii (D) iv (B)

25. Match the following and select the correct option

- | | | |
|--------------------|---|--|
| i. Land Reforms | A | Seeds that give large proportion of output |
| ii. Subsidy | B | Chairperson of planning commission |
| iii. HYV seeds | C | The monetary benefit provided by government to producers and consumers |
| iv. Prime Minister | D | Improvements in the field of agriculture to increase productivity |

- (a) i (C) ii (B) iii (A) iv (D)
- (b) i (C) ii (D) iii (B) iv (A)
- (c) i (D) ii (C) iii (A) iv (B)

(d) i (A) ii (B) iii (C) iv (D)

Answers of objective Questions

1. (d) 2. (b) 3. (a) 4. (b) 5. (c) 6. (a) 7. Capitalist
8. Socialist 9. (b) 10. Domestic 11. (d) 12. (b) 13. (d)
14. (a) 15.(d) 16. (b) 17. (c) 18. Smaller 19. (d) 20. False
21. true 22. (d) 23. (c) 24. (d) 25. (c)

THREE & FOUR (3 & 4) MARKS QUESTIONS:-

1. Discuss any three drawbacks of green revolution.
2. Discuss the role of small scale industries in the generation of employment.
3. Give three reasons why small scale industries should be encouraged in India?
4. Why there was a need for protection of small scale industries? State the steps undertaken by the government for their growth.
5. How were the industries classified according to IPR 1956?
6. Define Green revolution. Why was it implemented and how did it benefit the farmers?
7. Explain any three problems of Indian agriculture.
8. What do you mean by planning goal of self reliance?
9. Explain Growth with equity as a planning objective.

SIX (6) MARKS QUESTIONS:-

1. Critically appraise the development of agriculture between 1950 and 1990.
2. Explain the main features of the Industrial policy 1956.
3. Explain the problems of small scale Industry.
4. Explain any four objectives of planning committees.
5. "Subsidies put a huge burden on the government's finances, but are necessary for poor and marginal farmers" Comment.
6. Explain how import substitution can protect domestic industry.

CHAPTER - 3
ECONOMIC REFORMS SINCE 1991

Need for Economic Reforms

In the year 1991, India was facing an economic crisis relating of its external debt. The government was not able to repay the money it had borrowed from abroad.

- India was facing serious deficiency in her foreign trade balance and it was increasing.
- Since 1987-88 till 1990-91 it was increasing in such a rapid scale that by, the end of 1990-91 the amount of this deficit balance became 10,644 crores of rupees..
- At the same time the foreign exchange stock was also decreasing.
- In 1990 and 1991 the government of India had to take huge amount of loan from the IMF as compensatory financial facility.
- Even by mortgaging 47 tons of gold it had taken short term foreign loan from the Bank of England.
- At the same time, India was also suffering from inflation, the rate of which was 12% by 1991.
- The reasons of that inflation were the increase in the procurement price of the agricultural products for distribution, the increase in the amount of monetized deficit in the budget, increase of import cost and decrease in the rate of currency exchange and Administered price like.
- Thus India was facing trade deficit as well Fiscal Deficit. Hence the government of India had only two ways before it-
 1. To take foreign debt and to create favorable conditions within the country for increasing the flow of foreign exchange and also to increase the volume of export.
 2. The other was to establish fiscal discipline within the country and to make structural adjustment for the purpose.

Main Features of Economic Reforms

To get relief from such a grave problem the government of India had to introduce a package of reforms which included:

- To liberalise the industrial policy of the government.
- To invite foreign investment by privatization of industries.
- Abolishing the license system as a part of that liberalisation.
- To make the import-export policy of the country more liberal and so that the export of goods may become more easy and the necessary raw materials and instruments for both industrial development and production of exportable commodities may be imported and also to facilitate free trade by reducing the import duty.
- To decrease the value of domestic currency rupees in terms of dollar i.e. devaluation.
- To take huge amount of foreign debt from the IMF and the World Bank of rejuvenating the economic condition of the country and to introduce the structural adjustment in the economic condition of the country as a pre-condition of that debt.
- To reform the banking system and the tax structure of the country and
- To establish market economy by withdrawing and restricting government interference on investment.

Liberalisation, Privatisation and Globalisation (LPG) Policies

The new model of economic reforms is commonly known as the LPG or Liberalisation, Privatisation and Globalisation model. The primary objective of this model was to make the economy of India the fastest developing economy in the globe with capabilities that helps it match up with the biggest economies of the world.

1. **Liberalisation:** Liberalisation refers to a relaxation of government policy. The economic liberalisation in India denotes the continuing financial reforms which began since July 24, 1991.
2. **Privatisation:** Privatisation refers to the participation of private ownership from the public sector (or government) to the private sector as well entities in business and services and transfer of ownership from the public sector (or government)

to the private sector as well.

3. **Globalisation**: Globalisation stands for the integration and consolidation of the various economies of the world.

Given below are the salient highlights of the Liberalisation, Privatisation and Globalisation Policy in India:

- Foreign Technology Agreements
- Foreign Investment
- MRTP Act, 1969 (Amended)
- Industrial Licensing Deregulation
- Beginning of privatization and disinvestment
- Opportunities for overseas trade
- Steps to regulate inflation
- Tax reforms
- Financial sector reforms
- Banking reforms
- Abolition of License-Permit Raj

An Appraisal of LPG Policies

The concepts of liberalisation, privatisation and globalisation are actually closely related to one another. The advent of globalisation as a result of liberalisation, privatisation and globalisation has both positive and negative impacts on our economy.

While one group of people argue that globalisation provides greater opportunities, opens up new markets, promotes the use of better technology and increases the efficiency of production.

Another group of people feel it does not protect the domestic industries particularly in developing nations. From India's perspective, globalisation has improved our conditions of living and opened up employment in fields like entertainment, Information Technology (IT), Telecommunication, Travel and Hospitality.

Demonetisation

Demonetisation is a process of stripping a currency unit of its status as a legal tender. Demonetised currency notes no longer remain valid as legal currency. For example, Govt. India, demonetised rupees 500 and Rs. 1000 currency notes on 8th November, 2016. The demonetization was mainly to curb black money.

Goods and Services Tax (GST)

GST is a unified indirect tax system in India that came into effect from July 2017. GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at national level under which no distinction is made between goods and services for levying tax. Most of the indirect taxes have been submerged into GST. GST is expected to generate additional revenue for the government, reduce tax evasion and create 'one nation, one tax and one market'.

Positive impacts of Economic Reforms

1. High economic growth rate
2. Increase in Foreign investment
3. Increase in forex reserve
4. Controlled inflation
5. Changes in export structure
6. Changes in export direction
7. Establishment of consumer sovereignty

Negative impacts of Economic Reforms

1. Marginalization of agriculture
2. Jobless economic growth
3. Unequal income distribution
4. Profit oriented society
5. Negative impacts of privatization
6. Over exploitation of natural resources
7. Environmental degradation.

Very short answer questions

(1 Marks)

Q- 1: Identify which of the following is not a trade policy reforms?

- a. Removal of licensing procedures for imports.
- b. Removal of export and import duties.

- c. Removal of quantitative restrictions on imports.
- d. To provide Incentives to increase imports.

Q- 2: State whether true or false

Role of RBI was reduced from regulator to facilitator of financial sector under financial sector reforms.

Q- 3: Identify the incorrect pair from the following column I and II:

(Choose the correct alternative)

Column I

- A. Direct taxes
- B. Fiscal policy
- C. Corporation tax
- D. Indirect taxes

Column II

- 1. Taxes on incomes of individuals
- 2. Govt. taxation and public expenditure policy
- 3. Indirect tax levied on companies.
- 4. Taxes levied on commodities.

Alternatives:

- (a) A-i
- (b) B-ii
- (c) C-iii
- (d) D-iv

Q-4: Which of these is not an outcome of economic reforms?

- a. Rapid increase in foreign direct investment and Foreign Exchange Reserve.
- b. Removal of fertilizer subsidy as lead to increase in the cost of production.
- c. India witnessed a rapid growth in GDP on a continual basis for two decades.
- d. The tax reduction in the reform period resulted in increased in tax revenue

Q-5: Which of the following is an important feature of GST?

- a. One Nation, one tax and one account
- b. One Nation, one rate and one tax.
- c. One Nation one tax and one collection
- d. One Nation one tax and one market.

Q-6: Read the following statements - Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

Assertion (A): Foreign exchange reserve has been increased from US\$ 6 billion in 1990 to about US\$ 321 billion in 2014-15.

Reason (R): Rupee was devalued against foreign currencies in 1991.

Alternatives:

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

Q-7: Which of the following economic reforms were initiated by the government under liberalizations?

- (a) Industrial Sector Reforms
- (b) Govt. expenditure reforms
- (c) Financial Sector reforms
- (d) Both (a) and (c)

Q-8: Which of the following industries are reserved for the public sector?

- (a) Defence Equipments
- (b) Energy Generation
- (c) Cement
- (d) Both (a) and (b)

Q-9: Reason for adoption of New Economic Reform was/were

- i. Poor performance of Public Sector
- ii. Economic growth rate was low
- iii. Deficit in Balance of Payment
- iv. Increasing Unemployment.
- v. Insufficient Foreign exchange reserve

Choose the correct alternative from the following:

- (a) i, ii, iii and iv
- (b) i and iii
- (c) i, iv and v
- (d) i, iii and v

Q-10: _____ means integrating the domestic economy with the world economy

- (a) Globalisation
- (b) Privatisation
- (c) Liberalisation
- (d) Disinvestment

Q11: _____ refer to transfer of assets or services function from public to private ownership.

- (a) Globalisation
- (b) Privatisation
- (c) Disinvestment
- (d) Liberalisation

Q-12: What makes India a preferred global outsourcing destination?

- i. High unemployment rate
- ii. Low wage rates
- iii. Skilled manpower

- iv. Absence of restrictions
- v. Better transportation facilities

Choose correct alternatives from the followings.

- (a) i, ii, iii and iv
- (b) ii and iii
- (c) ii, iii and iv
- (d) i, ii iii and v

Q13: Which of the following is not a tax reform.

- (a) Reduction in taxes
- (b) Reforms in Indirect taxes
- (c) Simplification of tax Process
- (d) Tax payers' reforms

Q-14: It refers to contracting out some of its activities to a third party which were earlier performed by the organisation.

- (a) Outsourcing
- (b) Employment
- (c) Unorganised sector
- (d) Organised sector

Q-15: The aim of Demonetization was to

- (a) Encourage the use of case in the economy
- (b) Curb black money
- (c) Unify the tax structure
- (d) Increase direct tax rates

16. Which of these tax has not been subsumed in GST (choose the correct alternative)

- (a) Octroi

- (b) Excise duty
- (c) Service tax
- (d) House tax

17. Which of the following statements is not true? (choose the correct alternative)

- (a) GST is a single comprehensive tax.
- (b) GST is a destination based consumption tax.
- (a) GST has facility of Output Tax Credit in the supply chain.
- (a) GST is the biggest tax reform in the country since independence.

Answer Key 1 mark Questions

1-d	5-d	9-d	13-d
2-Ture	6-b	10-a	14-a
3-c	7-d	11-b	15-b
4-d	8-a	12-b	16-d
			17-b

THREE & FOUR (3 & 4) MARK QUESTIONS:-

1. Describe the economic reforms undertaken in 1991.
2. What were the needs of economic reforms for India?
3. What are the main features of economic reforms?
4. Given any three features of 'LPG - Policy'.
5. Write the 3-4 positive and negative impacts of LPG policy.

Six (6) MARK QUESTIONS:-

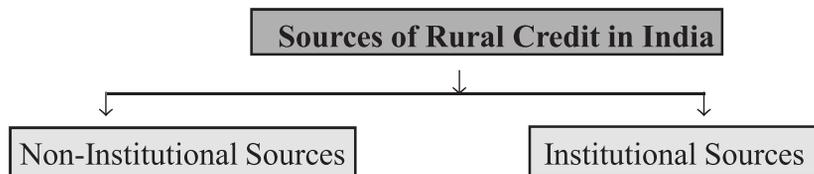
1. Why were reforms introduced in India in 1991?
2. Explain the changing role of the state in the Indian economy since 1991.
3. Explain the steps taken by economic reforms towards
(a) Liberalisation (b) Privatisation (c) Globalization
4. Evaluate the positive and negative impacts of LPG policy
5. India is then called the 'Outsourcing Destination' of the world. Discuss the prime reasons for this name given to India.
6. Discuss briefly any two major steps taken by the Government of India on 'Financial Sector' front under the Economic Reforms of 1991.
7. "Agriculture sector appears to be adversely affected by the economic reform process." Explain the given statement metropolitan cities leaving the remote and rural area underdeveloped. Consequently, there were wide regional disparities.

UNIT - VII
CHAPTER - 5
RURAL DEVELOPMENT

Rural Development is a process of improving the standard of life and social economic welfare of the people living in rural areas.

Key Issues in Rural Development:-

- 1) Raising agricultural productivity per unit of land.
- 2) Improving agricultural marketing system that ensures remunerative price to the farmer for his produce.
- 3) Motivate the production of higher value crops.
- 4) Motivate agricultural diversification.
- 5) Diversification of production activity with a view to find alternative means of sustainable living other than crop-cultivation.
- 6) Provision of credit facilities in the rural areas.
- 7) To reduce the level of poverty in rural areas by farm and non-farm employment.
- 8) Promotion of organic farming.
- 9) To expand education and health facilities in rural areas.



I) Non-Institutional sources:- It includes money lenders, traders, commission agents, landlords, relative and friends.

II) Institutional sources include :-

- 1) Co-operative credit societies - e.g. Amul, Mother Dairy etc.
- 2) SBI and other Commercial Banks.

- 3) Regional Rural Banks.
- 4) NABARD (National Bank for Agriculture and Rural Development)
- 5) Self Help Groups

Agricultural Marketing

The term agricultural marketing includes all those activities where are mostly related to gathering, processing, grading, packaging storing, transportation and selling the agricultural produce.

Defects of Agricultural Marketing

- 1) Inadequate storage facility.
- 2) Inadequate means of transport and communication.
- 3) Malpractice in a regulated markets.
- 4) Multiplicity of middlemen.
- 5) Lack of proper grading.
- 6) Lack of adequate institutional finance.
- 7) Lack of proper marketing facilities.

Measures adopted by the government to improve marketing system:-

- 1) Regulated markets.
- 2) Provision of warehousing facilities.
- 3) Compulsory use of standard weights for measurement.
- 4) Subsidised transport.
- 5) Establishment of food corporation of India (FCI), central ware housing corporation etc. by the govt. to increase the capacity of storing.
- 6) Provision of Minimum Support Price (MSP).
- 7) Dissemination of marketing information. - use of IT

Diversification in agriculture activities:-

It has two aspects:-

1) Diversification of crop production:- It refers to a system of multiple cropping rather than mono cropping. It has two advantages:-

a) It lowers the risk of farmer on account of monsoon failure.

b) It enhances the scope for commercialisation of farming.

2) Diversification of productive activities:- It implies a shift of labour force from crop-farming to non-farming areas of employment, like – Animal husbandry, fisheries, horticulture etc.

Non-farm areas of employment for rural population

1) Animal husbandry

2) Fisheries

3) Poultry

4) Bee-keeping

5) Horticulture

6) Cottage and Household Industry

Organic Farming

Organic Farming is a system of farming in which organic inputs (basically include animal manures and composts) are used for cultivation. It discourages the use of chemical inputs. This method of farming is environment friendly.

Advantages of Organic Farming:-

1) Organic level of soil increase by the use of organic inputs and sustains soil fertility.

2) Organic inputs provide minerals for the growth of plants.

3) Organic inputs are cheap as compared to chemical inputs.

4) Organic farming is environment friendly.

5) Inexpensive technology for small farmers.

6) Organic farming is based on labour intensive technique.

7) We get healthier and tastier food by the use of organic farming.

Disadvantages of Organic Farming :-

- 1) Initial cost is high.
- 2) Produce is more perishable.

Very short Answer (1 Mark)

1. Diversification of crop production increases market risks. (True/False)
2. Given below are 2 statements: Assertion (A) and Reason (R). Choose the correct alternative.

(A) : Change in cropping pattern is a form of Diversification of farm activities.

(R) : Most agricultural activities are seasonal in nature.

Alternatives.

- a) Both(A) and (R)are true and (R) is correct explanation for (A).
- b) Both (A) and (R) are true and (R) is not the correct explanation for (A).
- c) (A) is true and (R) are false.
- d) (A) is false and (R) is true.

Read the following hypothetical case study and answer Q. 3-5.

Farmers in India have always relised on informal sources for credit the efforts of the Government after independence, trying to shift the secure towards formal institutions, have not proven vey successful.

3. Informal sources of agricultural credit include _____ (money lenders/ cooperative socities).
4. Government has made efforts to provide institutional credit to farmers through (RBI, RRBs)
5. State one reason why Government efforts have not been successful in regard to agricultural credit.
6. Which is the apex institution to provide credit facility to agriculture and rural development?
 - a) NABARD
 - b) SBI

c) RBI d) National Co-operative Bank of India

7. National Bank for Agriculture and Rural Development was set up in which year?

a) 1981 b) 1982 c) 1984 d) 1986

8. Which of the following is not a part of agricultural marketing?

a) Storage b) Cultivation c) Gathering d) Processing

9. Choose the correct pair.

Column I

Column II

A. NABARD

(i) Established in 1987

B. Agricultural marketing

(ii) Use of chemical fertilizers

C. Organic farming

(iii) Healthy Produce

D. MSP

(iv) Maximum Selling Price

Alternatives

a) A-(i) b) B-(ii) c) C-(iii) d) D-(iv)

10. Following is not true about organic farming.

- a) Environment friendly
- b) Healthy food
- c) Low set up costs
- d) Tastier food

Short Answer Questions (3-4 Marks)

1. Write a short note on operation flood.
2. Explain the importance of horticulture in Rural Development.
3. Explain how Regional Rural Banks and help in providing institutional credit to farmers.
4. How does information technology contribute to Rural Development?

Answer Key

1. False 2. (b)

3. Money lender
4. RRBs
5. any one valid reason
 - non accessibility
 - mortgage requirements
 - high default ratio
6. (a)
7. (b)
8. (b)
9. (c)
10. (c)

UNIT - VII
CHAPTER - 6
HUMAN CAPITAL FORMATION IN INDIA

Human Capital refers to the stock of knowledge, skills, ability, education, motivation and health in a nation at a point of time.

Human capital formation is the process of acquiring and increasing the skills, education and health among the people of the country over a long period of time.

Sources of human capital formation

- 1) Expenditure on education
- 2) Expenditure on health
- 3) On the job training
- 4) Expenditure on Migration
- 5) Expenditure on skill development
- 6) Expenditure on information

Problems facing human capital formation in India:-

- 1) Pressure of rapidly growing population
- 2) In-adequate resources.
- 3) Problem of Brain-Drain
- 4) Lack of proper management of human resources
- 5) Lack of quality education of technical and management
- 6) In-adequate development of health services

Role of human capital in economic development of a country:-

- 1) Increasing skill and the level of productivity.
- 2) Bring positive change in attitude and behaviour
- 3) Increasing research and technical reforms

- 4) Raises life expectancy
- 5) Raises the standard of living

Roles of education in human development:-

- 1) Raise creativity and productivity of the people.
- 2) Education produces good citizens
- 3) Develops science and technology
- 4) Helpful in proper utilization of resources of the country
- 5) Expands mental horizon of the people
- 6) Develop skills among the people

Human capital formation in India:-

- 1) Human capital formation is the goal and factor of economic development. Human resource development is included in the directive principles of the state in India.
- 2) Expenditure both education and health are carried out simultaneously by all the three tiers of the government
 - (i) Union government
 - (ii) State government
 - (iii) Local government
3. In India, ministry of education at the centre and state level. NCERT (National Council of Educational Research and Training), UGC (University Grant Commission), AICTE (All India Council of Technical Education) regulate the education sector.
4. In India, Ministry of Health at the union and the state level and ICMR (Indian Council of Medical Research) regulate the health sector.
5. Provision of drinking water and sanitation facilities are the basic needs of healthy life. State Governments and local bodies are responsible to provide such facilities.

Growth of Education Sector in India :-

Education is the main factor of the social and economic development of a country. A good education system produces not only skilled and trained people but also promotes science and technology. The following observations highlight the growth of education sector in India:-

(1) Elementary Education:-

- (a) Elementary education includes primary and middle school education.
- (b) Now, elementary education is free and compulsory (Class 1 to 8) for the age group of 6-14.
- (c) Various policies such as Sarva Shiksha Abhiyan, Mid-day Meal Scheme, district primary education programme, right to education have been playing major role in enhancing primary education in India.

