

SENIOR SCHOOL CERTIFICATE EXAMINATION

JULY-2014

MARKING SCHEME – ECONOMICS (Outside)

(SET-II)

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.

B2	Expected Answer / Value Points	Distribution of Marks
SECTION - A		
☀ 1	Economic growth.	1
2	When the supply of a good does not change despite of a change in its price.	1
3	It is the total output of a good all its producers are willing to supply at a given price, during a period of time.	1

4	It is the quantity of a good that a consumer is willing to purchase at a given price, during a given period of time.	1																												
5	Rent of factory building, salary of permanent workers etc. (any two relevant examples)	½ x 2																												
6	When price of A rises (falls) its demand will fall (rise) and the demand of complementary good B will also fall (rise) because both the goods must be used together.	3																												
7	(i) Imposition of unit tax raises cost. Price remaining unchanged, profits fall. This leads to 'decrease' in supply. (ii) Rise in prices of inputs raises cost. Price remaining unchanged, profits fall. This leads to 'decrease' in supply. (Any other relevant cause) OR (i) Use of improved technology reduces cost. Price remaining unchanged, profits rise. This leads to shift of supply curve to the right. (ii) Fall in prices of inputs reduces cost. Price remaining unchanged, profits rise. This leads to shift of supply curve to the right. (Any other relevant cause)	1½ 1½ 1½ 1½																												
8	<table border="1"> <thead> <tr> <th>Output</th> <th>AVC</th> <th>TVC</th> <th>MC</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>24</td> <td>24</td> <td>24</td> </tr> <tr> <td>2</td> <td>22</td> <td>44</td> <td>20</td> </tr> <tr> <td>3</td> <td>20</td> <td>60</td> <td>16</td> </tr> <tr> <td>4</td> <td>18</td> <td>72</td> <td>12</td> </tr> <tr> <td>5</td> <td>18</td> <td>90</td> <td>18</td> </tr> <tr> <td>6</td> <td>20</td> <td>120</td> <td>30</td> </tr> </tbody> </table> (No marks if only the final answer is given)	Output	AVC	TVC	MC	1	24	24	24	2	22	44	20	3	20	60	16	4	18	72	12	5	18	90	18	6	20	120	30	½ x 6
Output	AVC	TVC	MC																											
1	24	24	24																											
2	22	44	20																											
3	20	60	16																											
4	18	72	12																											
5	18	90	18																											
6	20	120	30																											
9	<table border="1"> <thead> <tr> <th>Price.</th> <th>TR</th> <th>Supply</th> </tr> </thead> <tbody> <tr> <td>8</td> <td>1000</td> <td>125</td> </tr> <tr> <td>10</td> <td>1500</td> <td>150</td> </tr> </tbody> </table> $E_s = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$ $= - \frac{8}{125} \times \frac{25}{2}$ $= .8$ (No marks if only the final answer is given)	Price.	TR	Supply	8	1000	125	10	1500	150	1 1 ½ ½																			
Price.	TR	Supply																												
8	1000	125																												
10	1500	150																												
10	It arises due to availability of alternative techniques of production. Broadly, the choice is between capital-intensive techniques and labour-intensive techniques. The problem is that which one to employ.	3																												
11	Market for a good in which there is only one producer. Features : (1) Single seller / Producer of the product. (2) No close substitutes of the product. (3) Restrictions on entry of new firms.	1 3																												

<p>12</p>	$E_d = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$ $-0.5 = \frac{40}{300} \times \frac{60}{\Delta P}$ $\Delta P = -\frac{40}{300} \times \frac{60}{0.5}$ $\Delta P = -16$ <p>New Price $\Delta P + P = (-16)+40 = 24$</p> <p style="text-align: center;">(No marks if only the final answer is given)</p>	<p style="text-align: center;">1</p> <p style="text-align: center;">1½</p> <p style="text-align: center;">½</p> <p style="text-align: center;">1</p>
<p>13</p>	<p>Let the two goods consumed by the consumer be X and Y. Let m be income</p> <p>The <u>equation of budget line</u> is :</p> $P_x \cdot X + P_y \cdot Y = m$ <p>Which shows that the whole collection of the combinations of the two goods on the budget line costs the consumer exactly his income.</p> <p>The <u>equation of budget constraint</u> is :</p> $P_x \cdot X + P_y \cdot Y \leq m$ <p>which says that the money spent on the two goods must be equal to or less than the income.</p>	<p style="text-align: center;">1</p> <p style="text-align: center;">1</p> <p style="text-align: center;">1</p> <p style="text-align: center;">1</p>
<p>14</p>	<p>(1) It is downward sloping :</p> <p>Because if the consumer gets more of one good, the consumer must give up some quantity of the other good, to remain on the same level of utility.</p> <p>(2) It is convex towards the origin :</p> <p>Because MRS falls as consumer moves along the curve downwards. It is because of the law of diminishing marginal utility.</p> <p>(3) IC to the right denotes higher utility:</p> <p>Because IC to the right has higher quantity of the two goods. By assumption more goods means more utility.</p> <p style="text-align: center;">OR</p> <p>Conditions : (Assuming that the consumer consume only two goods X and Y)</p> <p>(1) Ratio of marginal utility to price in case of each good must be the same.</p> <p>OR $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$</p> <p>Because. Suppose $\frac{MU_x}{P_x} > \frac{MU_y}{P_y}$ the consumer will buy more of X by diverting expenditure from Y. As a result , MU_x will fall and MU_y will rise till $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$</p> <p>(2) Marginal utility falls as more of a good is consumed</p> <p>because unless it happens the consumer will not reach equilibrium.</p>	<p style="text-align: center;">1</p> <p style="text-align: center;">1</p> <p style="text-align: center;">1</p> <p style="text-align: center;">1</p> <p style="text-align: center;">1</p> <p style="text-align: center;">1</p> <p style="text-align: center;">1</p> <p style="text-align: center;">1</p> <p style="text-align: center;">3</p> <p style="text-align: center;">1</p> <p style="text-align: center;">1</p>

15	Output	TR	TC	MR	MC	2
	1	12	14	12	14	
	2	24	26	12	12	
	3	36	36	12	10	
	4	48	48	12	12	
	5	60	62	12	14	

The equilibrium is at 4 units of output.

