

SENIOR SCHOOL CERTIFICATE EXAMINATION JULY-2014

MARKING SCHEME – ECONOMICS (DELHI) (SET-III)

Expected Answers / Value Points

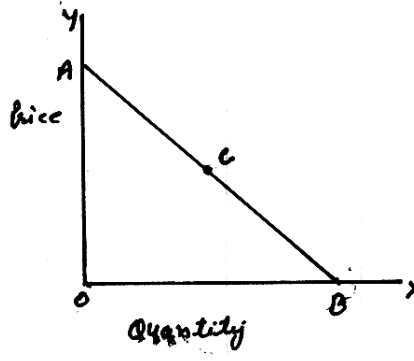
GENERAL INSTRUCTIONS :

1. Please examine each part of a question carefully and allocate the marks allotted for the part as given in the marking scheme below. TOTAL MARKS FOR ANY ANSWER MAY BE PUT IN A CIRCLE ON THE LEFT SIDE WHERE THE ANSWER ENDS.
2. Expected suggested answers have been given in the Marking Scheme. To evaluate the answers the value points indicated in the marking scheme be followed.
3. For questions asking the candidate to explain or define, the detailed explanations and definitions have been indicated alongwith the value points.
4. For mere arithmetical errors, there should be minimal deduction. Only ½ mark be deducted for such an error.
5. Wherever only two / three or a “given” number of examples / factors / points are expected only the first two / three or expected number should be read. The rest are irrelevant and must not be examined.
6. There should be no effort at “moderation” of the marks by the evaluating teachers. The actual total marks obtained by the candidate may be of no concern to the evaluators.
7. Higher order thinking ability questions are assessing student’s understanding / analytical ability.
8. ☀ indicates value based questions.

General Note : In case of numerical question no mark is to be given if only the final answer is given.

A3	Expected Answer / Value Points	Distribution of Marks
SECTION - A		
☀ 1	It will result in increase in efficiency leading to economic growth.	1
2	It is the quantity of a good that a consumer is willing to buy at a given price during a period of time.	1
3	Expenditure on raw material, casual labour etc. <p style="text-align: right;">(Any two)</p>	½ x2

4	When any quantity of a commodity can be produced at the given price.	1																												
5	As TFC is fixed, increase in output results in fall in AFC.	1																												
6	<p>(i) Use of improved technology leads to fall in cost and thus rise in profits. Price remaining unchanged, supply curve shifts to the right.</p> <p>(ii) Fall in prices of factor inputs reduces cost and thus raises profit. Price remaining unchanged, supply curve shifts to the right.</p> <p>(iii) Any other</p> <p style="text-align: right;">(Any two)</p>	<p>1½</p> <p>1½</p>																												
7	It arises because resources are scarce and have alternative uses. Since many goods and services can be produced from these resources, the problem is that which of these should be produced.	3																												
8	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Output</th> <th>AVC</th> <th>TVC</th> <th>MC</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>26</td> <td>26</td> <td>26</td> </tr> <tr> <td>2</td> <td>22</td> <td>44</td> <td>18</td> </tr> <tr> <td>3</td> <td>20</td> <td>60</td> <td>16</td> </tr> <tr> <td>4</td> <td>20</td> <td>80</td> <td>20</td> </tr> <tr> <td>5</td> <td>22</td> <td>110</td> <td>30</td> </tr> <tr> <td>6</td> <td>24</td> <td>144</td> <td>34</td> </tr> </tbody> </table>	Output	AVC	TVC	MC	1	26	26	26	2	22	44	18	3	20	60	16	4	20	80	20	5	22	110	30	6	24	144	34	½ x6
Output	AVC	TVC	MC																											
1	26	26	26																											
2	22	44	18																											
3	20	60	16																											
4	20	80	20																											
5	22	110	30																											
6	24	144	34																											
9	<p>% change in price = 20</p> <p>% change in supply = $\frac{40}{200} \times 100 = 20$</p> <p>$E_s = \frac{\% \text{ change in supply}}{\% \text{ change in price}}$</p> <p>$E_s = \frac{20}{20}$</p> <p>= 1</p>	<p>1</p> <p>1</p> <p>½</p> <p>½</p>																												
10	<p>When price of A rises, B becomes relatively cheaper. So it is substituted for A. Thus demand for B will rise.</p> <p style="text-align: center;">OR</p> <p>Causes of increase in demand :</p> <p>(i) Rise in price of substitute good.</p> <p>(ii) Fall in price of complementary good.</p> <p style="text-align: center;">(Brief explanation)</p> <p style="text-align: right;">(Any other relevant cause)</p>	<p>3</p> <p>1½</p> <p>1½</p>																												
11	<p>$e_d = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$</p> <p>$-1.5 = \frac{10}{1500} \times \frac{\Delta Q}{-2}$</p> <p>$\Delta Q = 450$ unit</p> <p>Quantity demanded at Rs. 8 is $Q + \Delta Q = 1500 + 450 = 1950$ units</p>	<p>1</p> <p>1½</p> <p>½</p> <p>1</p>																												