(2) Secondary and Senior Secondary Education:-

(A) For the expansion of secondary education, the following institutions are working:-

- (a) Navodaya and Kendriya Vidhayalayas.
- (b) National Council of Educational Research and Training
- (c) commercialisation of Secondary Education
- (d) Technical, Medical and Agricultural Education

(B) Higher Education:-

(a) Universities, Colleges, Professional and Technical Educational institutions are included in higher education.

(C) The following main institutions are working in the field of higher education :-

- (a) University Grant Commission (UGC)
- (b) Indira Gandhi National Open University (IGNOU)
- (c) All India Council for Technical Education (AICTE)
- (d) Indian Council for Medical Research (ICMR)

Problems related to Development of Education in India:-

- 1) Large number of illiterate
- 2) Inadequate Professional and Technical Education
- 3) Gender Bias
- 4) Low Rural Access Level
- 5) Low government expenditure on the development of education.

One mark Questions (Very short Answer)

Q. 1. (Purchase of a new machine/on the job training) is a source of human capital formation. (Choose the correct alternative)

Q.2. Which one of the following is not a problem of Human Capital formation in India? (Choose the correct alternative)

- (a) Low academic standard
- (b) Low Savings
- (c) Rising Population
- (d) Lack of proper manpower planning

Q.3. From the set of statements given in Column (I) and Column (II), choose the correct alternative:-

Table

Column-I	Column-II
A. Physical capital	(i) expenditure on health
B. Human capital	(ii) scientific and technical manpower
C. Source of human capital formation	(iii) engineers and doctors
D. A rich ingredient of human capital	(iv) factories

Alternatives:-

- a. A-(ii), B-(iv), C-(i),D-(iii)

- b. A-(iv), B-(i), C-(iii),D-(ii)
- c. A-(iv), B-(iii), C-(i),D-(ii)
- d. A-(ii), B-(i), C-(iv),D-(iii)

Q. 4. Read the following statement- Assertion (A) and reasons (R). Choose one of the correct alternatives given below:-

Assertion (A) : People migrate in search of jobs that fetch them higher salaries than what they may get in their native places.

Reason (R) : Technically qualified persons, like engineers and doctors, migrate to othercountries.

Alternatives:-

- a. Both assertion (A) and reason (R) are true and reasons (R) is the correct explanation of assertion (A).
- b. Both assertion and reason are true and reason (R) is not the correct explanation of assertion (A).
- c. Assertion (A) is true but reason (R) is false.
- d. Assertion (A) is false but reason (R) is true.

Q.5. Following information is not collected by spending on information.

- a. Level of salaries.
- b. Educational institutions.
- c. Types of skills taught.
- d. Number of hospitals

Q.6.It refers to the process of creating an environment in which people can enjoy long, healthy and creative lives. (Choose the correct alternative)

- a. Economic growth
- b. Human capital
- c. Higher production
- d. Human development

Q.7. Human development is a broader concept than human capital. (State whether true or false)

Q. 8. Following is not an organisation to facilitate education in India.

- a. NCERT
- b. AICTE
- c. ICMR
- d. UGC

Q. 9. Read the following tatement - Assertion (A) and reasons (R). Choose one of the correct alternatives given below:-

Assertion (A) :- Expenditures on education and health make substantial long-term impact and they cannot be easily reversed.

Reason (R) :- Government intervention is essential in expenditures on education and health.

Alternatives:-

- a) Both assertion (A) and reason (R) are true and reasons (R) is the correct explanation of assertion (A).
- b) Both assertion and reason are true and reason (R) is not the correct explanation of assertion (A).
- c) Assertion (A) is true but reason (R) is false.
- d) Assertion (A) is false but reason (R) is true.

Q.10. From the set of statements given in Column (I) and Column (II), Choose the correct alternative:-

Column I	Column II
(A) Preventive medicine	(i) medical intervention during illness
(B) Medical research body	(ii) Vaccination
(C) Curative medicine	(iii) spread of health literacy
(D) Social medicine	(iv) ICMR

Alternatives:-

- a. A-(ii), B-(iv), C-(iii), D-(i)
- b. A-(ii), B-(iv), C-(i), D-(iii)
- c. A-(iv), B-(iii), C-(i), D-(ii)
- d. A-(i), B-(iv), C-(ii), D-(iii)

Q. 11. increases due to innovative skills.

- a. Income
- b. Productivity
- c. Both (a) and (b)
- d. None of the above

Q. 12. Choose the correct alternative from the following.

- a. Better job is a reason for migration.
- b., Human capital and economic growth are not correlated.
- c. Physical capital includes human capital
- d. Expenditure on Health is not included in investment.

Q.13. Which of the following is the reason of the problem of human capital formation in India.

- a. Brain drain
- b. Population growth
- c. Low academic standards
- d. All of the above

Read the following report given in Economic Survey 2020-21 and answer Questions 14 & 15 on the basis of the same:

The level of skill acquirement remained low in India, as only 2.4 percent of the workforce of age 15-59 years have received formal vocational/technical training and another 8.9 per cent of the workforce received training through informal sources. Out of the 8.9 per cent workforce who received non-formal training,

the largest chunk is contributed by on-the-job training (3.3 per cent), followed by self-learning (2.5 per cent) and hereditary sources (2.1 per cent) and other sources (1 per cent), Source-Economic Survey 2020-21

Q.14. Which is the main source of skill acquirement in India?

- a. Formal sources
- b. Vocational Training
- c. Hereditary sources
- d. Informal Sources

Q. 15. Which of the following is the largest contributor in human capital formation.

- a. Self-learning
- b. Technical training
- c. On-the-job training
- d. Vocational training

Q.16. five year plan recognised the importance of Human Capital.

- a) Second b) Eight c) Seventh d) Third

Q.17. Which one of the following is a reason for poor human capital formation in India?

- (a) Brain-Drain
- (b) High growth of population
- (c) Insufficient resources
- (d) All of the above

Q.18. What do you mean by human capital for motion?

Q.19. What is one the job training?

Q.20. Why do we need to invest in human capital?

Three and four (3 & 4) Mark Questions:-

- 1) What are three major sources of human capital formation?

- 2) Explain the concept of human capital formation.
- 3) Bring out the differences between human capital and physical capital.
- 4) Is rapidly growing population a constraint in the process of human capital formation? Explain.
- 5) Explain how educational planning is necessary for human capital formation.
- 6) What are the principle objectives of education in India?
- 7) How is health a source of human capital formation?
- 8) How migration promotes human capital formation?
- 9) Explain how investment in education stimulates economic growth.
- 10) Relationship between human capital and economic growth flows in either directions " Defend or refute the given statement with reason.
- 11) "The expenditure by the government on education is expressed in two ways." Name the two ways. Is India government spending enough on education?

Six (6) Mark Questions:-

- 1) What is human capital formation? Differentiate between human capital and physical capital.
- 2) How does investment in human capital contribute to economic growth?
- 3) What are the sources of human capital formation?
- 4) What is the need for government intervention in promoting health and education in India?
- 5) How does expenditure on "on the job training" and "Information" act as a source of human capital.
- 6) Explain the growth of education sector in India.
- 7) Explain how education is still a challenging proposition in India.
- 8) Discuss the need for promoting women's education in India.
- 9) 'Human Capital Formation gives birth to innovation, invention and technological Improvements. "Do you agree with the given statement? Support your answer

with valid arguments."

- 10) In spite of investment in Human Capital Formation, India is still facing a lot of challenges in Human Capital Formation. What are the main problems of Human Capital Formation in India?

ANSWER OF ONE MARK QUESTIONS KEY

- | | |
|------------------------|-------|
| 1. on the job training | 10. b |
| 2. b | 11. c |
| 3. c | 12. a |
| 4. a | 13. d |
| 5. d | 14. d |
| 6. d | 15. c |
| 7. true | 16. c |
| 8. c | 17. d |
| 9. a | |
18. Human capital formation is the process of acquiring and increasing the abilities, skills, education and experience among the people of the country over a long period of time.
19. On the job training refers to the training providing to the workers by the firm to enhance their specialised skill. It makes them more efficient and productive.
20. Because it develops man's ability and skill.

UNIT - VII

EMPLOYMENT : GROWTH, INFORMALISATION AND OTHER ISSUES

Points to remember:

Work plays an important role in our lives, as individuals, and in social life.

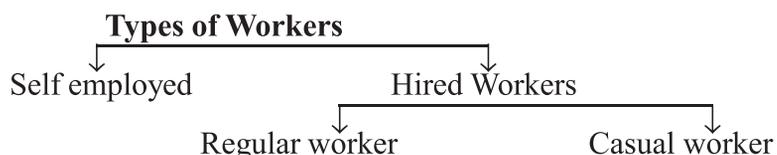
A worker is an individual, who is involved in some economic activity, to earn a living.

Economy activity :- It refers to all activities which are under taken to produce goods and service for generation of income.

Labour Force:- All persons, who are working and those who are not working but able to work and willing to work at the existing wage rate constitute labour force.

Work Force:- The number of persons, who are actually employed at a particular time are known as workforce. It includes all those persons who are actually engaged in productive activities.

$$\text{Participation Rate} = \frac{\text{Work Force}}{\text{Total Population}} \times 100$$



About two fifth of the total population in the country is engaged in various economic activities. Men, particularly rural men form the major section of workforce in India.

Majority of workers in India are self employed, (57%) Casual wage labourers and regular salaried employees together account for less than half the propoertion of India's workforce.

About sixty percent of India's workforce depends on agriculture and other allied activities as the major sources of livelihood.

Jobless Growth:- It is defined as a situation where GDP grows faster than the employment opportunities, resulting in unemployment.

Casualisation of employment:- Casualisation refers to a situation when the percentage of casually hired workers in the total workforce tends to rise over time.

Informalisation:- Refers to a situation when people tend to find employment move in informal sector of the economy and less in formal sector of the economy.

Unemployment:- It is situation where a person is ready and willing to work at the prevailing wage rate but does not find work.

Causes of unemployment:-

- 1) Slow rate of economic growth
- 2) Population explosion
- 3) Defective education system
- 4) Underdeveloped agriculture
- 5) Slow growth of Industry
- 6) Decline of cottage and small industry
- 7) Inadequate employment planning
- 8) Low capital formation

Remedial measures of unemployment:-

- 1) Accelerating growth rate of GDP
- 2) Control of population growth
- 3) Development of Agriculture sector
- 4) Development of small scale enterprises
- 5) Encouragement in infrastructure
- 6) Special employment programmes
- 7) Rapid Industrialisation

Special programmes to fight poverty and unemployment:-

- 1) Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA)

- 2) Swarnjyanti Sahari Rozgar Yojna
- 3) Pradhan Mantri Gramodaya Rozgar Yojna
- 4) Swarn Jayanti Gram Swarozgaar Yojna

Objective Questions (1 Marks)

1. Which of the following activity is not related to service sector?
 - a) Construction Activities
 - b) Banking
 - c) Working in the call center
 - d) Teaching
2. The formula to calculate worker population ratio is
 - a) $(\text{Workforce}/\text{Labour force}) * 100$
 - b) $\text{Workforce} + \text{Number of people who are willing to work but are unemployed}$
 - c) $(\text{Number of Unemployed persons}/\text{Labour force}) * 100$
 - d) $(\text{Workforce}/\text{Total population}) * 100$
3. Which of the following is an appropriate reason for labour by people
 - a) Livelihood earning
 - b) To get sense of self worth
 - c) To help their dependents
 - d) All of the above
4. The share of males in India's labour force is less than that of females. (True/False)
5. The size of India's labour force in 2011-12 was
 - a) 473 crore
 - b) 4.73 crore
 - c) 47.3 crore
 - d) 47.3 million

6. While other things remain same, an increase in population will
 - a) Decrease the worker population ratio
 - b) Increase the worker population ratio
 - c) Not affect the worker population ratio
 - d) None of the above
7. The size of work force can never be _____ the size of labour force. (greater than/ equal to/ less than)
8. During 2017-18, in which of the following the highest share of workforce in India was employed
 - a) Casual Labour
 - b) Regular Salaried Employment
 - c) Self employment
 - d) None of the above
9. Which of the following is a worker in economic sense
 - a) Student
 - b) Trader
 - c) Both of the above
 - d) None of the above
10. Unemployment that occurs in certain seasons of the year is known as
 - a) Open Unemployment
 - b) Disguised Unemployment
 - c) Seasonal Unemployment
 - d) None of the above
11. The major causes of unemployment in India are
 - a) Under Development
 - b) Rapid Population Growth

c) Defective Planning

d) All above

12. Read the following statements Assertion (A) and Reason (R). Choose the correct alternative from given below.

Assertion (A) : In rural areas, people cannot stay at home as their economic condition may not allow them to do so.

Reason (R) : During 2017-18, for every 100 rural women about 18 participate in the employment market.

Alternatives:

- a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)
- c) Assertion (A) is true, but Reason (R) is false.
- d) Assertion (A) is false, but Reason (R) is true.

Read the following paragraph carefully and answer the questions (13-14) on the basis of the same.

India's employment situation is bad. The current unemployment rate is the highest in the last 45 years. The unemployment among urban youth (age 15-29) is alarmingly high at 22.5 percent. The high unemployment rates is but just one of the problems with India's employment scenario. The labour force participation rate has come down to 46.5 percent for those who are 15 years and above. A large proportion of the employed worker get low wage and are stuck in 'employed poverty' trap.

- Economic Times, 24 January 2020

13. The percentage of population which contributes to creation of goods and services in the economy is
- a) Work force – Unemployed
 - b) Labour force – Unemployed
 - c) Population – Unemployed

d) None of the above

14. The problems faced by people in the current scenario are

- a) Unemployment
- b) Under employment
- c) Low wage
- d) All above

Answers of objective Questions

- | | | | | | |
|-----------------|-----------|---------|----------|---------|---------|
| 1. (a) | 2. (d) | 3. (d) | 4. false | 5. (c) | 6. (a) |
| 7. Greater than | 8. (c) | 9. (b) | 10. (c) | 11. (d) | 12. (b) |
| 13. (b) | 15. 77.5% | 14. (d) | | | |

Three and Four (3 & 4) Mark Question:-

- 1) Analyse the recent trends in sectoral distribution of workforce in India?
- 2) What is the difference between labour force and work force?
- 3) What are the adverse effects of unemployment?
- 4) Suggest general measures to control unemployment?
- 5) Give a brief note on the MNREGA?
- 6) Empowerment of women is related to employment of women. Comment.

Six (6) Mark Questions:-

- 1) What are the various types of unemployment?
- 2) What are the causes of unemployment?
- 3) Explain occupational structure of workforce?
- 4) What do you mean by organised sector? Discuss the reasons for fall in employment in organised sector?

UNIT - VII
CHAPTER - 9
ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

- What is environment - It is the totality of all resources and planetary inheritance.
- Components of environment – Biotic and Abiotic.
- Environmental Crisis – when resource extraction exceeds rate of regeneration.
- Reasons for Environmental Crisis –
 - Increasing population
 - Poverty
 - Excessive industrialisation
- Measures taken to deal within this crisis incur very high costs. Hence opportunity cost of environmental Crisis is high.
- Major issues :- Global warming, Ozone depletion.

Global Warming:

- Increase in average temperature of the globe due to increase in level of carbon dioxide and other greenhouse gases in the atmosphere.
- Rising sea levels due to melting of polar ice.
- Frequent storms.

Ozone Depletion

- Fall in level of Ozone in the atmosphere due to release of chloro fluoro carbons (CFCs)
- Damage to living organisms.
- Cause to skin cancer among human beings.
- Harm of aquatic life.

Major Concerns for India

- Air Pollution
- Water contamination
- Soil erosion
- Deforestation
- Wildlife extinction

Sustainable Development – The United Nations Conference on Environment and Development (UNCED), defined it as : Development that meets the need of the present generation without compromising the ability of the future generation to meet their own needs.

Suggestions given by Herman Daly to achieve sustainable development :

1. Limiting human population.
 2. Input effective technological progress.
 3. Extraction of renewable resources on a sustainable basis.
 4. Rate of depletion of non-renewable resources should not exceed the rate of creating renewable substitutes.
 5. Inefficiencies arising from pollution should be corrected.
- Strategies for sustainable development adopted in India
 - Use of Solar and wind energy
 - CNG as fuel for transport
 - LPG and Gobar Gas in rural areas.
 - Mini-Hydel plants
 - Use of traditional and environment friendly systems of health care
 - Bio composting
 - Bio pest control

Very Short Answer Questions (1 Mark)

Read the 2 statements : Assertion (A) and Reason (R) and choose the correct alternative.

Assertion (A) : Carrying capacity of the environment means rate of regeneration is greater than or equal to rate of extraction.

Reason (R) : There has been considerable research being done to find renewable substitutes to non-renewable sources of energy.

Alternatives:

- a) Both (A) and (R) are true and (R) is correct explanation for (A).
- b) Both (A) and (R) are true and (R) is not the correct explanation of (A).
- c) (A) is true and (R) is false.
- d) (A) is false and (R) is true.

Read the following passage and answer the questions 3-6 that follow.

With the tag line 'Swachh Indhan, Behtar Jeevan, Union Government has launched a social welfare scheme, Pradhan Mantri Ujjwala Yojana (PMUY) on 1st May 2016 under the leadership of the Prime Minister.

The Scheme envisages of smoke free Rural India and aims to benefit give crore fairless especially the women living below poverty line (BPL) by providing concessional LPG connections to the entire nation by 2019."

3. The PMUY was launched on
 - a) 1st May 2014
 - b) 1st May 2016
 - c) 1st July 2016
 - d) 15th August 2016
4. The scheme aims to provide LPG connection to _____ (urban/rural) women.
5. The scheme is expected to reduce _____ (income level /pollution level) in India.
6. The Ujjwala Yojana will provide concessional LPG to all the women in India. (True/False)

7. Which of the following is not a function of the environment?
- Assimilation of waste
 - Supply of resources
 - Providing aesthetic services
 - Segregation of waste
8. Which of the following is not used as a fuel for cooking.
- LPG
 - PNG
 - CNG
 - Gobar Gas
9. Sustainable development advocates use of non-renewable sources of energy. (True/False)
10. Identify the correct pair.

Column I	Column II
A. Biocomposting	(i) Chemical fertilizer
B. Organic farming	(ii) Chemical Pesticides
C. Mini Hydel Plants	(iii) Suitable for Montaineous regions
D. Solar Energy	(iv) Non-Renewable

Alternatives:-

- a) A-(i) b) B-(ii) c) C-(iii) d) D-(iv)

Answer Key

1. b) 2. a) 3. b) 4. rural 5. Pollution level 6. False
 7. (d) 8. (c) 9. False 10. c)

Short Answer Questions

(3-4 Marks)

- Explain the effects of Green Revolution in context of Sustainable Development.
- What steps have been taken in India in the direction of sustainable development.

3. State any four environmental concerns in India.
4. India's environmental problems pose dichotomy - they are poverty induced and at the same time, due to affluence in living standards. Defend or refute.
5. Explain why opportunity cost of environment Crisis is very high.

Long Answer Questions

(6 Marks)

1. Explain the measures as suggested by Herman Daly in order to achieve sustainable development.
2. Give 2 examples of the following.
 - a) Over utilization of environment resources.
 - b) Misuse of environment resources
 - c) Land degradation.

SIX (6) MARK QUESTIONS

- 1) Explain the relevance of intergenerational equity in the definition of sustainable development.
- 2) Explain the supply-demand reversal of environmental resources.
- 3) Highlight any two serious adverse environmental consequence of development in India

UNIT - VIII
CHAPTER - 10
DEVELOPMENT EXPERIENCE OF INDIA
A COMPARISON WITH NEIGHBOURS

- **Development Path of India, Pakistan And China**

- (i) All the three countries started their development path at the same time India and Pakistan got independence in 1947 and people's Republic of China was established in 1949.
- (ii) All the three countries have started planning their development strategies in similar ways. India announced its First Five Year Plan in 1951, Pakistan announced in 1956 and China in 1953.
- (iii) India and Pakistan adopted similar strategies, such as creating a large public sector and raising public expenditure on social development.
- (iv) Both India and Pakistan had adopted 'mixed economy' model but China had adopted 'Command Economy' model of economic growth.
- (v) Till 1980's, all the three countries had similar growth rates and per capita incomes.
- (vi) Economic Reforms were implemented in China in 1978, In Pakistan in 1988 and in India in 1991.