	<p style="text-align: center;">OR</p>  <p>On a straight line downward sloping demand curve AB, price elasticity of demand at point C</p> $E_d = \frac{\text{Lower segment}}{\text{Upper segment}}$ $= \frac{CB}{AC}$	4
12	<p>Main features of a perfectly competitive market :</p> <p>(i) There are very large number of buyers and sellers</p> <p>(ii) The products are homogenous.</p> <p>(iii) There is free entry and exit of firms.</p> <p>(iv) Buyers and sellers have perfect knowledge of the market.</p>	1x4
13	<p>For the consumer to be in equilibrium, equilibrium condition to be fulfilled is:</p> $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$ <p>Suppose the price of x falls , then</p> $\frac{MU_x}{P_x} > \frac{MU_y}{P_y}$ <p>Since per rupee MU_x is higher, the consumer will buy more of X.</p> <p>Thus there is an inverse relationship between price and demand for a good.</p>	4
14	<p>Let the two goods the consumer consumes be X and Y.</p> <p>The two conditions of equilibrium are :</p> <p>(1) $MRS = \frac{P_x}{P_y}$</p> <p>(2) MRS falls as more of X is consumed in place of Y.</p> <p>Explanation :</p> <p>(1) Suppose $MRS > \frac{P_x}{P_y}$ i.e. consumer is not in equilibrium. It means that to obtain one more unit of X consumer is willing to sacrifice more units of Y as compared to what is required in the market. The consumer buys more of X. MRS falls and continues to fall till it is equal to $\frac{P_x}{P_y}$ and the consumer is in equilibrium.</p> <p>(2) Unless MRS falls as consumer consumes more of X , the consumer will not reach equilibrium again.</p> <p style="text-align: right;">(Explanation based on $MRS < \frac{P_x}{P_y}$ is also correct)</p>	<p>1</p> <p>1</p> <p>3</p> <p>1</p>

OR

Assuming that the only two goods the consumer consumes are X and Y, the conditions of equilibrium are :

(1) $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$

(2) MU falls as more is consumed

Explanation : (1) Suppose $\frac{MU_x}{P_x} > \frac{MU_y}{P_y}$. The consumer will not be in equilibrium because per rupee MU of X is greater than per rupee MU of Y. This will induce the consumer to buy more of X by reducing expenditure on Y. It will lead to fall in MU_x and rise in MU_y. This will continue till $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$.

(2) Unless MU falls as more of a good is consumed the consumer will not reach equilibrium.

(Explanation based on $\frac{MU_x}{P_x} < \frac{MU_y}{P_y}$ is also correct.)

1

1

3

1

15

Output	TC	TR	MC	MR
1	21	18	21	18
2	39	36	18	18
3	54	54	15	18
4	72	72	18	18
5	93	90	21	18

The conditions of producer's equilibrium are

(1) MC must be equal to MR

(2) Beyond the level of output at which MC=MR, MC must be greater than MR.

Both these conditions are satisfied at 4 units of output, so producer is in equilibrium if he produces 4 units of output.

2

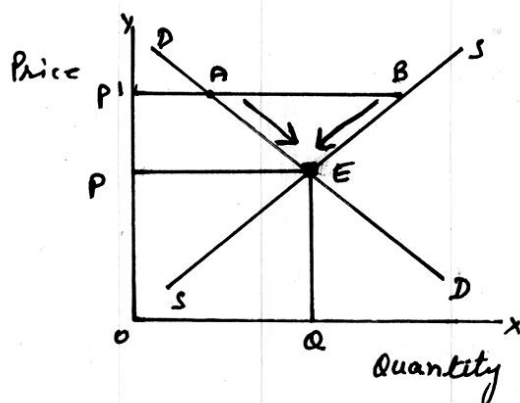
1

1

2

16

When at the given price of a commodity its quantity supplied is greater than its quantity demanded then there is "excess supply" of this commodity.



At price OP^1 there excess supply equals to AB. This result in competition among sellers. Price will falls as a result there will be expansion of demand and contraction of supply as shown by arrows in the diagram.

These changes continue till price falls to OP at which quantity demanded and supplied are equal to OQ.