- **Development Strategy:**

- A. China**

- (i) After the establishment of people's Republic of China under one party rule, all the critical sectors of the economy, enterprises and land owned and operated by individuals, were brought under government control.
- (ii) A programme named 'The Great Leap Forward (GLF) campaign was initiated in 1958, which aimed at industrializing the country on a massive scale. Under this programme, people were encouraged to set up industries in their backyards.

- (iii) 1965, Mao Tse Lung introduced the 'Great Proletarian Cultural Revolution (1966-1976)', under which students and professionals were sent to work and learn from the countryside (rural areas).
- (iv) In rural areas, commune system was started, under which people collectively cultivated lands.
- (v) Reforms were introduced in China in phases.
- (vi) In the initial phase, reforms were initiated in agriculture, foreign trade and investment sectors. In the later phase, reforms were initiated in the industrial sector.
- (vii) The reforms 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 raw materials and products on the basis of prices fixed by the government and rest were purchased and sold at market price.
- (viii) In order to attract foreign investors, Special Economics Zones (SEZ) were set up, SEZ is a geographical region that has economic laws different from a country's typical economic laws. Usually the goal is to increase foreign investment.

B. Pakistan

- (i) Pakistan followed the mixed economy model with co-existence of public and private sectors.
- (ii) Pakistan introduced tariff protection for manufacturing of consumer goods, together with direct import controls on competing imports.
- (iii) The introduction of Green Revolution and increase in public investment in infrastructure in select areas, led to a rise in the production of food grains.
- (iv) In 1970's Capital goods industries.
- (v) In 1988, structural reforms were implemented. Major thrust areas were denationalization and encouragement of private sector.
- (vi) Pakistan also received financial support from western nations and remittances from emigrants to the Middle countries. This helped the country in stimulating economic growth.

COMPARATIVE STUDY
INDIA, PAKISTAN AND CHINA

1. Demographic Indicators:

The population of Pakistan is very small and accounts for roughly about one-tenth of China and India.

Though China is the largest nation geographically among the three, its density is the lowest.

Population growth is highest in Pakistan followed by India and China. One child norm introduced in China in the late 1970s is the major reason for low population growth. But this measure led to a decline in the sex ratio, that is the proportion of females per 1000 males.

The sex ratio is low and biased against females in all the three countries.

There is strong son-preference prevailing in all these countries as the reason.

The Fertility rate is low in China and very high in Pakistan.

Urbanisation is high in both China and Pakistan - with India having 2 percent of its people living in Urban areas.

2. Gross Domestic Product (GDP) and Sectors :-

China has the second largest GDP (PPP) of \$9.4 trillion (approx) in 2013 where as India's GDP (PPP) and Pakistan GDP (PPP) are \$1.877 trillion (approx) and \$232.3 Billion (approx) respectively.

On this path of Development China's average growth rate is about 9.5% while India's and Pakistan's average growth rate is about 5.8% and 4.1% respectively.

In China, in the year 2011, with 37 percent of its workforce engaged in agriculture, its contribution to GDP is 9 percent (approx). While in India and Pakistan the contribution of agricultural sector in GDP is about 14% and 25% respectively. In India about 43% are engaged in agricultural sector, while in Pakistan this figure is about 49%.

In China, manufacturing contributes the highest to GDP at 53 percent whereas in India and Pakistan, it is the service sector which contributes the highest (more than 50 percent of GDP) .

Though China has followed the classical development pattern of gradual shift from agriculture to manufacturing and then to services, India and Pakistan's shift has been directly from agriculture to service sector.

In the 1980s, India, China and Pakistan employed 17, 12 and 27 percent of its workforce in the service sector respectively. In 2011, it reached the level of 37, 37 and 35 percent respectively (approx).

China's growth is mainly contributed by the manufacturing sector where as in both India and Pakistan, the service sector is emerging as a major player of development.

3. Human Development Indicators:

In most areas of human development, China has performed better than India and Pakistan. This is true for many indicators-per Capita GDP or proportion of population below poverty line, health indicators such as mortality rates, access to sanitation, literacy, life expectancy or malnourishment etc.

Pakistan is ahead of India in reducing proportion of people below the poverty line and also its performance in transferring labour force from agricultural sector to industrial sector and access to water is better than India.

Contrary to it, India is ahead of Pakistan in education sector and providing health services.

India and Pakistan are ahead of China in providing improved water sources
Conclusion.

A. India performed moderately as is clear from

A majority of its people still depend on agriculture.

Infrastructure is lacking in many parts of the country.

It is yet to raise the level of living of more than 22% of its population that lives below the poverty line.

B. Pakistan has performed poorly. The reasons for the slowdown of growth and re-emergence of poverty in Pakistan's economy are:

- (i) Political instability.
- (ii) Volatile performance of agriculture sector.
- (iii) Over dependence on remittances.
- (iv) Growing dependence on foreign loans on the one hand and increasing difficulty in paying back the loans on the other.

C. China has performed comparatively the best as is clear from:

Success in raising the level of growth along with alleviation of poverty.

It used the market mechanism to create additional social and economic opportunities without political commitment.

By retaining collective ownership of land and allowing individuals to cultivate lands, China has ensured social security in rural areas.

Public intervention in providing social infrastructure has brought about positive results in human development indicators in China.

	INDIA	PAKISTAN	CHINA
Started towards their developmental path	1947	1947	1949
Initiation of development strategies	<ul style="list-style-type: none"> • Mixed Economy, • First Five Year Plan in 1951 • Till the 1980s, all the three countries had similar growth rates and per capita incomes 	<ul style="list-style-type: none"> • Mixed Economy, • First Five Year Plan in 1956, which is called Medium Term plan. • Till the 1980s, all the three countries had similar growth rates and per capita incomes 	<ul style="list-style-type: none"> • Command economy • China announced its First Five Year plan in 1953 • Till the 1980s, all the three countries had similar growth rates and per capita incomes
Economics Reforms	1991	1988	1978
Development Strategies	<ol style="list-style-type: none"> 1. Industrial policy 1948, 1956 etc. 2. Green revolution (1966) 3. Operation fluid or white revolution 1970 4. Poverty eradication programme 5. Rural Development strategy 6. Employment Generation 7. Economic reform-1991 8. Special Economic Zone policy-2005 	<ol style="list-style-type: none"> 1. Import Substitution 1950s 2. Import industrialisation. 1960s 3. Green revolution 1960s 4. In 1970s, Capital goods industries were nationalised. 5. In 1988, structural reforms were implemented 	<ol style="list-style-type: none"> 1. Green Leap Forward (GLF) (1958) 2. Great Proletarian Cultural Revolution (1966-76) 3. Economic Reforms (1978) 4. Special economic zone 1979

Demographic indicators	<ul style="list-style-type: none"> • Huge populous country • National Population • Policy formulated in the year 2000 <p>The sex ratio is low and biased against females The Fertility rate is close to average. Urbanisation is low (28% only) Under nourished children are 37.9%</p>	<ul style="list-style-type: none"> • Low populous country (about one tenth of India or China) • Populataion growth is highest in Pakistan followed by India and China • The sex ratio is low and biased against females • The Fertility rate is very high • Urbanisation is high • Under nourished children are 37.6% 	<ul style="list-style-type: none"> • Huge populous country • One child norm which was introduced in China in the late 1970s is the major reason for low population growth • The sex ratio is low and biased against females • The Fertility rate is low • Urbanisation is high • Under nourished children are 8.1%
Material Mortality Rate (per 1 lakh births)	174	178	27
Infant Mortality Rate (per 1000 live births)	29.9	57.2	8.5
Human Development Index (Value)	0.647	0.560	0.758
Gross National Income per Capita (PPP \$)	6,829	5,190	16,127
People Below Poverty Line (at \$3.20 a day PPP)(%)	60.4	46.4	7.4
Overall performance	<p>a. India performed moderately</p> <p>b. A majority of its people still depend on agriculture</p> <p>c. Infrastructure is lacking in many parts of the country</p> <p>d. It is yet to raise the level of living of more than 22% of its population that lives below the poverty line.</p>	<p>a. Pakistan has performed poorly.</p> <p>b. Political instability.</p> <p>c. Volatile performance of agriculture sector</p> <p>d. Over dependence on remittances</p> <p>e. Growing dependence on foreign loans on the one hand and increasing difficulty in paying back the loans on the other.</p>	<p>a. China has performed comparatively</p> <p>b. Success in raising the level of growth along with alleviation of poverty.</p> <p>c. It used the market mechanism to create additional social and economic opportunities without political</p> <p>d. commitment.</p> <p>By retaining collective ownership of land and allowing individuals to cultivate lands, China has ensured social security in</p> <p>e. rural areas.</p> <p>Public intervention in providing social infrastructure has brought about possitive results in human development indicators in China.</p>

Multiple Choice Question

(1 Mark)

1. Which of the following country has highest density of population per square km?

- (a) Pakistan (b) India
(c) China (d) Britain

Ans. (b) India

2. Human Development Index is a measure of _____.

- (a) birth rate (b) death rate
(c) quality of life (d) quality of environment

Ans. (c) quality of life

3. China republic was established in -

- (a) 1945 (b) 1947 (c) 1949 (d) 1951

Ans. (c) 1949

4. Which is the poorest nation?

- (a) India (b) China (c) Pakistan (d) Canada

Ans. (c) Pakistan

5. Which country adopted infant policy?

- (a) India (b) China (c) Pakistan (d) None of these.

Ans. (b) China

6. In 1978 'Reform policy' started by China.

Ans. True

7. Ratio of people below poverty line in India is higher than China.

Ans. True

8. The Great leap Forward (GLF) campaign was initiated in 1978.

and. False

9. When did India introduce reforms?

Ans. 1991

10. What do you mean by Great Leap Forward (GLF)?

Ans. The Great Leap Forward (GLF) was started in China 1958 for industrialization, under which people had to set up industries in the back of their homes.

Short answer type questions (3-4 marks)

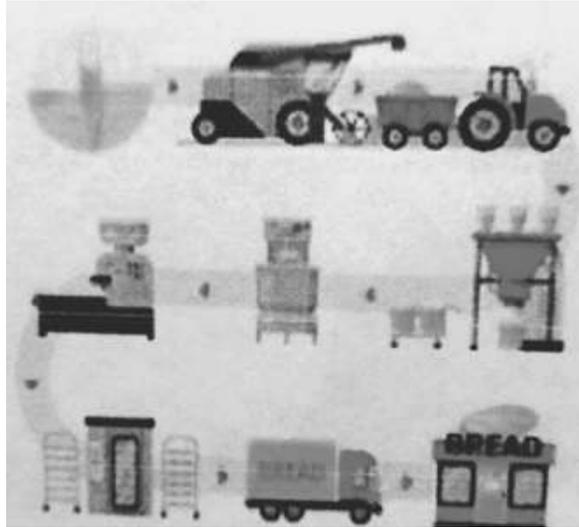
1. What was common in the development strategy of India, China and Pakistan during 1950-1990?
2. When was the Great Proletarian Cultural Revolution introduced in China?
3. Mention the main features of Indian economy.
4. What is the important implication of the 'one child norm' in China?
5. Suggest some lessons that India can learn from China.
6. China's rapid industrial growth can be traced back to its reforms in 1978. Do you agree? Explain it.

Long answer type question (6 marks)

1. How will you prove that human development is more progressed in China than in India and Pakistan?
2. Critically appraise the development strategies of India.

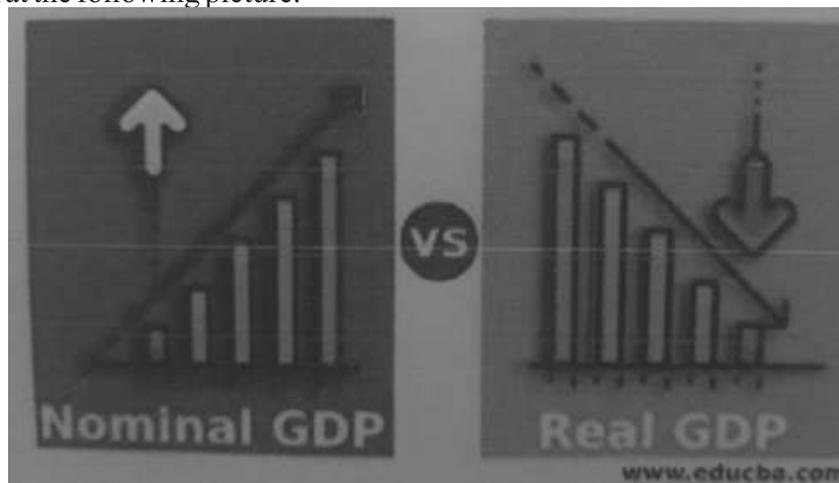
UNIT-I
NATIONAL INCOME AND RELATED AGGREGATES

1. Study the following picture carefully.



The above illustration depicts a problem associated with the estimation of national income. Identify the same and explain it with a suitable example.
(Ans Hint: Problem of double counting)

2. Look at the following picture.



Analyze the above picture and explain it taking a suitable example.

3. Look at the following picture and identify the limitation of GDP as an indicator of welfare Explain the identified limitation briefly.

Salary of a homemaker

Miss World Manushi Chhillar
 Even mothers deserve the highest salary in the world, but household tasks done by women are neither acknowledged, nor paid for. If they were, here is what a homemaker would get

Task	Description	Salary
BABYSITTING	Taking care of kids for 12-14 hours during the day	₹12,000
PERSONALIZED COACHING	Taking into account the performance of 3-4 people	₹5,000
HOUSEWORK	Supervising housework, including cleaning the house and car-wash	₹3,000
SHOPPING AND ACCOUNTING	Handling money of expenses, purchase and allowing bills	₹4,000
WORKING AND SOCIAL SKILLS	Attending to guests, family members, and when not	₹5,000
TRAVEL	Handling bills and helping with household projects	₹5,000
HAIR	Helping with other family members' personal care	₹5,000

4. Look at the following picture to identify the limitation of GDP as an indicator of welfare. Explain the identified limitation briefly.



Case Studies:

1. Read the following extract carefully and answer the questions that follow:

The primary difference between nominal GDP and real GDP is that real GDP is adjusted for inflation or deflation, providing a more accurate measure of economic growth, while nominal GDP measures an economy's size at current market prices.

Both measures have their advantages and limitations, and understanding these differences is essential for making informed decisions in economics.

As the global economy continues to evolve, new methods for measuring economic performance may emerge. For now, understanding the real and nominal GDP formulas, and the differences between the two remains valuable for navigating the world of trading.

- a) What is the major differences between real and nominal GDP?
- b) How can we transform nominal GDP into real GDP?
- c) Which of the two-real or nominal GDP is a better indicator of economic growth and why?

2. Read the following extract carefully and answer the questions that follow

In the case of pollution-the traditional example of a negative externality-a polluter makes decisions based only on the direct cost of and profit opportunity from production and does not consider the indirect costs to those harmed by the pollution. The social-that is total costs of production are larger than the private costs. Those indirect costs which are not borne by the producer or user-include decreased quality of life, say in the case of a home owner near a smokestack, higher health care costs, and forgone production opportunities, for example when pollution harms activities such as tourism. In short, when externalities are negative, private costs are lower than social costs

There are also positive externalities, and here the issue is the differences between private and social gains. For example, research and development (R&D) activities are widely considered to have positive effects beyond those enjoyed by the producer-typically, the company that finds the research. This is because R&D adds to the general body of knowledge, which contributes to other discoveries and developments. However, the private returns of firm selling products based on its own R&D typically do not include the returns of others who benefited indirectly. With positive externalities, private returns are smaller than social returns

When there are differences between private and social costs or private and social returns, the main problem is that market outcomes may not be efficient. To promote the well-being of all members of society, social returns should be maximized and social costs minimized. Unless all costs and benefits are internalized by households and firms making buying and production decisions, market outcomes can lead to underproduction or overproduction in terms of a society's overall condition (what economists call the "welfare perspective")

- a) Define externalities
- b) How do externalities act as a limitation of GDP as an index of welfare?
- c) give an example of positive and negative externality each.

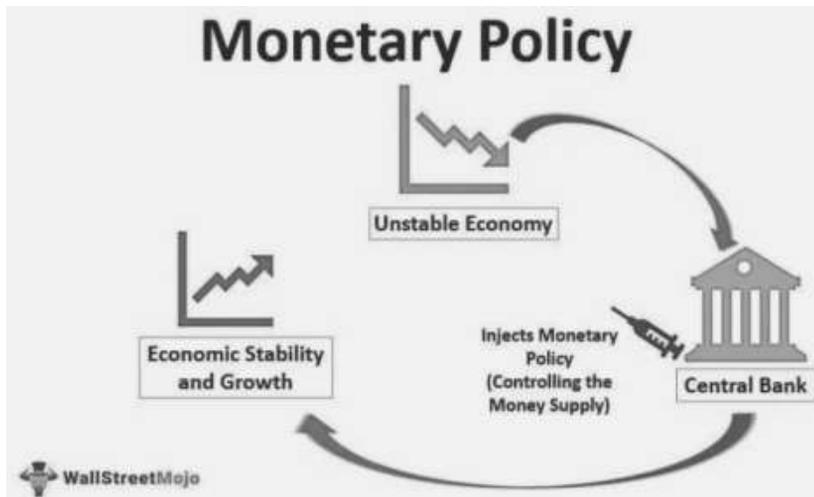
UNIT-II
MONKEY AND BANKING

1. Identify the type of exchange system depicted in the following picture and state the limitations of the same.



(Hint: barter system)

2. Study the following picture carefully



State any three instruments through which economic stability and growth can be achieved.

(hint: any three monetary policy instruments)

Case study:

Read the following extract and answer the questions that follow

Generally, banks hold a maximum amount of money that they can create as a percentage of their reserves, which is set forth by the fractional reserve banking system. As banks loan out their reserves, they produce checkable deposits and estimate the amount of money that is available to be lent out by using their reserve requirement ratio. Hence, the money multiplier can be seen as the opposite of the reserve requirement ratio, because it is a ratio of the checkable deposit to the amount in the reserves.

An example of such an inverse relationship is when a bank posts a required reserve ratio of 24%, the deposit multiplier would be 76%. The money multiplier allows for the bank to ensure that there is sufficient cash to cater for withdrawals, as needed by the customers.

1. Define money multiplier.
2. What is meant by reserve requirement ratio? How is it related to money multiplier?

Q. From the above diagram

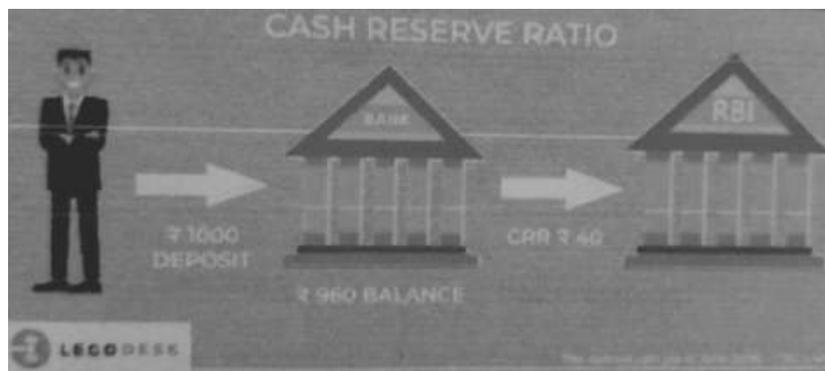
1. What is the value of APC and APS point B.
2. 'Consumption and Savings curve are always parallel to each other.' Do you agree? Give reasons for your answer.
3. Define autonomous consumption

(Hints:1) $APC=1$, $APS=0$

2) no, they are parallel only when $MPC = MPS=0.5$

3) communion level at zero income.)

Picture 3



Q Define cash reserve ratio. How can it be used for correcting the problems of excess and deficient demand?

CASE 1

A significant fluctuation in the growth rate of gross domestic product is observed, which comes along with the fluctuations of other demand components from 1951-52 to 2019-20. It is found that in the long run, out of the components that significantly influence the aggregate demand and hence the economic growth of India, the private final consumption expenditure plays the most significant role followed by private fixed investment. A 1% increase in the PFCE leads to an average 0.96% increase in the GDP. The result also reveals that the structural policy reforms implemented since 1991 have created the virtuous cycle of economic growth in the economy and should be a policy priority (economic and political weekly)

Q. Read the passage above and answer the following

1. What are the components of the aggregate demand mentioned in the article?
2. Define private final consumption expenditure
3. How does increase in PFCE lead to increase in GDP?

(hints (1) C, I, G, X-M;

(2) *Consumption expenditure by household sector:*

(3) *Increase in PFCE implies increase in the aggregate demand and hence GDP)*

CASE 2

One of the core characteristics of Keynesian economics or demand-side economics is the emphasis on aggregate demand. Aggregate demand is composed of four elements consumption of goods and services, investment by industry in capital goods, government spending on public goods and services, and net exports.

Under the demand-side model, Keynes advocated for government intervention to help overcome low aggregate demand in the short-term, such as during a recession or depression. This could reduce unemployment and stimulate economic growth.

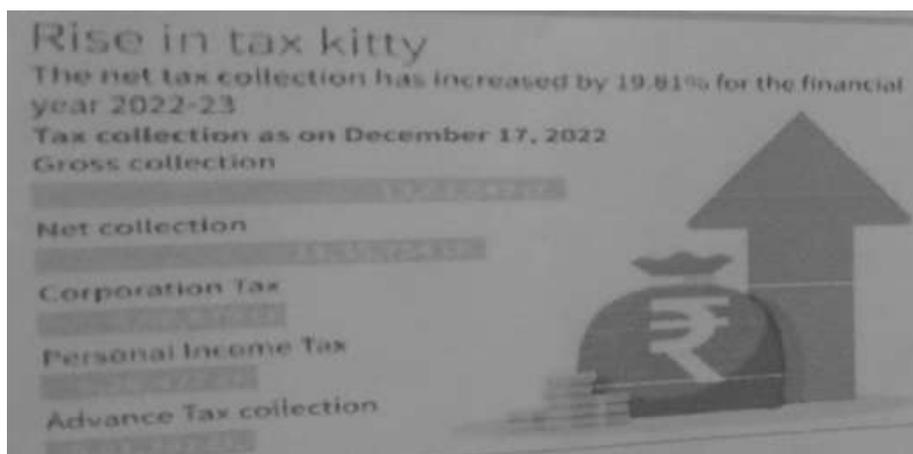
(Investopedia)

Q. From the above article, discuss the ways in which government intervention can help to overcome situations of recession and inflation in an economy

(Hint. fiscal policy measures)

UNIT 4. GOVERNMENT BUDGET AND ECONOMY

PICTURE 1.

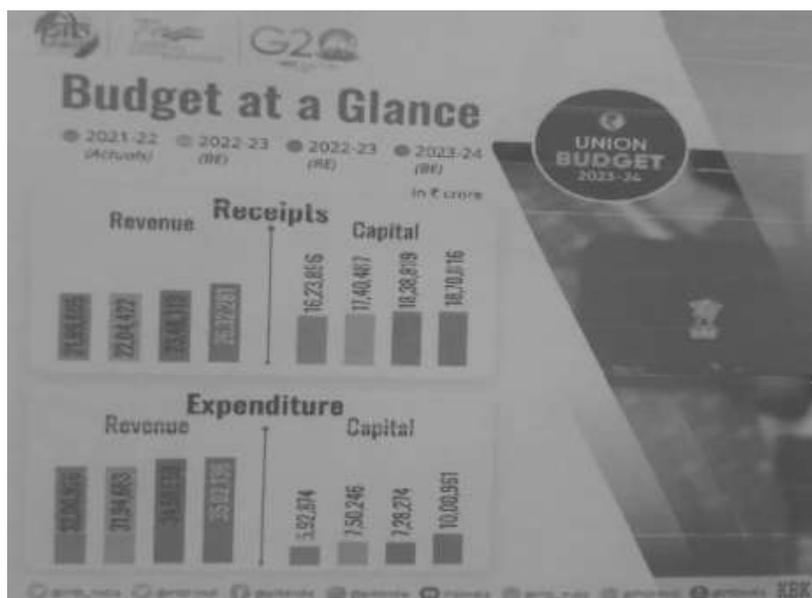


- Q. A) What are the different type of taxes?
 B) Based on the picture above, discuss the impact of increased tax collection on the economy.

(hints (1) Direct and indirect (2) Increase in direct save collection implies higher levels of income and hence greater aggregate demand)

(Hint: Surplus budget)

PICTURE 2.



2. Study the following picture carefully and answer the questions that follow.
- a)
 - b) Calculate the actual revenue surplus/ deficit for 2022-23 and estimated revenue surplus/ deficit for the year 2023-24 and compare the two.
 - c) What do you think are the implications high revenue deficit in the government budget

CASE STUDY 1.

Read the following extract carefully and answer the questions that follow:

Set Nirmala Sitharaman emphasized that this Budget continues to provide impetus for growth It lays a parallel track of (1) a blueprint for the Amrit Kaal, which is futuristic and inclusive, which will directly benefit our youth, women, farmers, the Scheduled Castes and the Scheduled Tribes And (2) big public investment for modern infrastructure, readying for India at 100 and this shall be guided by PM Gati Shakti and be benefited by the synergy of multi-modal approach Moving forward, on this parallel track, She outlined the following four priorities.

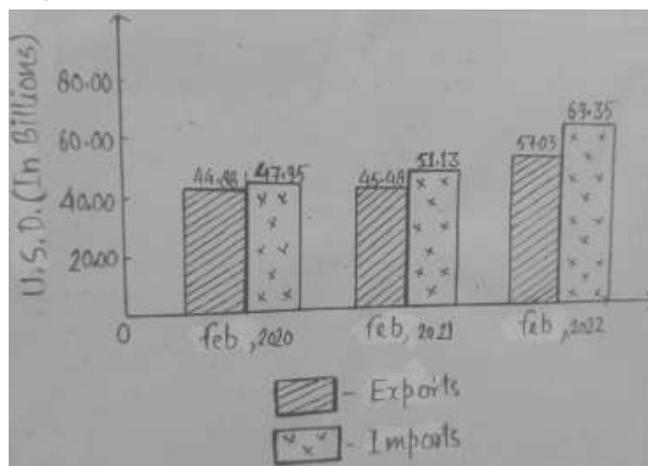
- PM Gati Shakti
- Inclusive Development
- Productivity Enhancement & Investment, Sunrise Opportunities, Energy Transition, and Climate Action
- Financing of Investments

Elaborating the PM GatiShakti, the Finance Minister said that it is a transformative approach for economic growth and sustainable development. The approach is driven by seven engines namely, Roads, Railways, Airports, Ports, Mass Transport, Waterways, and Logistics Infrastructure All seven engines will pull forward the economy in unison. These engines are supported by the complementary roles of Energy Transmission, IT Communication, Bulk Water & Sewerage, and Social Infrastructure Finally, the approach is powered by Clean Energy and Sabka Prayas the efforts of the Central Government, the state governments and the private sector together-leading to huge job and entrepreneurial opportunities for all, especially the youth

- a) Which objective of the government budget is being discussed in the above extract? Explain briefly
- b) Explain one objective of the government budget other than the one identified Above.

UNIT 5: BALANCE OF PAYMENT

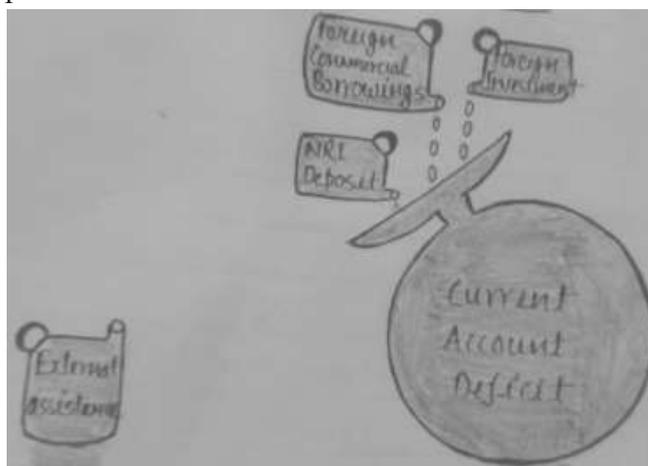
Question 1: Analyse the trade deficit of India on the basis of the given diagram.



Question 2: find the value of current account balance of a economy on the basis of given data.

S.No.	Items	Amount (in crores)
(i)	Merchandise exports	110
(ii)	Merchandise imports	110
(iii)	Tourism	90
(iv)	Net Remittances from abroad	(-) 40

Question 3: The given figure shows which implication of balance of payment an Economy? Explain.



Case Study 1

During 2022 China's exports to India climbed to USD 118.5 billion, a year-on-year increase of 21.7 percent. During 2022, China's Imports from India dwindled to USD 17.48 billion, a year on year decline of 37.9 percent. The trade deficit for India stood at USD 101.02 billion, crossing the 2021 figure of USD 69.38 billion.

The Indian Embassy has attributed the growth of deficit with China to two reasons-first narrow basket of goods for exports and second, market access barriers in areas where we are competitors. (Source: the Economic Times, 13 January 2025)

Question 1: Analyze the trade deficit in India's trade with China.

Question 2: What could be the reasons for India's trade deficit in trade with China.

Case Study 2

India and Brazil represent unique cases of economies that have built up large levels of foreign. Exchange reserve on the strength of their capital rather than on the current account of Balance of Payments. India, is even more special in this regard because its currency is relatively stable and protected from risk from frequent trade fluctuations rather than Brazilian currency real.

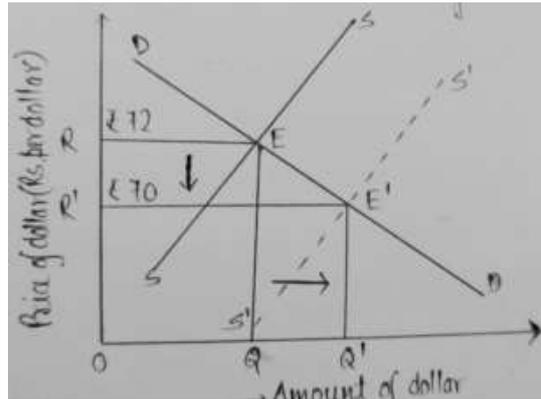
In theory country can attract capital inflows to finance a current account deficit as long as its growth prospects are good and the investment climate is equally good.

Question 1-How does India finance its current account deficit?

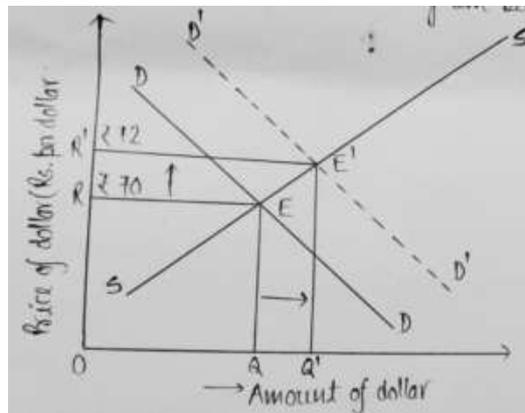
Question 2-In which type of environment can any country attract more capital flow?

FOREIGN EXCHANGE RATE

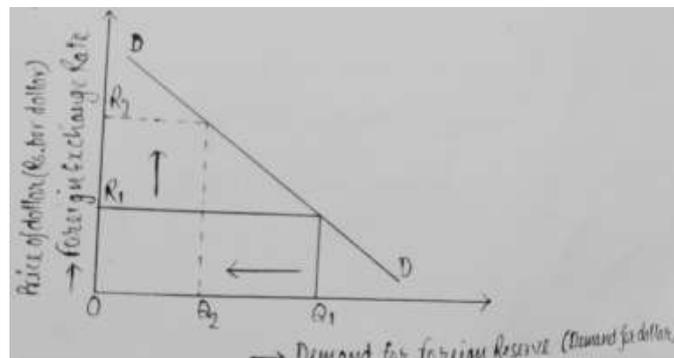
Question no-1- Which position of the Indian rupee with respect to the dollar is shown in the diagram below?



Question no-2- Which position of the Indian rupee with respect to the dollar is shown in the diagram below?



Question no-3- On the basis of the diagram given below, choose True/False about statements.



Statement: When the value of foreign currency increases, its demand falls'

Case study 1: A country can gain an advantage in international trade if it controls the value of the currency less than other currencies. Some claim that in the early twenty-first century, the people's Republic of China has been doing this for a long time.

Other countries including Iceland, Japan, Brazil etc. have had a policy of maintaining a low value of their currencies in the hope of reducing the cost of exports and thus strengthening their economies. A low exchange rate of a country lowers the price of exported goods for the consumers in other countries, but raises the price of imported goods for the consumers in a country with a low exchange rate.

Question-1 What is devaluation?

Question-2 What is the effect of devaluation on exports and imports of a country.

Case study 2:

The rupee depreciated by six paise to 82.01 against the US dollar in early trade on Wednesday amid a falling trend in local equity markets and foreign capital outflows. In interbank forex market, the rupee was trading at 82.01 per dollar after opening weak of 82.00 per dollar. This is a fall of 6 paise compared to the previous closing level. On Tuesday, the rupee had closed of 81.95 per dollar.

Question-1 Information given above pertains to which type of exchange rate system?

Question-2 As a result of above given news, what will be the effect on the imports of India?

Answers: Balance of Payment

Answer no-1:

Trade deficit in 2020= $47.95-44.88=3.07$ USD

Trade deficit in 2021= $51.13-45.48=5.65$ USD

Trade deficit in 2022= $69.35-57.03=12.32$ USD

The above calculations show a steady year on year increase in India's trade deficit, meaning that imports of goods & services have grown faster than exports of goods & services.

Answer no-2:

Current Account Balance = (X-M)+NI+NT
(X-Exports, M=Imports, NI- Net Income from foreign countries, NT=Net transfer)

$$\begin{aligned}\text{Current Account Balance} &= (i-ii)+iii+iv \\ &= (120-110)+ 90+(-40) \\ &= 10+90-40 \\ &= 60 \text{ crores}\end{aligned}$$

Answer no-3: The figure given below shows an economy that finances its current account deficit through external capital inflows. In theory, A country can attract capital inflows to finance a current account deficit or long as its growth prospects are good and the investment climate is equally good.

Case study 1:

Answer no (i)-India's trade deficit with China stood at 101.02 billion US dollar, crossing the 2021 figure of 69.38 billion US dollar. Which is approx 45 percent more than 2021.

Answer no (ii)-There are two reasons for India's trade deficit with China.

- (a) Narrow basket of goods for exports.
- (b) Market access barriers in areas where we are competitors.

Case study 2:

Answer:(i) India finances its current account deficit through external capital inflows.

Answer:(ii) A country can attract more capital inflows when its growth prospects are good and the investment climate is equally good.

Answers: Foreign Exchange Rate

Answer no-1: Due to increase in the supply of dollar (QQ'), the value of dollar has decreased i.c. Indian rupee has appreciated.

Answer no-2: Due to increase in the demand of dollar (QQ'), the value of dollar has increased i.e. Indian rupee has depreciated.

Answer no-3: When the value of foreign currency increases, it's demand decreases. This statement is true. As the value of dollar increases from OR_1 , to OR_2 , the demand of the dollar decreases from OQ_1 to OQ_2 .

Case study 1:

Answer no (1) When the value of domestic currency is deliberately set lower than other foreign currencies by the Central bank of a country, it is called devaluation.

Answer (ii)-Exports of the country become cheaper and the imports become expensive, which improves the Balance of Payments of the country

Case study 2:

Answer no 1: The above information pertains to the flexible Exchange Rate System.

Answer no 2: India's imports will decrease because the imports will become expensive due to falling rupees.

CHAPTER 1: INDIAN ECONOMY ON THE EVE OF INDEPENDENCE

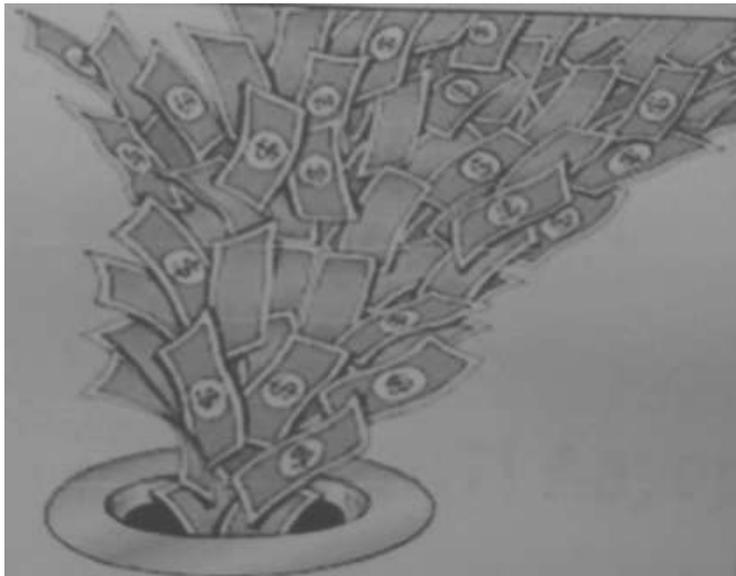
1. On the basis of the following picture, analyse the characteristics of the Indian economy at the eve of Independence.



(Ans Hint: At the eve of independence, Indian economy was a) Backward b) stagnant c) semi feudal d) depleted and e) amputated)

2. Look at the picture given below:

In context of foreign trade during the British rule, Identify the concept exhibited in the above pictures and explain the same.



(Ans Hint: Drain of Wealth)

3. Study the picture given below.



- a) On the basis of the above picture, identify the characteristics of industrial sector in India before the advent of british.
- b) Why did the british systematically deindustrialise the Indian economy?

Chapter-2

Indian economy-1950-1990

1. Study the following picture and answer the questions that follow.

- a) When was the planning commission established and what were its prime objectives?
- b) Which is the successor organisation of planning commission and when was it established?
- c) What are the main differences between Planning commission and its successor organisation?



2.



On the basis of the above picture, critically evaluate the economic policies pursued by the Indian Government from 1950 to 1990.

CASE STUDIES

1. Read the following extract carefully and answer the questions that follow:

Prior to the mid-1960s, increased crop production in India was largely achieved by expansion of cultivated area. To gain self-sufficiency in food grain production, a new agricultural strategy popularly known as the 'Green Revolution' was implemented in the mid-1960s. This strategy involved the use of modern technology, including HYV (high yielding variety) seeds, chemical fertilisers, irrigation facilities, improved farm implements and crop protection measures. It succeeded, and food self-sufficiency was attained. Food grain production increased due to both extensification and intensification. The area under cultivation for food grain crops increased considerably. However the major concern for the scientists and policymakers is to sustain the productivity in order to achieve food security to the fast growing population.

In Punjab and Haryana the contribution to total national food grain production increased from 3% before the Green Revolution to 20% at present, contributing 50 and 85% of government procurement of rice and wheat, respectively. The increases achieved by the Green Revolution have created several environmental problems, viz. deforestation, waterlogging, salinity, alkalinity, soil erosion

and decline and rise of the ground water table linked to brackish water, etc. These environmental problems became evident in the 1980s, and are becoming increasingly prominent through time.

Increasing pressure of the population on the land dictates the need for potential utilisation of all available land. However, large parts of the land are degraded by desertification, soil salinity, waterlogging, floods, and droughts, due to inefficient agricultural practices, and deforestation has caused excessive soil erosion (Gill, 1992; Randhawa, 1992). The increasing demand for food, fodder, fibre and fuel can only be met through bringing more of these degraded areas into cultivation

- a) Highlight the benefits of green revolution for Indian economy.
- b) What have been the major environmental and economic concerns that have emerged from green revolution?

CASE STUDY 2: READ THE FOLLOWING IMAGE CAREFULLY AND ANSWER THE QUESTIONS THAT FOLLOW:

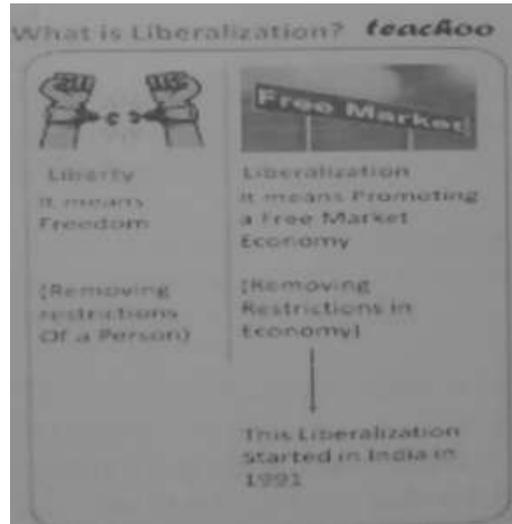
Inter war period and the Great Depression		
Quinquennial Average	Value in Crores	
Year	Imports	Exports
1914-15 to 1918-19	159.25	217.89
1920-21 to 1924-25	261.78	300.81
1925-26 to 1929-30	240.29	327.27
1930-31 to 1934-35	134.28	161.33
1935-36 to 1939-40	150.21	180.86

Source: C. Kaushal, Economic History of India, Foreign Trade, pg 440

- a) There was an export surplus in India's foreign trade during the British rule. How did it affect the India's economy?
- b) What were the major features of foreign trade in India during British rule?