1

2

3

	<p>For the blind Candidates</p> <table border="1"> <thead> <tr> <th>Price</th> <th>Supply</th> <th>Demand</th> </tr> </thead> <tbody> <tr> <td>10</td> <td>40</td> <td>30</td> </tr> <tr> <td>9</td> <td>35</td> <td>35</td> </tr> <tr> <td>8</td> <td>25</td> <td>40</td> </tr> </tbody> </table> <p>(Or any other schedule)</p> <p>At price 10/- there is excess supply equal to (40-30) = 10 units</p> <p>Explanation (Same as given above)</p>	Price	Supply	Demand	10	40	30	9	35	35	8	25	40	<p>2</p> <p>1</p> <p>3</p>
Price	Supply	Demand												
10	40	30												
9	35	35												
8	25	40												
SECTION - B														
17	Bread, sugar etc. purchased by a restaurant	1												
18	Addition made to the stock of capital during the year.	1												
19	Time deposits are deposits which can be withdrawn after a fixed period.	1												
20	A tax whose impact and incidence fall on the same person.	1												
21	It is a statement of expected receipts and expenditure of the government during a financial year.	1												
22	<p>The ratio of increase in income to increase in investment $\left(\frac{\Delta Y}{\Delta I}\right)$ is called investment multiplier.</p> <p>Investment Multiplier $K = \frac{1}{MPS}$ OR $K = \frac{1}{1-MPC}$</p> <p>The minimum value of MPS is zero (MPC=1), in this case value of Multiplier is infinity which is its maximum value.</p> <p>The maximum value of MPS is 1 (MPC=0). In this case K=1 which is its minimum value.</p>	<p>1</p> <p>1</p> <p>1</p>												
23	<p>The current account of BOP records : Exports and imports of goods, Exports and imports of services, Income receipts and payments and Transfer receipts and payment.</p> <p>Whereas the capital account records : Borrowings from and to abroad , Investments from and to abroad and Decrease and increase in foreign exchange reserves.</p>	3												
24	<ol style="list-style-type: none"> Incomes are created in production units. Production units distribute this income to households in return for factor services provided. Households spend this income on goods and services produced by the production units, thus making the circular flow of income complete. <p style="text-align: center;">(Diagram Not necessary)</p>	3												
25	<p>Money as a store of value implies that it can be stored for use in future. One can use one's present income in the future because money comes in the convenient denominations and is easily portable.</p> <p style="text-align: center;">OR</p> <p>Central bank is banker to the government like commercial banks are to the public. It accepts deposits from government and gives loans to the</p>	3												

	government in times of need.	3
26	Average propensity to save is the ratio of saving and income i.e. S/Y. The sum of average propensity to save and average propensity consume is 1.	1 2
27	<p>Money creation (or deposit creation or credit creation) by the banks is determined by (i) the amount of the initial fresh deposits and (ii) the Legal Reserve Ratio (LRR) the minimum ratio of deposit legally required to be kept as liquid assets by the banks. It is assumed that all the money that goes out of banks is redeposited into the banks.</p> <p>Let the LRR be 20% and there is a fresh deposits of Rs. 10,000. As required the banks keep 20% i.e. Rs. 2000 as reserves. Suppose the banks lend the remaining Rs. 8000. Those who borrow, use this money for making payments. As assumed those who receive payments, put the money back into the banks. In this way banks receive fresh deposits of Rs. 8000. The banks again keep 20% i.e. Rs. 1600 as reserves and lend Rs. 6400, which is also 80% of the last deposit. The money again comes back to the banks leading to a fresh deposit of Rs. 6400. The money goes on multiplying in this way, and ultimately total money creation is Rs. 50000.</p> <p>Given the amount of fresh deposit and the LRR, the total money creation is :</p> $\text{Total money creation} = \text{Initial deposit} \times \frac{1}{LRR}$ <p style="text-align: center;">OR</p> <p>Purchase or sale of government securities by central bank in the open market is called open market operations. When central bank wants to increase money supply, it buys Govt. securities and money supply increases. When it wants to decrease money supply it sells government securities and money supply decreases.</p>	4 4
28	$NVA \text{ at } F.C. = (iv) + (ii) - (i) - (iii) - (v)$ $= 500 + 50 - 300 - 70 - 20$ $= \text{Rs. 160 lakhs.}$	2 1½ ½
29	Controlling rise in price of foreign exchange makes imports cheaper. The economic value is that common man now has to pay less for goods and services imported.	4
30	<p><i>Personal Disposable Income</i> =</p> $(i) + (iii) + (vi) + (vii) - (ix) - (ii) - (v) - (viii)$ $= 700 + (-20) + 80 + 60 - (-10) - 40 - 150 - 70$ $= \text{Rs. 570 Crore}$ <p style="text-align: center;">OR</p> <p><i>N.I.</i> = $(iv) + (ii) + (i) + (vi) + (iii) - (vii)$</p> $= 600 + 300 + 150 + 50 + (-20) - 90$ $= \text{Rs. 990 Crore}$	3 2 1 3 2 1



<p>31</p>	<p>(a) AD is total planned demand for goods and services in an economy. Whereas AS is total planned output of goods and services in an economy.</p> <p>(b) $Y = C + I$; $C = \bar{C} + MPC(Y)$ $= \bar{C} + MPC(Y) + I$ $Y = 500 + .8(Y) + 5000$ $.2Y = 5500$ } $Y = 27500$ }</p>	<p>2</p> <p>2</p> <p>1½</p> <p>½</p>
<p>32</p>	<p>(a) Government can influence allocation of resources through budget in many ways. It can encourage or discourage production of selected goods through taxes and subsidies. For discouraging, it can impose taxes. For encouraging it can give subsidies. Government can also directly participate in production of goods and services.</p> <p>(b) Government can influence inequalities of income through taxes and public expenditure. It can impose taxes on the rich reducing their disposable income. The amount so collected can be spent on the poor for raising their standard of living.</p>	<p>3x2</p>