CHAPTER 3-ECONOMIC REFORMS SINCE 1991

PICTURE 1



Q4. From the picture above,

4. What steps were taken by the government of India to achieve liberalisation in 1991?
5. How does liberalisation differ from privatisation?
(hint: discuss economic reforms of 1991)

PICTURE 2

20 Years of Indian Economic Reforms		
	1990	2010
Population, m	839	1,186
GDP, \$bn (2010 prices)	433	1,538
GDP per person, \$ (2010 prices)	503	1,265
GDP world ranking (current \$)	12	10
GDP world ranking (\$PPP)	9	4
Exports, as % of GDP	6.9	21.5
Gross savings, as % of GDP	21.9	34.7
Adult literacy rate, %	48.2	68.3
New official poverty rate, % (Tendulkar method)	45.3	32.2
Urban population, % of total	26	30
Share of world market capitalisation, %	0.41	2.88
Number of billionaires in Forbes rich list	1	49

Q. Answer the following questions based on the data above

1. Which economic reforms are being referred to in the above data?
2. Discuss the limitations of these economic reforms, if any.

CASE 1

Three decades of economic reforms have ushered in a major transformation in the size and quality of the economy, said Madan Sabnavis, Chief Economist of CARE rating agency, in an interview with Moneycontrol on July 1.

While reforms have put the economy on the fast track and made it comparable to the world's developed countries in terms of quality, the trickle-down effects have worked in a limited manner, Sabnavis said.

"The poor have become less poor; the rich have become much richer with inequality getting exacerbated. Further, those at the bottom 10 percent of the population still lack dignified living and it is more people in the middle and higher levels on the low-income scale, who have moved up," Sabnavis said.

Q. Read the above article and answer the questions below:

1. Discuss the main features of the economic reforms discussed above.
2. Critically analyse the achievements of the economic reforms since 1991.

CHAPTER 4: HUMAN CAPITAL FORMATION

CASE STUDY:

1. Neha is a bright and ambitious young girl from a rural area in India. Her family lives in poverty and she had to walk several kilometers to reach her school. However, despite these challenges, Neha was determined to pursue her education and build a better future for herself.

After completing her school education, Neha received a scholarship to pursue her higher education in a reputed college in a nearby city. Neha worked hard and completed her degree with flying colors. She was then offered a job by a multinational company, where she is currently employed.

As an economics student, answer the questions of the given case study:

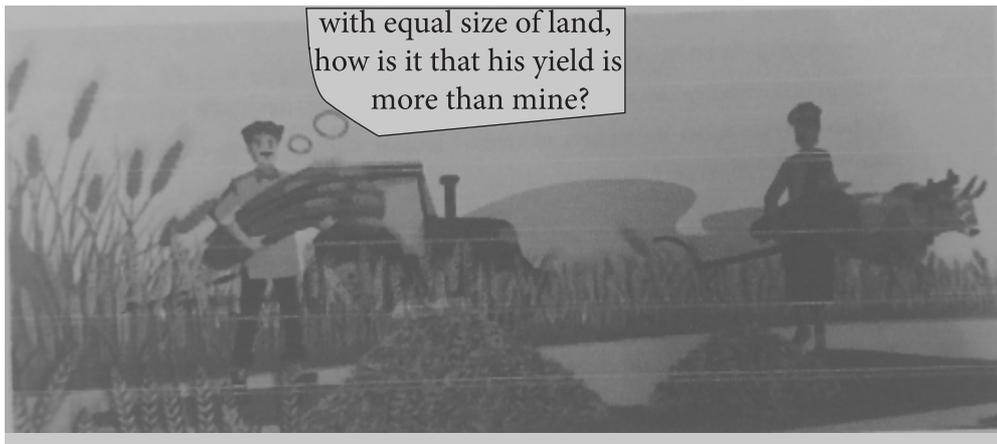
- (i) Analyze the case study and suggest measures that the government can take to promote human capital formation in rural areas.
- (ii) How can education and training contribute to human capital formation?

PICTURE BASED QUESTION:

2. Interpret the given picture on account of the importance and objectives of education.



3. Interpret the given picture on account of the role of human capital formation enhancing productivity of physical capital



Source: NCERT, 22-23

ANSWER:

CHAPTER 4 HUMAN CAPITAL FORMATION

(i) Education and training are essential contributors to human capital formation. They help individuals develop skills, knowledge, and expertise that can enhance their productivity and enable them to contribute to the economic growth of their communities. Education can help individuals acquire basic literacy and numeracy skills, which can significantly improve their ability to participate in the labor market and earn a decent livelihood. It can also equip individuals with the technical and managerial skills necessary to start and manage their businesses, thereby promoting entrepreneurship.

Training programs can help individuals acquire specialized skills and knowledge that are in demand in the labor market. For instance, vocational training can help individuals acquire skills in specific trades, such as carpentry, plumbing, or welding, which can increase their employability and earning potential. In addition, training programs can also help individuals acquire soft skills, such as communication, teamwork, and problem-solving, which are essential for success in most occupations.

Overall, education and training can significantly contribute to human capital formation by equipping individuals with the skills, knowledge, and expertise necessary to contribute to the economic growth of their communities.

(ii) Scholarships and other forms of financial assistance can play a crucial role in promoting human capital formation in rural areas. They can help to bridge the gap between the financial resources available to students and the costs of

education and training. By providing financial support, scholarships and other forms of assistance can help students from low-income families to pursue higher education and training, which can significantly improve their employment prospects and earning potential.

Scholarships can also help to encourage students to excel academically and promote a culture of meritocracy. The government can offer scholarships and grants to students from disadvantaged backgrounds or those who demonstrate academic excellence

Moreover, providing financial assistance for vocational education and training can help individuals acquire specific skills that are in demand in the labor market. This can enhance their employability and enable them to contribute to the economic growth of their communities.

In summary, scholarships and other forms of financial assistance can help overcome the financial barriers to education and training, promote meritocracy, and improve the employability of individuals from rural areas

2. Education is a tool. It enables and empowers people; it provides one with diverse knowledge, expertise, and skills and helps develop the essential skills in life. Education equips people with the basic values and ethics of life to make them sharp and clever enough to deal with the real world

Objectives of Education

- a) Knowledge leads to effective interpersonal relationships and healthy life adaptations. Thus, knowledge acquisition should be a significant goal of education.
- b) Develop skills for the assortment, procurement, arrangement, and utilization of tools and materials for different forms of productive work. It also helps in incorporating new skills.
- c) Develop self-esteem and confidence through accomplishment in productive work and services.
- d) Develop a deeper opinion for the environment and wisdom of belonging, responsibility, and commitment to society. It helps in developing a sense of belongingness within people.
- e) Develop reverence for manual work and regard for manual workers in the community to give them the utmost respect.

- f) Develop work habits such as punctuality, honesty, discipline, efficiency, and dedication to duty.
 - g) Develop self-esteem and self-assurance through achievements in productive works and services in various fields.
 - h) Develop a deeper apprehension for the environment and a sense of belongingness, responsibility, and commitment to society to ensure the community's welfare. Develop alertness of socio-economic problems of the society to ensure people about the changes if made.
3. One worker who has completed his training and can handle the tools and machines in a better way enhance productivity as compared to the unskilled and uneducated worker. Therefore, Human capital formation increases productivity, which means the generation of per-unit output will be higher as compared to unskilled workers

CHAPTER 5: RURAL DEVELOPMENT

CASE STUDY:

1. The village of Karimnagar in the state of Telangana is predominantly agricultural, with most of the villagers engaged in farming. However, the village lacks basic amenities such as good roads, electricity, and access to clean water. As a result, the village is struggling to improve its agricultural productivity, and the villagers are living in poverty

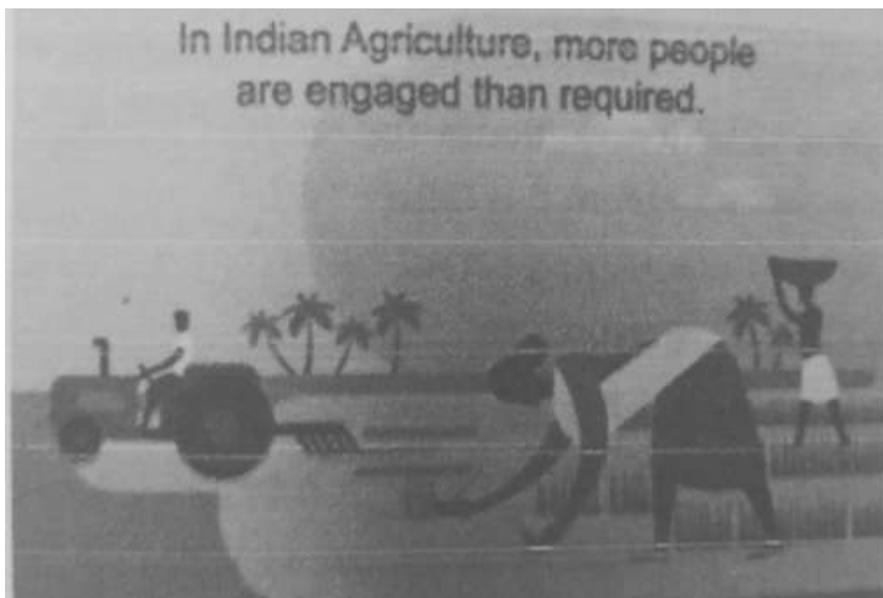
The government has decided to take steps to improve the village's infrastructure and help the villagers improve their standard of living.

As an economics student, answer the questions of a given case study

(i) What are the benefits of agricultural development in promoting rural development? (ii) What are some of the key factors that the government needs to consider when implementing rural development programs?

PICTURE BASED QUESTION:

2. Interpret the given picture on account of the problem of disguised unemployment in India.



3. Taking cue from the image given below, state the need for rural credit in farming.



ANSWERS

CHAPTER 5: RURAL DEVELOPMENT

1 Benefits of agricultural development is promoting rural development:

- Improved agricultural productivity leads to increased income for farmers and better standard of living.
- Agricultural development can create employment opportunities in the rural areas.
- Increased Agricultural production can help reduce food insecurity in the region.
- The surplus agricultural products can be sold in the market, increasing the income of farmers and the economic growth of the region.
- The development of agro-processing industries can create further job opportunities and increase the value of agricultural products.

OR

Key factors that the government needs to consider when implementing rural development programs.

- Access to basic amenities such as clean water, electricity, good roads, and communication facilities is essential for rural development.
- Entrepreneurship development programs, training, and financial support can help promote local businesses and create employment opportunities in the area .
- Developing the agricultural sector and supporting farmers is crucial for rural development.

- d) Providing education and healthcare facilities is important for improving the quality of life and creating a skilled workforce.
- e) Environmental sustainability and conservation should be integrated into rural development plans to avoid any negative impact on the environment.
- f) Community participation and involvement in the planning and implementation of rural development programs are critical for their success.
- g) The government should ensure the equitable distribution of resources and benefits among all members of the community.
- h) The government should monitor and evaluate the impact of rural development programs to ensure their effectiveness and make necessary adjustments

PICTURE BASED QUESTIONS:

2. The situation of underemployment is referred to as the situation when people are apparently working but all of them are made to work less than their potential. In this case, the person considers himself employed but is actually not working. In rural areas, where agriculture is the main source of income, this kind of unemployment can be seen often. If a piece of land requires only three people to work on it and instead five people are working on it, then the two extra people are said to be in a situation of disguised unemployment.

3. The limited number of banks that are available in the rural areas prefer to forward credit to the farmers with large land-holdings. Getting credit from banks being difficult, the small and marginal farmers fall easy prey to the money lenders. The Infusion of credit is very essential for the growth of the agricultural sector, leading to rural economic development. The importance of credit in rural development is highlighted in the following points:

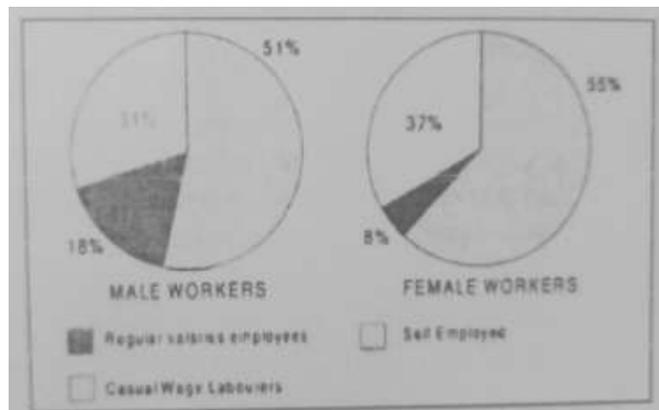
- a) Credit helps the farmers to commercialize their farming. In other words, commercial farming requires funds that are provided via credit. As the small and marginal farmers produce only for their subsistence, they fail to generate sufficient surplus to reinvest on their lands leading to degradation of the land.
- b) Given the long gestation period between sowing and harvesting of the crops, credit is extended to the farmers for meeting their initial requirements of farm inputs like seeds, fertilizers, etc
- c) Credit saves the farmers from the vicious circle of poverty. The farmers require funds for meeting their general and specific needs. These needs are to be fulfilled via credit
- d) Lastly, agriculture has always been dependent on the vagaries of climate In the Absence of a good monsoon or crop failure, farmers are hurt. Thus, in order to save them from such tragedy, crop insurance and farm credit plays a vital role

CHAPTER 6: EMPLOYMENT

4. Study the following picture and identify the type of employment. Also identify the sector to which they belong.



5. Study the following chart and analyze the gender wise employment patterns. Cite reasons For the same.



Case study

In 2014-15, the latest year for which the numbers are available, as much as 93.9% of the addition to the workforce in the formal manufacturing sector was hired through contractors. That means these people weren't directly employed by the manufacturing companies. At a time when the government is talking of the benefits of formalizing the informal sector, what we're seeing is the increasing informalization of the workforce in the organized sector.

The year 2014-15 was an exceptionally bad one from the point of view of additional direct employment in manufacturing. But the trend towards the casualization of labour is unmistakable. The accompanying chart shows that

the number of contractual employees is growing by leaps and bounds-they accounted for 16% of the total manufacturing workforce in the formal sector in 1998-99 and by 2014-15 they were 35%

Based on the above extract, answer the following questions.

1. What is meant by informalization of the workforce?
2. State the steps taken by the government to improve the status of people working in the informal sector

CHAPTER 7: ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

CASE STUDY

3. India is one of the world's fastest-growing economies and its energy needs have also been growing rapidly. The government of India has been working to address the country's energy needs while ensuring environmental sustainability. One of the major initiatives taken by the government in this direction is the promotion of solar energy. The Jawaharlal Nehru National Solar Mission (NNSM) was launched in 2010 to promote the use of solar energy in India. The goal was to install 20 GW of solar power capacity by 2022. However, this target was later increased to 100 GW by 2022, and as of March 2021, India had achieved a total installed capacity of over 40 GW of solar energy. The solar power revolution has had a significant impact on India's economic development. It has created a massive demand for solar panels, which has led to the growth of a solar equipment manufacturing industry in India. This has provided employment opportunities for thousands of people and has helped to boost the country's manufacturing sector. In addition, the solar power revolution has also helped to reduce India's dependence on imported fossil fuels, which has improved the country's energy security.

This has had a positive impact on India's balance of payments and has helped to reduce its trade deficit. The solar power revolution has also had a significant impact on the environment. It has helped to reduce greenhouse gas emissions, which has contributed to the fight against climate change. The use of solar energy has also reduced air pollution, which is a major problem in many Indian cities.

Despite the success of the solar power revolution, there are still challenges that need to be addressed. One of the major challenges is the lack of adequate infrastructure for the distribution and storage of solar energy. This has resulted in a situation where much of the solar energy generated in India is wasted due to a lack of storage capacity. Another challenge is the high initial cost of installing solar power infrastructure, which is often prohibitive for many individuals and businesses. The government has addressed this issue by offering various subsidies and incentives for the adoption of solar energy. In conclusion, India's solar power revolution is a prime example of how sustainable economic development can be achieved. It has had a

positive impact on the economy, the environment, and on people's lives. The government's continued support for this initiative will be crucial in ensuring that India achieves its ambitious target of 100 GW of solar power capacity by 2022

How has the use of solar energy helped to address environmental issues in India? OR How can the lessons learned from India's solar power revolution be applied to other countries looking to adopt sustainable energy practices?

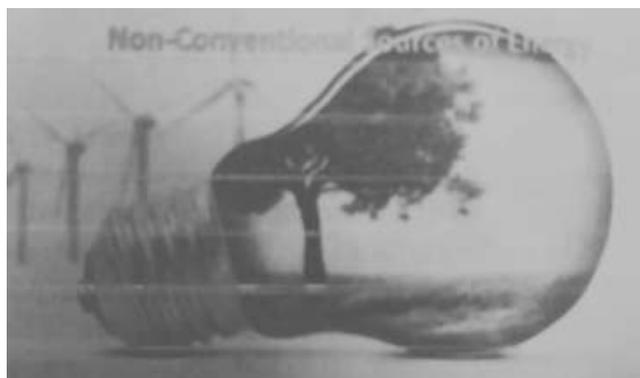
PICTURE BASED QUESTION:

2. Interpret the given picture on account of factors triggering the environmental crisis.



Source: <https://www.futurelearn.com/info/futurelearn-international/impacts-climate-change-in-nigeria>

3. Interpret the given picture on account of how reliance on conventional sources of energy is harmful for our environment and what is the way ahead?



Source: <https://www.toppr.com/guides/physics/sources-of-energy/non-conventional-sources-of-energy>

ANSWERS

CHAPTER 7 SUSTAINABLE ECONOMIC DEVELOPMENT

1. The use of solar energy has helped to address environmental issues in India in several ways. First, it has reduced greenhouse gas emissions, which is a major contributor to climate change. Solar energy is a clean, renewable energy source that does not emit any greenhouse gases during its operation. Second, it has reduced air pollution, which is a significant problem in many Indian cities. The use of solar energy reduces the need for fossil fuel power plants, which emit pollutants that can harm human health and the environment. Finally, the use of solar energy has reduced water consumption, which is a critical issue in a country like India, where water scarcity is a significant problem. Traditional power plants require large amounts of water for cooling, whereas solar power plants require no water for their operation.

OR

The lessons learned from India's solar power revolution can be applied to other countries looking to adopt sustainable energy practices in several ways. First, the Indian government's focus on promoting the use of solar energy through policy incentives and subsidies can be replicated in other countries. This approach can help to overcome the initial high cost of installing solar power infrastructure, which can be prohibitive for many individuals and businesses. Second, India's experience highlights the importance of developing local manufacturing capabilities for solar equipment. This can help to create employment opportunities and boost the country's manufacturing sector. Third, India's experience also shows the importance of developing adequate infrastructure for the distribution and storage of solar energy. This is crucial to ensure that the energy generated is not wasted and can be used when needed. Finally, India's solar power revolution highlights the importance of setting ambitious targets and working towards them. This can help to create a sense of urgency and momentum, which can help to drive progress towards achieving sustainable energy goals.

2. Environmental crisis refers to any phenomenon which is known to affect a given system's ability of self remediation. The image above shows a case of drought leading to cracks on land and infertility of soil.

Principal causes of current environmental crisis are as under:

- a) Population Explosion: Pressure of population on land has tremendously increased and consequently, land has been ruthlessly exploited. It has caused substantial conversion of forest land into industrial and residential buildings.

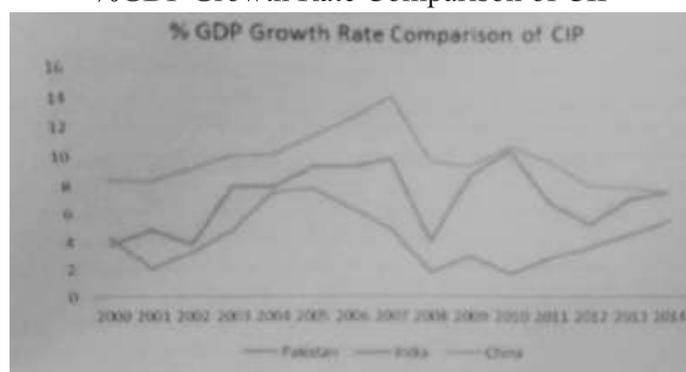
- b) Increasing Urbanization: Increasing urbanization has caused pressure on housing and other civic amenities. It has resulted in increasing demand for land and excessive exploitation of other natural resources.
- c) Rapid Industrialisation Rapid industrialisation has also contributed to air, water and noise pollution. Industrial smoke is a serious pollutant.

3 Reliance on conventional sources of energy is a warning sign for the environment. Further, most of energy needs of India are met through thermal and hydro power plants. They are hazardous for the environment and its functioning. Thermal power plants emit large quantities of greenhouse gasses, particularly CO₂, while the hydro power plants disrupt the natural flow of water in the catchment as and the river basin Accordingly, we should focus on generating power from solar energy and wind energy which are cleaner and greener sources of energy.

CHAPTER 8-COMPARATIVE DEVELOPMENT EXPERIENCES OF INDIA AND ITS NEIGHBOURS

PICTURE I

%GDP Growth Rate Comparison of CIP



Q Based on the above, compare the percentage GDP growth rate of the three countries. Cite reasons for the same

PICTURE 2

GDP	Agriculture	Industry	Service
China	8.3%	39.5%	52.2%
India	15.4%	23%	61.5%
Employment	Agriculture	Industry	Service
China	27.7%	28.8%	43.5%
India	47%	22%	31%

* Arable land 11% in China and 53% in India

Q. Study the data above and answer the following

4. Which sector was the main driver of growth for China and India respectively?
5. Compare and contrast the sectoral composition and occupational structure of the two countries

(hints (1) Though service sector contributes most in both the countries, contribution of industrial sector in China is far more significant as compared to India. (2) Employment in various sectors in both countries to be discussed)

CASE 1

After over two centuries of being the world's most populous country, China is expected to be overtaken by India on July 1. The epochal potential of this

UNFPA estimate is rooted in the idea that while India's demography shall keep pushing growth, China's shrinking population shall shrink its future. But this idea of demography being destiny has a huge caveat, related to the quality of the human capital concerned. The statements coming out of Beijing are seeking to downplay the population trend, but they make fair point in underlining their "high-calibre workforce". India simply cannot afford any complacency about being the country with a 254 million cohort aged 15-24 years but must instead work with full energy to ensure many more of them can cash the "talent dividend" advantage that Chinese officials are currently boasting (times of india)

Q Read the article above and answer the following

1. Why is China worried about its population?
2. Discuss the quality of human capital' as discussed in the article above
3. What advantage does India have over China according to the above article?

(Hints: 1 Increasing dependant population and falling working population: 2 Refers to human capital available in terms of level of education and health. 3 India has a large population in the age group of 15 to 24 yrs which is productive age group)

PRACTICE PAPER-I

ECONOMICS (030)

Class XII Session 2025-2026

Time: 3 Hours

Max. Marks: 80

General Instructions:

1. This question paper contains two sections:
Section A- Macro Economics
Section B- Indian Economic Development
 2. This paper contains 20 Multiple Choice questions type questions of 1 mark, each.
 3. This paper contains 4 Short Answer Questions type questions of 3 marks such to be answered in words.
 4. This paper contains 6 Short Answer Questions type questions of 4 marks each to be answered in 80 to 100 words.
 5. This paper contains 4 Long Answer Questions type questions of 6 marks each to be answered in 100 to 150 words
-

Section A-Macro Economics

Multiple Choice Questions (Q1 to Q10)

(1 x 10=10)

1. Which one of the following is a monetary measure to correct deficient demand?
a) Reduce government spending b) Lowering margin requirements
c) Increase government spending d) None of these
2. Read the following statements-Assertion (A) and Reason (R). Choose one of the correct alternatives given below:
Assertion (A): Fiscal deficit shows a better position of the government expenditure in comparison budget deficit.
Reason (R): Fiscal deficit reflects borrowings requirement of the government.
Alternatives:
a) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
b) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

- c) Assertion (A) is false but Reason (R) is true
- d) Assertion (A) is true but Reason (R) is false

3. The two key constituents of aggregate demand are
- a) Investment and growth
 - b) Consumption and Investment
 - c) Both (a) and (b)
 - d) Neither (a) nor (b)

or

Which of the following is not a reason for excess demand?

- a) Deficit financing
 - b) Fall in the propensity to consume
 - b) Rise in aggregate demand
 - d) Increase in investments
4. Suppose you are a member of the Advisory Committee to the Finance Minister of India. The Finance Minister is concerned about the rising revenue deficit in the budget. Which of the following measures can be used to control the rising revenue deficit of the government?
- a) Increase taxation
 - b) Reduce government administrative expense
 - c) Reduce the burden of subsidy
 - d) Any of these

or

Which of the following is the implication of revenue deficit?

- i) A high revenue deficit shows fiscal indiscipline.
 - ii) It shows wasteful expenditure of government on administration.
 - iii) It implies that government is dissaving.
- (a) i, ii) and iii) (b) i) and ii) (c) ii) and iii) (d) i) and ii)

5. Read the following statements carefully:
- Statement 1: Sector which transforms one physical good into another physical good is tertiary sector.
- Statement 2: Consumption of fixed capital refers to fall in the value of fixed assets due to normal wear and tear and foreseen obsolescence.
- In the light of the given statements choose the correct alternative from the following:
- a) Statement 1 false and statement 2 is true
 - b) Statement 1 is true and statement 2 is false
 - c) Both statements 1 and 2 are false
 - d) Both statements 1 and 2 are true

6. Read the following statements-Assertion (A) and Reason (R), Choose one of the correct alternatives given below:

Assertion (A) Average Propensity to Consume can be greater than one.

Reason (R) Consumption can be greater than income in an economy.

Alternatives:

- a) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion
 - b) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion.
 - c) Assertion (A) is false but Reason (R) is true
 - d) Assertion (A) is true but Reason (R) is false
7. Read the following statements carefully
- Statement 1: When the consumption expenditure is more than the income, the value of APS will be negative.
- Statement 2: If Marginal Propensity to Save (MPS) is equal to zero, the value of investment multiplier will be not defined (∞).
- In the light of the given statements, choose the correct alternative from the following:
- e) Statement 1 is false and statement 2 is true
 - f) Statement 1 true and Statement 2 is false
 - g) Both statements 1 and 2 are false
 - h) Both statements 1 and 2 are true
8. The following information is given for an imaginary country

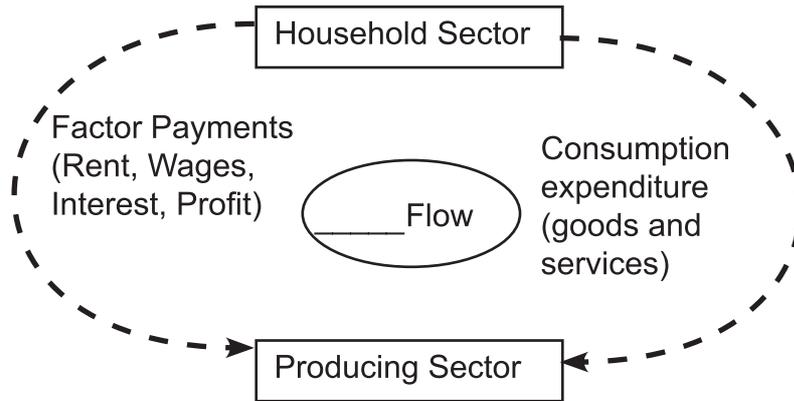
S.No	(all figures in lakh)	
(i)	Durable use producer goods with a life span of 10 years	10
(ii)	Single use producer goods	5
(iii)	Sales	20
(iv)	Unsold output produced during the year	2
(v)	Taxes on production	1

Identify the correct value of NVAFC from the given options:

- a) 10 lakh
- b) 20 lakh
- c) 15 lakh
- d) 25 lakh

OR

Read the following figure carefully and chose the correct options from the alteratives given below:



Alteratives

- a) Real
- a) Circular
- b) Nominal
- c) Either (a), (b), or (c)

9. Read the following statements carefully:

Statement 1: Excess supply is the situation under which aggregate demand exceeds aggregate supply corresponding to full employment level.

Statement 2: Excess demand is the situation under which aggregate demand falls short of aggregate supply corresponding to full employment level.

In the light of the given statements chose the correct alternative for the from the following:

- a) Statement 1 is false and statement 2 true.
- b) Statement 1 is true and statement 2 is false.
- c) Both statements 1 and 2 are false.
- d) Bothe statements 1 and 2 are true.

10. Identify the correct pair from the following Column I and Column II.

	Column I		Column II
A.	Excess demand	(i)	When AD is exceeds AS at the full employment level of income
B.	Inflationary gap	(ii)	Ratio of change in consumption expenditure to change in income

C.	Autonomous consumption	(iii)	When AD less than AS at the full employment level of income
D.	Marginal Propensity to Save	(iv)	Consumption expenditure planned to be incurred during given period

Alternatives:

- (a) C-(iii) (b) A-(i) (c) D-(iv) (d) B-(ii)

Short Answer Questions (Q11 to Q12)

11. Read the given text carefully and answer the questions that follow:
 Money was historically an emergent market phenomenon that possess intrinsic value as a commodity nearly all contemporary money systems are based on unbacked fiat money without use value. Its value is consequently derived by social convention, having been declared by a government or regulatory entity to be legal tender: that it must be accepted as a form of payment within the boundaries of the country, for all debts, public and private in the case of the United States dollar. Contexts which erode public confidence, such as the circulation of counterfeit money or domestic hyperinflation, can cause good money to lose its value.
- i) What is fiat Money?
 ii) when is there a risk of a fall in the value of a fiat money?

12. Explain "Bankers bank" function of the Central Bank
 or
 What do you know about the following?

- (i) full bodied money. (ii) High powered money.

Short Answer Questions (Q13 to Q15)

13. Explain the problem of double counting in the estimation of national income with the help of an example. How can this problem be avoided?
 or
 What are "non-monetary exchanges" Explain with suitable examples how they are a limitation of the GDP as an indicator of welfare.

14. Find Gross Value Added at Market Price from the given data:

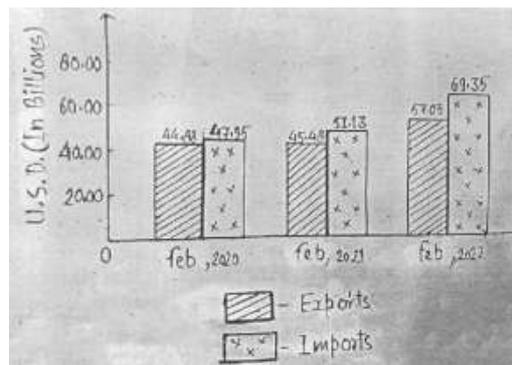
		(Lakh)
(i)	Depreciation	20
(ii)	Domestic sales	200
(iii)	Net change in stocks	(-)10
(iv)	Exports	10
(v)	Single use producer goods	120

15. Read the given text carefully and explain the basis of classifying taxes into direct and indirect with examples.

To run a nation judiciously, the government needs to collect tax from the eligible citizens using to government is an integral part of everyone's life, no matter where we live in the world. Now, taxes can be collected in any form such as state taxes, central government taxes, direct taxes, indirect taxes, and much more. For your ease, taxation is divided into two categories. viz direct taxes and indirect taxes. This segregation is based on how the tax is being paid to the government.

Long Answer Questions (Q16 to Q17)

16. (i) On the basis of given figures interpret India's performance in balance of trade.



- (ii) Distinguish between depreciation of a currency and devaluation of a currency.
17. Draw a hypothetical propensity to consume curve and from it, derive the propensity to save curve. Explain the steps involved.

or

Explain the "Consumption Function with the help of a schedule and diagram.

Section B-Indian Economic Development

Multiple Choice Questions (Q18 to Q27)

18. In which of the following areas, Pakistan has an edge over India?
- i) Export of software after economic reforms
 - ii) Number of Phd's produced in science and engineering every year.
 - iii) Percentage of undernourished children
- (a) (i) and (iii) (b) (i) and (ii) (c) only (iii) (d) (i) and (ii)
19. Read the following statements carefully:
- Statement 1: In 1997, a UN conference on climate change was held in Japan
- Statement 2: Global warming refers to the destruction of ozone in the ozone layer, due to presence of chlorine from man-made chlorofluorocarbons and other forces.
- In the light of the given statements, choose the correct alternative from the following:
- a) Statement is false and statement 2 is true
 - b) Statement is true and statement 21 is false
 - c) Both statements 1 and 2 are false
 - d) Both statements 1 and 2 are true
20. What is the full form of PPP in terms of Gross Domestic Product?
- a) Purchasing Power Price
 - b) Purchasing Power Parity
 - c) Public Private Partnership
 - d) None of these
21. Read the following statements carefully:
- Statement 1: Sarva Siksha Abhiyan (SSA) was launched in 2000 to ensure 5 years of primary education children in the age group of 6-14 years by 2007 and 8 years of schooling by 2010.
- Statement 2: National Programme for Education of Girls at Elementary Level was launched in 2003, under SSA, for providing additional support for education of under-privileged girls at the elementary level.
- In the light of the given statements, choose the correct alternative from the following:
- a) Statement 1 is false and statement 2 is true
 - b) Statement is me and statement 2 is false
 - c) Both statements 1 and 2 are false
 - d) Both statements 1 and 2 are true

22. Which of the following are major fish producing states in India?

- a) Odisha
- b) Gujarat
- c) Maharashtra
- d) Andhra Pradesh
- (a) (i), (ii) and (iii)
- (b) (i), (ii) and (iv)
- (c) (i), (ii) and (iv)
- (d) (ii), (iii) and (iv)

or

Surplus population engaged in agriculture can be employed in:

- a) Fisheries
- b) Horticulture
- c) Animal husbandry
- d) Any of these

23. Read the following statements Assertion (A) and Reason (R) Choose one of the correct alternative given below:

Assertion (A) Pakistan shifted its policy orientation in late 1970s and 1980s.

Reason (R): A variety of regulated policy framework after independence led to slow growth of Pakistan.

Alternatives

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

24. China moving ahead of India and Pakistan is true for _____ indicator.

- a) HDI ranking
- b) GDP per capita
- c) Proportion of population below poverty line
- d) All of these

or

A campaign in China in 1958 where people were encouraged to set up industries in their backyard was named as:

- a) Anti-rightist Movement
- b) Great Leap Forward
- c) Four Pests Campaign
- d) Great Proletarian Cultural Revolution

25. Match the situations given in Column I with their respective implication given in Column II and chose the correct alternative:

	Column I		Column II
A.	White revolution	(i)	It is also known as the Neel Kranti Mission
B.	Blue revolution	(ii)	It was found by MIS Swammathan
C.	Golden revolution	(iii)	It is also known as Operation Flood
D.	Green revolution	(iv)	It is related to increased production of honey and horticulture

Alternative:

- a) A-(iii) B-(iv). C-(ii), D-(i)
 - b) A-(iii), B-(i). C-(ii), D-(iv)
 - c) A-(iii). B-(ii), C-(i), D-(iv)
 - d) A-(iii), B-(i), C(iv), D-(ii)
26. Read the following statements-Assertion (A) and Reason (R). Choose one of the correct alternanses given below Assertion (A); International monetary fund was set in 1944 .
- Reason (R): To promote international monetary cooperation through a permanent institution which provides machinery for consultation and collaboration on international monetary problems.

Alternatives:

- a) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
- b) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion(A)
- c) Assertion (A) is false but Reason (R) is true
- d) Assertion (A) is true but Reason (R)is false

Read the following statements-Assertion (A) and Reason (R) Choose one of the correct alternatives given below:

Assertion (A): Second Five Year Plan emphasise on the establishment of heavy industries

Reason (R): Third Five Year Plan introduced the concept of import substitution as a strategy of industrialisation.

Alternatives,

- a) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion.
 - b) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
 - c) Assertion (A) is false but Reason (R) is true
 - d) Assertion (A) is true but Reason (R) is false
27. Which duty has been removed to increase the competitive position of Indian goods in the international market?
- a) Custom duty
 - b) Import duty
 - c) Export duty
 - d) None of these

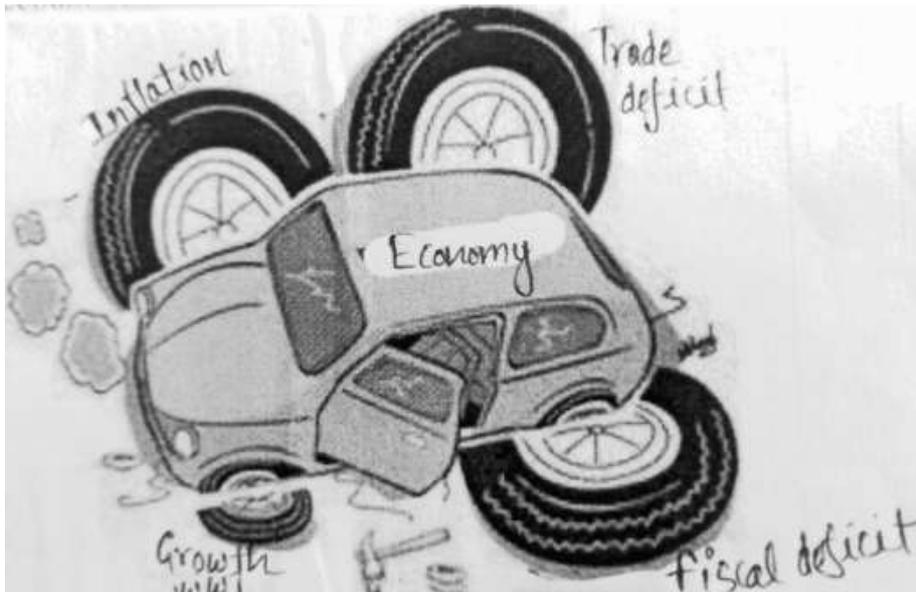
Short Answer Questions (Q28-10 Q29)

28. Give the steps taken towards 'Privatisation' in 1991.

or

State the financial sector reforms introduced under the New Economic Policy in 1991.

29. Interpret the given picture on account of economic reforms of 1991.



Short Answer Questions (Q 30 to Q32)

30. Answer the following questions on the basis of the following data:

Country	Annual Growth of Population (%)	Sex Ratio
India	1.2	929
Pakistan	2.1	947

- i) Comment upon the annual population growth rate in India and Pakistan
 - ii) Comment upon the Sex Ratio in both the above countries
31. What do you mean by globalisation? Give its main features
or
Highlight the main features of Indian economy on the eve of independence.
32. What activities you would suggest to generate employment in rural areas?

Long Answer Questions (Q33 to Q34)

33. Why is the world faced with an environmental crisis?

Provide any three suggestions to improve agricultural marketing

34. Read the following text carefully and answer the given questions on the basis of the same and common understanding. People, generally are emotionally attached to their place of birth. But millions of people leave their place of birth and residence. There could be variety of reasons. These reasons can be put into two broad categories. i.e. push factor these cause people to leave their place of residence or origin; and pull factors, which attract the people from different places.

In India, people migrate on from rural to urban areas mainly due to poverty, high population pressure the land, lack of basic infrastructural facilities like healthcare, education, etc Apart from these factors, natural disasters such its flood, drought, cyclonic storms, earthquake, tsumami, wars and local conflicts also give extra push to migrate. On the other hand, there are pull factors which attract people from rural area to cities. The most important pull factor for majority of the rural migrants to urban areas is the better opportunities, availability of regular work and relatively higher wages. Better opportunities for education, better health facilities and sources of entertainment, etc., are also quite important pull factors

Hence, migration is response to the uneven distribution of opportunities over space. People tend to move from place of low opportunity and low safety to the place of higher opportunity and better safety. This in turn, creates both benefits and problems for the areas, people migrate from and migrate to. Consequences can be observed in economic, social, cultural, political and demographic terms.

- a) Explain, why in India people mainly migrate from rural to urban areas?
- b) Explain, how expenditure on migration is a source of human capital formation?

MARKING SCHEME
Sample Question Paper-1
Section-A (Macro Economics)

Answer 1. (C) Increase government spending

Answer 2.(b) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

Answer 3. (b) Consumption and Investment

or

(b) fall in the propensity to consume

Answer 4. (d) Any of these

or

(a) (i), (ii) and (iii)

Answer 5.(a) statement 1 is false and statement 2 is true.

Answer 6.(b) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

Answer 7.(d) Both statements 1 and 2 are true.

Answer 8.(C) 15 Lakh

or

(c) Nominal

Answer 9. (c) Both Statements 1 and 2 are false.

Answer 10 (b) A-(i)

Answer 11 (i) fiat money refers to that money which is issued by order/authority of the government. It includes all notes and coins which the people in a country are legally bound to accept as a medium of exchange.

(ii) Due to hyper inflation and the circulation of counterfeit money. there is a risk of fall in the value of fiat money.

Answer 12. As a Banker's Bank, It accepts deposits from the commercial bank and offers them short term and long term loans. The central bank controls the credit creation in the economy. The Central bank supervises the all commercial banks.

or

(i) full bodied money refers to money in terms of coins whose commodity value is equal to the money value as and when are issued.

(ii) High powered money is the sum total of (a) currency held by the people, (b) vault cash of commercial banks, (c) Commercial bank's reserves held in the Central bank. High powered is called "Base Money' or 'Monetary Base'.

Answer 13. The problem of double counting often comes I while calculating national income. This happens when we fail to differentiate final goods and intermediate goods.

Example A farmer sells his product (1 ton of wheat) to a flour mill for 600. The sale of wheat is a final sale for the farmer. It is an intermediate good for the flour mill, It converts wheat into flour sells it for Rs.800 to a baker. The sale of flour is a final for the flour mill.

- Flour to an intermediate good for the baker, he manufactures bread from flour and sell it to the shopkeeper for 1000. The sale of bread is a final sale for the baker.
- Bread is an intermediate good for the shopkeeper. The shopkeeper sells the entire stock of bread to the final consumers for Rs. 1100.

If all the final sales are added to the above series (600 + 800 + 1000+1100-3500) then GDP will be 3500. Which is theoretically wrong. The important fact is that only final goods should be included in the estimation of GDP. This means that GDP-1100, which is the market price of the bread. (final good).

OR

Non-monetary transactions refers to those commercial transactions that are completed without any exchange of money between the parties involved.

In the economies such as India, non monetary transactions still take place in rural areas where agricultural workers one paid in Kind rather than in cash. All such transactions remain recorded as they are outside the monetary system of exchange. This leads to under estimation of GDP. Thus non monetary transactions are the limitations of GDP in terms of welfare.

Answer 14. Gross value addition at Market price (GVA_{MP})= Domestic sale
 + Not change in stocks + Exports + Single Use producer goods
 $GVA_{MP} = 200 + (-10) + 10 - 120$
 $= 110 - 10 + 10 - 120$
 $GVA_{MP} = 80$ lakh

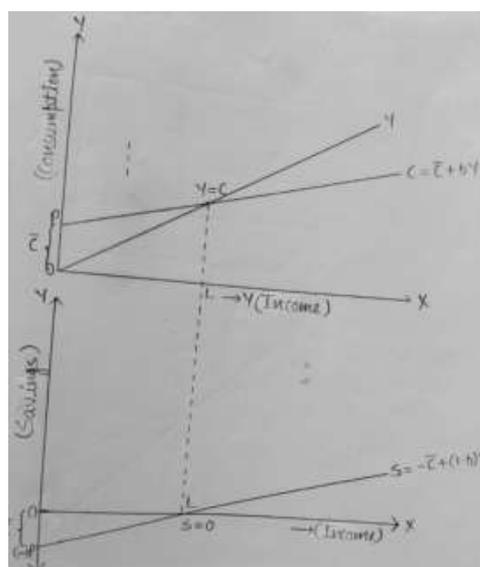
Answer 15 Direct tax is levied on profits and income and the first burden of tax is borne by the person on whom it is imposed. For example, income tax is imposed on the income of a person and he himself bears its burden.

Indirect tax is levied on goods and services and the final burden of tax can be shifted to others persons, for example, sale tax is imposed on traders. They are to pay it to the government, But they charge this tax from the buyers by adding it to the price of the goods sold.

Answer 16. (i) Trade deficit in 2020 = $47.95 - 44.88 = 3.07$ U.S. dollar
 Trade deficit in 2021 = $51.13 - 45.48 = 5.65$ U.S. dollar
 Trade deficit in 2022 = $69.35 - 57.03 = 12.32$ U.S. dollar

Above calculations show a steady increase in India's Trade deficit that means imports of goods and services have grown faster than exports of goods and services.

(ii) When the value of domestic currency decreases in comparison to other foreign currencies in international monetary market due to the forces of demand and supply, it is called the depreciation of currency. On the other hand, the central bank of a country intentionally decreases the value of the domestic currency lower than other foreign currencies, it is called the devaluation of the currency.



Answer 17:

S-function is derived from C-function, taking the following steps-

Step 1. C indicates autonomous consumption (when $y=0$) correspond to it saving is $-C$ (when $y=0$)

Step 2 At OL level of income, $C=Y$. Corresponding to it $S=0$ between 0 (zero) to 1 level of income. When $c>y$, saving is always negative

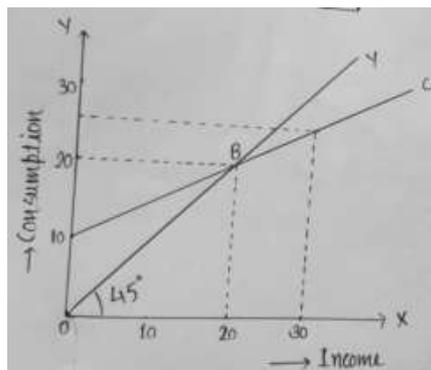
Step 3. Starting from $(-)P$, we draw the S-function as a straight line. The slope of this line will be $(1-b)$ which corresponds to the slope of consumption function $(=b)$

or

Consumption Schedule:

Income (Y)	Consumption (C)
$Y=0$	$\bar{C}=10$
$Y=20$	$C=20$
$Y=30$	$C=25$

Diagram:



c-line represents onsumption, indicating the behaviour of C with respect to Y. which are as follows:

- (i) C line starts from 10 (on y-axis). It is the minimum level of consumption (whe $y=0$)
- (ii) C-Line is positively sloped, moving upward from left to right, It indicates

that consumption is positively related to income.

(iii) After a certain level of income (Y), the rate at which C increases is lower than the rate at which y increases.

Section B(Indian Economic Development)

Answer 18. (C) only (iii)

Answer 19.(b) statement 1 is true and statement 2 is false .

Answer 20. (b) Purchasing Power Parity

Answer 21.(d) Both statements 1 and 2 are true.

Answer 22(b) (i) (ii) and (iv)

or

(d) Any of these

Answer 23(b) Both Assertion (A) and Reason(R) are true and Reason is the correct, explanation of Assertion (A)

Answer 24. (d) All of these

or

(b) Great leap forward

Answer 25 (d) A-(iii) B-(i), C-(iv), D-(ii)

Answer 26.(a) Both Assertion (A) and Respon (R) are true and Reason(R) is not the correct explanation of Assertion(R)

or

(b) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (R)

Answer 27. (c) Export duty

Answer 28 The transfer of ownership from the public sector to the private sector is called privatization following steps were taken towards privatization in 1991.

(i) Granting Autonomous status (in form of Maharatna Narratna etc) to profitable PSUs.

(ii) Disinvestment- Selling the equity shares of public enterprise to the private sector.

or

financial sector reforms under new economic policy are as follows-

- (i) Reduction in CRR and SLR.
- (ii) The decision to fix the rate of interest was given to the commercial banks
- (iii) Allowing domestic and international private sector banks to open branches in India
- (iv) Allowing foreign investment in various sectors

Answer 29. The given diagram describes the following situations-

- (i) Minimum foreign exchange reserves.
- (ii) High fiscal deficit
- (ii) High rate of inflation
- (iv) Debt Trap.
- (v) Low level of International trade

Answer 30 (i) The annual population growth rate of India is 1.2% while the annual population growth rate of Pakistan is 2.1%. The rate of growth of population in Pakistan to be alarmingly high.

(ii) the sex ratio of India is 929 and the sex ratio of Pakistan is 947. India's extremely low sex ratio is an indicator of social backwardness. Longing for son and female foeticide are the main reasons for the low sex ratio.

Answer 31, Globalization refers to the integration of the domestic economy into the world economy. Globalization promotes the unrestricted exchange of goods and services, capital and labour among the different countries.

Main features of globalization-

- a) Removal of barriers to free trade.
- b) Integration of different economies of the world through trade, investment and migration of people.
- c) It is the integration of societies and systems through the exchange of information, ideas and cultural activities.
- d) Globalization establishes the supremacy of the consumer
- e) It is the mobility of people and knowledge across the international boundaries.

or

Main features of the Indian economy on the eve of independence.

- a) stagnant and backward economy.
- b) Dominance of Agriculture
- c) Bleak Industrialisation
- d) Limited Urbanisation
- e) Semi-feudal Economy

f) Heavy Dependence on Imports.

Answer 32. The alternative employment activities in rural areas are as follows-

- a) Animal husbandry
- b) Fisheries
- c) Poultry farming
- d) Horticulture

Answer 33. Causes of environmental crisis in present times-

- a) Toxic smoke from vehicles and industries
- b) Excessive use of insecticides and chemical fertilizers
- c) Rapid urbanization
- d) Encroachment into forest lands, leading to deforestation
- e) Rapid population growth.
- f) Widespread Poverty

or

Agricultural Marketing: Agricultural marketing is the process that includes all the steps between harvesting and the final sale of the produce by the farmers.

Suggestions for improving agricultural marketing-

- g) Establishment of Regulated Markets
- h) Rapid development of Physical Infrastructure

Answer 34. (i) People in India are mainly suffering from poverty, high population pressure and lack of basic facilities, like healthcare education and employment. Due to the above reasons, people from rural areas migrate to urban areas

(ii) Expenditure on migration contributes to human capital formation as it facilitates utilization of inactive skills of the people, or it facilitates better utilization of their skills. The gains of migration are much greater than the cost of migration. Thus, the expenditure on migration is a source of human capital formation.

PRACTICE PAPER-II

ECONOMICS (030) Class XII Session 2025-2026

Time: 3 Hours

Max. Marks: 80

General Instructions:

1. This question paper contains two sections:
Section A- Macro Economics
Section B- Indian Economic Development
2. This paper contains 20 Multiple Choice questions type questions of 1 mark, each.
3. This paper contains 4 Short Answer Questions type questions of 3 marks such to be answered in words.
4. This paper contains 6 Short Answer Questions type questions of 4 marks each to be answered in 80 to 100 words.
5. This paper contains 4 Long Answer Questions type questions of 6 marks each to be answered in 100 to 150 words

Section A-Macro Economics

Multiple Choice Questions (Q1 to Q10)

1 x 10=10

1. Under the Balance of Payment structure of a nation, the two main categories of accounts for the classification of the transactions are _____ and _____.
(i) current account (ii) unilateral transfer account
(iii) capital account (iv) loan account
Identify the correct alternatives from the following:
(a) (iii) and (iv) (b) (iv) and (i)
(c) (i) and (iii) (d) (i) and (ii)
2. Which out of the following items is not included in money supply at a country?
(a) Demand deposits (b) Coins and Currency
(c) Time deposits (d) All of these
3. Gifts and remittances to abroad' are recorded on the:
(a) Debit side of Current Account (b) Credit side of Current Account
(c) Credit side of Capital Account (d) Debit side of Capital Account

or

Excess of export of goods over import of goods is called

- (a) Surplus in Balance of Payments (b) Surplus in Balance of Trade
(c) Neither (a) nor (b) (d) Either (a) or (b)

4. Read the following carefully.

Statement 1: Accommodating items of trade are undertaken in order to maintain the balance in the BoP account.

Statement 2: Accommodating items are net consequences of autonomous transactions that are undertaken to correct disequilibrium in autonomous items of BoP.

- (a) Statement 1 is false and statement 2 is true
(b) Statement 1 is true and statement 2 is false
(c) Both statements 1 and 2 are false
(d) Both statements 1 and 2 are true
5. Aggregate demand can be increased by:
(a) increasing cash reserve ratio
(b) increasing bank rate
(c) selling government securities by Reserve Bank of India
(d) None of these

or

If the Marginal Propensity to Consume is greater than Marginal Propensity to Save, the value of the multiplier will be:

- (a) less than 2 (b) equal to 2 (c) equal to 5 (d) greater than 2
6. The following information is given for an imaginary country:

S.No		(in crores)
(i)	imports of goods	400
(ii)	Export of goods	340
(iii)	Shipping	3
(iv)	Travel tourism, etc.	5
(v)	Interest, dividends, profits	50
(vi)	Unilateral transfers	40

7. Read the following statements carefully

Statement 1: In India, SLR and CRR are fixed by the commercial banks themselves.

Statement 2: Secondary deposits of a commercial bank are always less than its primary deposits.

- (a) Statement 1 is false and statement 2 is true
- (b) Statement 1 is false and statement 2 is false
- (c) Both Statement 1 and 2 are false
- (d) Both Statement 1 and 2 are true

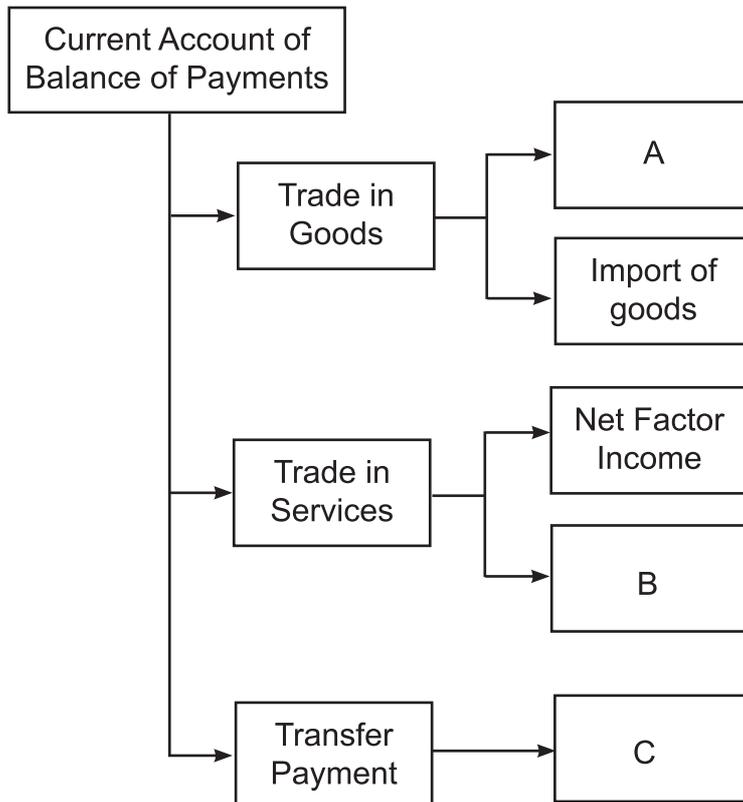
8. Read the following statements-Assertion (A) and Reason (R). Choose one of the correct alternations given below:

Assertion (A): Import of goods and services reflects demand of foreign currency
Reason (R): Import of goods and services shows inflow of foreign exchange.

Alternatives:

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
- (c) Assertion (A) is false but Reason (R) is true
- (d) Assertion (A) is true but Reason (R) is false

9. Choose the correct alternatives to be filled in given blanks A, B and C.

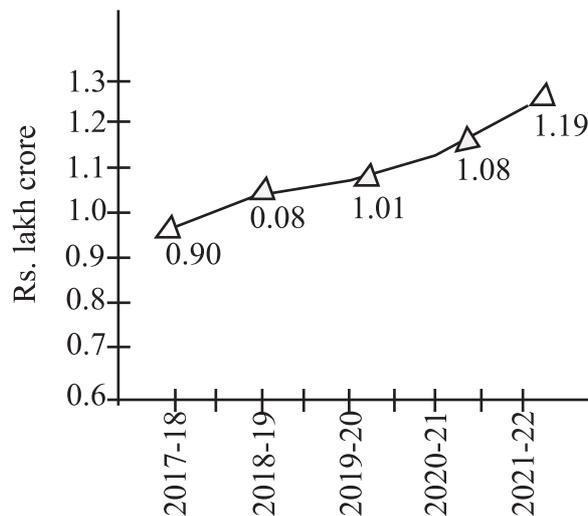


- (a) A- Export of goods, B- Gifts, remittances and grants, C- Net non-factor income
 (b) A- Gifts, remittances and grants, B- Export of goods, C- Net non-factor income
 (c) A- Net non-factor income, B- Export of goods, C-Gifts, remittances and grants,
 (d) A- Export of goods, B-Net non-factor income, C-Gifts, remittances and grants,
10. Suppose in a hypothetical economy, the income rises from 5, 000 crores to 6, 000 crores. As a result, the consumption expenditure rises from 4, 000 crores to 4, 600 crores. Marginal propensity to consume in such a case would be _____.
- (a) 0.8 (b) 0.6 (c) 0.4 (d) 0.2

Short Answer Questions (Q11 to Q12)

11. It is stated that "amalgamation of many central and state taxes into a single tax called 'Goods and Services tax (GST)' would facilitate a common national market." Do you agree with the statement? Justify your answer.
12. State whether the following statements are true or false. Support your answer with reason.
- (a) Taxation is a effective tool to reduce the inequalities of income
 (b) Revenue deficit increases when government fails to recover loans forwarded to different nations.

or



- (a) Interpret the above trends of GST collections.
 (b) When was GST implemented in India?

Short Answer Questions (Q13 to Q15)**4x3=12**

13. Suppose a ban is imposed on consumption of tobacco. Examine its likely effects on (a) gross domestic product and (b) welfare.

or

Government spends on child immunisation programme. Analyse its impact on Gross Domestic Product and welfare of the people.

14. Explain the role of the Reserve Bank of India as the "lender of last resort".

15. In an economy, investment expenditure is increased by 400 crores and marginal propensity to consume is 0.8. Calculate total increase in income and saving.

Long Answer Questions (Q16 to Q17)**6x2=12**

16. (a) Calculate Net Domestic Product at Factor Cost from the given data:

S.No		(in crores)
(i)	Net factor income to abroad	30
(ii)	Sales	2, 000
(iii)	Subsidies	20
(iv)	Consumption of fixed capital	50
(v)	Closing stock	100
(vi)	Opening stock	200
(vii)	Intermediate costs	1, 000
(viii)	Indirect tax	150

(b) Transfer payments should not be included in the estimation of National Income? Do you agree? Give reason in support of your answer.

or

(a) Given nominal income, how can we find real income?

(b) Calculate National Income:

S.No		(in crores)
(i)	Compensations of employees	2, 000
(ii)	Profit	800
(iii)	Rent	300
(iv)	Interest	250

(v)	Mixed income of self-employed	7, 000
(vi)	Net current transfers to abroad	200
(vii)	Net exports	(-) 100
(viii)	Net indirect taxes	1, 500
(ix)	Net factor income to abroad	60
(x)	Consumption of fixed capital	120

17. Discuss the working of the adjustment mechanism in the following situations
- Aggregate demand is greater than aggregate supply
 - Ex-ante investment are lesser than Ex-ante savings.

Section B-Indian Economic Development

Multiple Choice Questions (Q18 to Q27)

18. In ____, the Great Proletarian Cultural Revolution was introduced in China.
 (a) 1985 (b) 1965 (c) 1995 (d) 1975
 or
 In ____, the Special Economic Zones (SEZs) were set up in China.
 (a) 1979 (b) 1972 (c) 1982 (d) 1975
19. Read the following statements carefully:
 Statement 1: SAARC stands for South Asian Association for Regional Cooperation.
 Statement 2: ASEAN stands for Association of South-east Asian Nations..
 In the light of the given statements, choose the correct alternative from the following:
 (a) Statement is false and statement 2 is true
 (b) Statement is true and statement 21 is false
 (c) Both statements 1 and 2 are false
 (d) Both statements 1 and 2 are true
20. Arrange the following events of China in chronological order and choose the correct alternative:
 i) Special Economic Zones
 ii) Great Proletarian Cultural Revolution
 iii) Great Leap Forward Campaign
 iv) Economic reforms were initiated
 (a) (iii), (ii), (iv), (i)
 (b) (iv), (i), (ii), (iii)

- (c) (iv), (ii), (i), (iii)
 (d) (ii), (iv), (iii), (i)

21. Read the following statements Assertion (A) and Reason (R) Choose one of the correct alternative given below:

Assertion (A) Rural development in India is of key significance.

Reason (R): Nearly two-third of population in India is dependent on agriculture

Alternatives

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

22. Read the following statements carefully:

Statement 1: Seasonal workers are the worst affected by seasonal unemployment in India.

Statement 2: Population is the total number of people who reside in particular locality at a particular point of time. In the light of the given statements, choose the correct alternative from the following:

- a) Statement 1 is false and statement 2 is true
 b) Statement 1 is true and statement 2 is false
 c) Both statements 1 and 2 are false
 d) Both statements 1 and 2 are true

23. From the set of events systems given in Column I and corresponding relevant fact given in column II, choose the correct pair of statement.

	Column I		Column II
A.	The growth rate of agriculture sector decelerated to about 3% per annum..	(i)	1995
B.	A major change occurred when India adopted social banking	(ii)	after 1989
C.	A thrift and credit society was started in Kerala.	(iii)	1995
D.	By March end more than seven lakh SHG's been credit linked.	(iv)	2010

27. Which of the following is not true for small scale industries?
- (a) SSI is capital intensive and therefore, increases productivity.
 - (b) SSI is labour intensive and therefore, employment oriented.
 - (c) SSI shows locational flexibility and is therefore, equality oriented
 - (d) SSI needs small investment and is therefore, equity oriented.

Short Answer Questions (Q28-10 Q29)

28. Interpret the given picture on account of World Trade Organisation (WTO)



29. "Subsidies were needed to encourage farmers." Discuss the importance of subsidies in relevance to the Indian farmers.

or

"Small scale and cottage of industry are important in the development of India company." Elaborate.

Short Answer Questions (Q 30 to Q32)

30. Answer the following questions on the basis of the following data:
- (a) Comment upon the People Below Poverty line among the three countries.
 - (b) Comment upon the percentage of Undernourished Children among China and Pakistan.

Country	People Below Poverty Line (%)	Undernourished Children (%)
India	37	39
China	32	9
Pakistan	44	45

31. Elaborate any four positive contributions made by Britishers in India.

or

Throw light on the 'economic drain' during the colonial period.

32. Discuss the importance of credit in rural development.

Long Answer Questions (Q33 to Q34)

33. Elucidate the function of Pollution Control Board in India to address the environment concerns in India.

or

(a) Give any three causes of backwardness of Indian agriculture.

(b) Give any three challenges facing India education system.

34. Read the following text carefully and answer the given question on the basis of the same and common understanding.

Blessed with a varying climate and soil conditions, India has adopted growing of diverse horticultural crops such as fruits, vegetables, tuber crops, flowers, medicinal and aromatic plants spices and plantation crops. These crops play a vital role in providing food and nutrition, besides addressing employment concerns. Horticulture sector contributes nearly one-third of the value of agriculture output of six per cent of Gross Domestic of India. India has emerged as a world leader in producing a variety of fruits like mangoes, bananas, coconuts, cashew nuts and a number of spices and is the second largest producer of fruits and vegetables. Economic condition of many farmers engaged in horticulture has improved and it has become a means of improving livelihood for many unprivileged classes. Flower harvesting, nursery maintains, hybrid seed production and tissue culture, propagation of fruits and flowers and food processing are highly remunerative employment options for women in rural areas.

(a) How the term 'Golden Revolution' is different from 'Green Revolution'?

(b) How horticulture as an alternative source of employment improves the economic condition of farmers?

PRACTICE-III PAPER (2025-2026)

CLASS XII

TIME : 3 HOURS

General Instructions:

1.	This question paper contains two parts : Part A - Macro Economics (40 marks) Part B - Indian Economic Development (40 Marks)
2.	Marks for questions are indicated against each question .
3.	“Question No. 1-10 and Question No. 18-27 (including two Case Based Questions) are 1 mark questions and are to be answered in one word / sentence .
4.	Case Based Questions (CBQ's) are Question No. 7-10 and Question No. 25-27
5.	Question No. 11-12 and Question No. 28-29 are 3 marks questions and are to be answered in 60 - 80 words each .
6.	Question No. 13-15 and Question No. 30-32 are 4 marks questions and are to be answered in 80-100 words each .
7.	Question No. 16-17 and Question No. 33-34 are 6 marks questions and are to be answered in 100-150 words each .
8.	Answers should be brief and to the point and the above word limit be adhered to as far as possible .

Q.No.	QUESTIONS	Marks
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PART A MACRO ECONOMICS

1. Inventory is a.....concept whereas the change in inventory is a concept marks (Fill up the blank with correct alternative)
- (a) stock, flow (b) flow, stock
(c) stock, stock (d) flow, flow

Or

or

If in an economy the value of Net Factor Income from Abroad is (-)40 crores and the value of Factor Income to Abroad is 240 crores Identify the value of Factor Income from Abroad . (Choose the correct alternative

- (a) 200 crores (b) 160 crores
(c) Rs. 240 crores (c) Rs. 180 crores

2. In the present COVID - 19 times , many economists have raised their concerns that Indian economy may have to face a deflationary situation, due to reduced economic activities in the country. Suppose you are a member of the high powered committee constituted by the Reserve Bank of India (RBI).

You have suggested that as the supervisor of commercial banks.(restriction/release) of the money supply be ensured , by the Reserve Bank of India (RBI). (Choose the correct alternative)

3. Supply of money refers to (Choose the correct alternative).....

- (a) currency held by the public
(b) currency held by Reserve Bank of India (RBI)
(c) currency held by the public and demand deposits with commercial banks
(d) currency held in the government account

4. Identify the correct pair of formula from the following column I and II:
(Choose the correct alternative)

Column I	Column II
A Current Account Surplus	i . Receipts Payments
B Current Account Surplus	ii . Receipts > Payments
C Balance Current Account	iii . Receipts / Payments
D Current Account Deficit	iv . Receipts < Payments

Alternatives:

- (a) A-i
(b) B-ii

- (c) C-iii
- (d) D-iv

5. Identify which of the following statements is true? (Choose the correct alternative)
- (a) The flexible exchange rate system gives the government more flexibility to maintain large stocks of foreign exchange reserves .
 - (b) In the Managed floating exchange rate system , the intervenes to buy and sell foreign currencies.
 - (c) In the Managed floating exchange rate system , the intervenes to moderate exchange rate fluctuations .
 - (d) In the Fixed exchange rate system , market forces fix the exchange rate .
6. An Indian real estate company receives rent from Google in New York . This transaction would be recorded on..... side of account. (Fill up the blanks with correct alternative)
- (a) credit, current
 - (b) debit, capital
 - (c) credit, capital
 - (d) debit, current.

Read the following news report and answer Questions 7-10 on the basis of the same:

The Reserve Bank of India (RBI), cut Repo Rate to 4.4 % , the lowest in at least 15 years. Also, it reduced the Cash Reserve Ratio (CRR) maintained by the banks for the first time in over seven years. CRR for all banks was cut by 100 basis points to release Rs.1.37 lakh crores across the banking system. RBI governor Dr. Shaktikanta Das predicted a big global recession and said India will not be immune . It all depends how India responds to the situation . Aggregate demand may weaken and case core inflation,

The Economic Times : March 27th , 2020

7. Cut in Repo rate by RBI is likely to (increase / decrease) the demand for goods and services in the economy. (choose the correct alternative)
8. Decrease in Cash Reserve Ratio will lead to.....

(choose the correct alternative)

- (a) fall in aggregate demand
- (b) no change in aggregate demand
- (c) rise in aggregate demand
- (d) fall in general price level

9. The difference by which actual Aggregate Demand exceeds Demanded to a full employment equilibrium is known as..... (inflationary gap deflationary gap) (choose the correct alternative)
10. The impact of 'Excess Demand' under Keynesian theory of income and employment, in an economy are: (choose the correct alternative)
- (a) decrease in income, output, employment and general price level
 - (b) decrease in nominal income, but no change in real output.
 - (c) increase in income, output, employment and general price level
 - (d) no change in output employment but increase in general price level
11. State with valid reason, which of the following statement is true or false:
- (a) Gross Value Added at market price and Gross Domestic Product at market price are one and the same thing
 - (b) Intermediate goods are always durable in nature
12. State, giving valid reasons, whether the following statements are true or false:
- (a) Current account in Balance of Payments records only the exports and imports of goods and services .
 - (b) Borrowings from abroad are recorded in the Capital Account of the Balance of Payments on the debit side.

Or

'Trade Deficit must exist if a country is facing a situation of Current Account Deficit'

Defend or refute the statement, with valid argument

13. a. Define money multiplier.
b. Credit creation is inversely related to the reserve deposit ratio . Justify the given statement, using a hypothetical example.
14. In an economy $C=200+0.5Y$ is the consumption function where C is the consumption expenditure and Y is the national income. Investment expenditure is Rs. 400 crores.
Is the economy in equilibrium at an income level Rs. 150 Justify your answer.

or

Define: i) Ex-Ante Savings ii) Full Employment

15. India's GDP contracted 23.9 % in the April-June quarter of 2020-21 as compared to same period of 2019-20, suggesting that the lockdown has hit the economy hard. **The Hindustan Times, 1st September 2020**

State and discuss any two fiscal measures that may be taken by the Government of India to correct the situation indicated in the above news report.

16. a. Domestic/household services performed by a woman may not be considered as an economic activity'.
Defend or refute the given statement with valid reason.
- b. Compensation to the victims of a cyclone is an example of a welfare measure taken by the government '. State with valid reason , should it be included / not included in the estimation of national income of India.

Or

Suppose the Gross Domestic Product (GDP) of Nation X was Rs. 2,000 crores in 2018-19, whereas the Gross Domestic Product of Nation Y in the same year was Rs. 120,000 crores. If the Gross Domestic Product of Nation X rises to Rs. 4,000 crores in 2019-20 and the Gross Domestic Product of Nation Y rises to Rs. 200,000 crores in 2019-20.

Compare the rate of change of GDP of Nations X and Y , taking 2018-19 as base year

17. a. Elaborate the objective of allocation of resources in the Government budget.
b. Discuss briefly how the Government budget can be used as an effective tool in the process of employment generation.

PART B - INDIAN ECONOMIC DEVELOPMENT

18.was the Indian Finance Minister in 1991, acknowledged for his capabilities to steer away the economic crisis looming large on the erstwhile Indian Economy.
(Choose the correct alternative)
- a. Dr. Subramanian Swamy
 - b. Dr. Manmohan Singh
 - c. Pranab Mukherjee
 - d. Dr. Unit Patel

19. India entered the stage of Demographic Transition after the year 1921.
(Choose the correct alternative)
- a. forth b. second c. third d. first

20. **Read the following statements-Assertion (A) and Reason (R). Choose one of the correct alternatives given below:**

Assertion (A): India became an exporter of primary products and an importer of finished consumer and capital goods produced in Britain.

Reason (R): Restrictive policies of commodity production, trade and tariff pursued by the colonial government adversely affected the structure, composition and volume of India's foreign trade.

Alternatives:

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

Or

Read the following statements-Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

Assertion (A): The major policy initiatives i.e. land reforms and green revolution helped India to become self - sufficient in food grains production .

Reason (R): The proportion of people depending on agriculture did not decline as expected

Alternatives:

- a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- b. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- c. Assertion (A) is true but Reason (R) is false.
- d. Assertion (A) is false but Reason (R) is true,

21. **Read the following statements Assertion (A) and Reason (R) , Choose one of the correct alternatives given below:**

Assertion (A): Every year government fixes a target for disinvestment of Public Sector Enterprises (PSES).

Reason (R): Disinvestment is an excellent tool for discarding the loss incurring Public Sector Enterprises (PSES).

Alternatives:

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

22. From the set of events / systems given in column I and corresponding relevant fact given in column II , about China , choose the correct pair of statement.

Column I

Column II

- | | | |
|-------------------------------------|-----|---|
| A Great Leap Forward | i | Cultivating land Collectively |
| B Commune System | ii | Opening of the Industries in their homes |
| C Proletarian Cultural i revolution | iii | Students were sent to work and learn from the countryside |
| D Proletarian Cultural i revolution | iv | 1998 |

Alternatives:

- a. A - i
- b. B - ii
- c. C-iii
- d. D-iv

23. adopted 'One Child Policy' as a measure to control population.

(Choose the correct alternative)

- a. India b. Pakistan
- c. China d. Russia

Read , the following hypothetical Case Study , carefully and a question numbers 24- 27 on the base of the same.

Since ages , farmers in India have taken recourse to debt. In the earlier times the same was from informal sources. Since independence with the efforts of the government , formal sector has actively come into picture Farmers borrow not only to meet their investment needs but also to satisfy their personal needs. Uncertainty of income caused by factors likes caused by irregular rainfall, reduction in ground water table, locust / other pest attack etc. These reasons push them into the clutches of the private money lenders, who charge exorbitant rates of interest which add to their failure crop miseries.

Various governments in India, at different times for different reasons, introduced debt relief / waiver schemes. These schemes are used by governments as a quick means to extricate farmers from their indebtednessProletarian Cultural i revolution, helping to restore their capacity to invest and produce, in short to lessen the miseries of the farmers across India. The costs and benefits of such debt relief schemes

are, however, a widely debated topic among economists.

Some economists argue that such schemes are extremely beneficial to the poor and marginalised farmers while others argue that these schemes add to the fiscal burden of the government, others believe that these schemes may develop the expectation of repeated bailouts among farmers which may spoil the credit culture among farmers.

24. Uncertainty of income for farmers in India is majorly caused by (irregular rainfall unavailability of loans).
25. Some economists argue that debt waiver schemes are extremely beneficial to the poor and marginalised farmers , as these schemes reduce the burden of..... (indebtedness / personal expenditures)
26. The rural banking structure in India consists of a set of multi-agency (Regional Rural Banks/Small Industries Development Bank of India) is expected to dispense credit at the per rates for agricultural purposes to farmers.
27.(Regional Rural Banks Land Development the most prominent body responsible for providing loans for term land Banks) is development.
28. How is health a source of human capital formatin\on?
Discuss any two steps taken by the government in the direction of improving agricultural marketing system in India, since independence.
29. Discuss briefly the concept of ' informalisation of workforce in the context of Indian economy.
30. "Agriculture sector appears to be adversely affected by the economic reform process. "Explain the given statement.
31. 'Atamnirbhar Bharat' had been at the roots of the Indian planning process

in the form of 'self reliance' as an objective the planning process.

Do you agree with the given statement? Justify the rationale of the given statement.

or

Discuss briefly any two major steps taken by the Government of India on 'Financial Sector' front under the Economic Reforms of 1991.

32. Compare and analyse the given data of India and China with valid arguments..

Annual Growth of Gross Domestic Product (%). 1980-2017

COUNTRY	1980-90	2015-2017
India	5.7	7.3
China	10.3	6.8

Source: Key Indicators for Asia and Pacific 2016, Asian Development Bank. Philippines, World Development Indicators 2018.

33. a. "If the rate of resource extraction exceeds the rate of regeneration, it leads to reduction in carrying capacity of the environment. "Discuss the rationale of the given statement with valid reasons.
- b. How is organic farming different from conventional farming? Mention two challenges associated with organic farming.

or

- a. Why are less women found in regular salaried employment?
- b. Analyse the recent trends in sectoral distribution of work force in India:

Trends in Employment Pattern (Sector wise), 1993-2012 (in%)

34. State, giving valid reasons whether the following statements are true or false.
- a. What was common in the development strategy of India, China & Pakistan during 1950-1990?
- b. 'The opportunity costs of environmental damage is very high'. Justify the statement.'

Guidelines for Project Work in Economics (Class XI and XII)

The **objectives** of the project work are to enable learners to:

- probe deeper into theoretical concepts learnt in classes XI and XII
- analyse and evaluate real world economic scenarios using theoretical constructs and arguments
- demonstrate the learning of economic theory
- follow up aspects of economics in which learners have interest
- develop the communication skills to argue logically

The **expectations** of the project work are that:

- learners will complete only **ONE** project in each academic session
- project should be of 3,500-4,000 words (excluding diagrams & graphs), preferably hand-written
- it will be an independent, self-directed piece of study

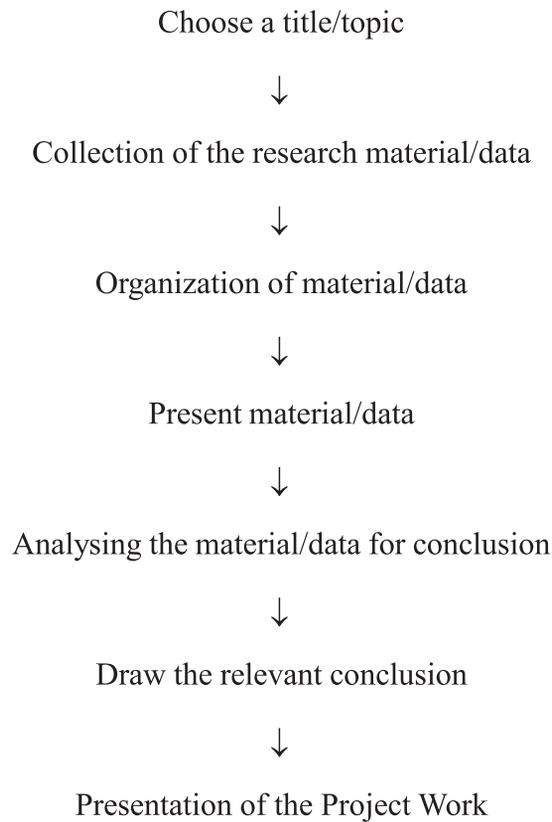
Role of the teacher:

The teacher plays a critical role in developing thinking skills of the learners. A teacher should

- help each learner select the topic based on recently published extracts from the news media, government policies, RBI bulletin, NITI Aayog reports, IMF World Bank reports etc., after detailed discussions and deliberations of the topic
- play the role of a facilitator and supervisor to monitor the project work of the learner through periodic discussions
- guide the research work in terms of sources for the relevant data
- educate learner about plagiarism and the importance of quoting the source of the information to ensure authenticity of research work
- prepare the learner for the presentation of the project work
- arrange a presentation of the project file

Scope of the project:

Learners may work upon the following lines as a suggested flow chart:



Expected Checklist:

- Introduction of topic/title
- Identifying the causes, consequences and/or remedies
- Various stakeholders and effect on each of them
- Advantages and disadvantages of situations or issues identified
- Short-term and long-term implications of economic strategies suggested in the course of research
- Validity, reliability, appropriateness and relevance of data used for research work and for presentation in the project file

- Presentation and writing that is succnct and coherent in project file
- Citation of the materials referred to in the file in footnotes, resources section, bibliography etc.

Mode of presentation/submission of the Project:

At the end of the stipulated term, each learner will present the research work in the Project File to the External and Internal examiner. **The questions should be asked from the Research Work/ Project File of the learner. The Internal Examiner should ensure that the study submitted by the learner is his/her own original work.** In case of any doubt, authenticity should be checked and verified.

Marking Scheme :

Marks are suggested to be given as -

S. No.	Heading	Marks Alloted
1.	Relevance of the topic	3
2.	Knowledge Content Research Work	6
3.	Presentation Technique	3
4.	Viva-voce	8
	Total	20 Marks

Suggestive List of Projects:

Class XI

- | | |
|--|--|
| • Effect on PPC due to various government policies | • Invisible Hand (Adam Smith) |
| • Opportunity Cost as an Economic Tool (taking real life situation) life | • Effect of Price Change on a Substitute Good (taking real visiting local market |
| • Effect on equilibrium Prices in Local Market (taking real life situation or recent news) | • Effect of Price Change complementary good (taking prices from real life visiting local Market) |

- Solar Energy, a Cost Effective Comparison with Conventional Energy Sources
- Any other newspaper article and its evaluation on basis of economic principles
- Micro and Small Scale Industries
- Contemporary Employment situation in India.
- Goods and Services Tax Act and its Impact (of any state) on GDP
- Human Development Index
- Self-help group in
- Monetary policy committee and its functions
- Government Budget & its Components
- Exchange Rate determination - Methods and Techniques
- Livestock - Backbone of Rural India
- Sarva Siksha Abhiyan - Cost Ratio Benefits ratio
- Minimum Support Prices
- Waste Management in India - Need of the approach hour
- Digital India - Step towards the future
- Bumper Production- with Boon or Bane for the Farmer
- Any other topic
- Food Supply Channel in India
- Disinvestment policy of the government
- Health Expenditure (of any state)
- Inclusive Growth Strategy
- Trends in Credit availability India
- Role of RBI in Control of Credit
- Trends in budgetary condition of india
- Currency War - reasons and repercussions
- Alternate fuel - types and importance
- Golden Quadrilateral- Cost benefit
- Relation between Stock Price Index and Economic Health of Nation
- Minimum Wage Rate - and Application
- Rain Water Harvesting - a

- solution
- Vertical Farming - an alternate way ahead past
 - Make in India - The way ahead Bane
 - Rise of Concrete Jungle-Trend Analysis the
 - Any other newspaper article and its evaluation on basis of economic principles
- to water crises
- Silk Route- Revival of the
 - Bumper Production. Boon or for the farmor
 - Organic Farming - Back to Nature
 - Any other topic