Reasons : (1) At this output MC= MR.
(2) MC > MR after equilibrium output.

16		2														
	<p>Given equilibrium price OP, suppose market price is OP₁, the changes that will take place are :</p> <ul style="list-style-type: none"> - There is excess supply equal to AB leading to competition among sellers. - This leads to falls in market price as a result of which demand starts rising and supply starts falling . - The changes stop when D= S at E and equilibrium price is reached at OP. <p>For the blind Candidates</p> <p>Schedule</p> <table border="1"> <thead> <tr> <th>Px</th> <th>Dx</th> <th>Sx</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>10</td> <td>2</td> </tr> <tr> <td>2</td> <td>8</td> <td>4</td> </tr> <tr> <td>3</td> <td>6</td> <td>6</td> </tr> <tr> <td>4</td> <td>4</td> <td>8</td> </tr> </tbody> </table> <p>Or any other schedule</p> <p>Explanation of the schedule</p>		Px	Dx	Sx	1	10	2	2	8	4	3	6	6	4	4
Px	Dx	Sx														
1	10	2														
2	8	4														
3	6	6														
4	4	8														

SECTION - B

17	Value of final goods and services produced within the domestic (economic) territory of a country.	1
18	Salaries of Government employees, Interest payment etc.	½ x2
19	The fraction of deposits of commercial banks that they have to keep with central bank is Cash Reserve Ratio.	1
20	It is a tax whose incidence and impact fall on different persons.	1
21	Fall in the value of a capital good due to normal wear and tear and foreseen obsolescence, during its use in production.	1
22	<p>Ratio of MPC and MPS is 2 :1</p> <p>So MPC is $\frac{2}{3}$ and MPS is $\frac{1}{3}$</p> <p>Multiplier = $\frac{1}{MPS} = 3$ Or = $\frac{1}{1-MPC} = \frac{1}{1-\frac{2}{3}} = 3$</p> <p style="text-align: center;">(No marks if only the final answer is given)</p>	3
23	When planned spending > planned output there will depletion of stocks with the producers below the desired level. To bring it back to the desired level, the producers will produce more till it becomes equal to planned spending.	3
24	<p>Nominal GDP is the GDP valued at current year prices thus including changes in both prices and volume of production.</p> <p>Real GDP is valued at constant prices thus indicating change in volume of production only.</p>	1½ 1½
25	Difference between the value of exports of goods and imports of goods is balance of trade . Whereas the difference between receipts and payments on account of exports of goods and imports of goods, services and net transfer receipts, give us the balance on current account .	3
26	<p>Money as a unit of account means a standard unit for quoting prices or borrowing and lending activities etc. This function makes possible keeping of business accounts thus facilitating trade. It has also led to the emergence of the banking system.</p> <p style="text-align: center;">OR</p> <p>Commercial banks are required to keep a certain minimum percentage of deposits as cash reserve with the central bank. Central bank uses these reserves to meet emergency requirements of the commercial banks. It is called bankers' bank function of the central bank.</p>	3 3

27	<p>Bank rate is the rate of interest at which the central bank lends money to the commercial banks. Suppose the central bank raises bank rate, it makes borrowings by the commercial banks costly. This forces the commercial banks to raise their lending rates. It makes borrowings by the people costly. People borrow less and credit creation is adversely affected.</p> <p>(Opposite happens when bank rate is reduced)</p>	4
28	$NVA_{FC} = (i) + (ii) - (iii) - (iv) - (vi)$ $= 400 + (-20) - 200 - 40 - 30$ $= Rs. 110 \text{ lakh}$ <p style="text-align: center;">(No marks if only the final answer is given)</p> <p style="text-align: center;">OR</p> <p>GDP is not necessarily the true index of economic welfare of the people. The main reasons are :</p> <p>(1) Many non-monetary exchanges left out of GDP do contribute to welfare like mother cooking food, etc but are not included.</p> <p>(2) GDP does not take into account changes in inequalities in the distribution of income.</p> <p>(3) GDP does not take into account externalities, positive or negative.</p> <p>(4) Any other</p> <p style="text-align: right;">(Any Two)</p>	<p>2</p> <p>1 ½</p> <p>½</p> <p>2x2</p>
29	<p>Restricting autonomous imports of gold reduces foreign exchange demand. This in turn reduces foreign exchange payments. Since autonomous payments decline, BOP deficit decline. This decline reduces pressure of deficit and is thus the economic value realised.</p>	4
30	$N.I. = (ii) + (vi) + (iii) + (vii) - (ix) - (viii)$ $= 400 + 200 + 100 + 40 - 10 - 80$ $= Rs. 650 \text{ crore}$ <p style="text-align: center;">OR</p> $P.D.I. = (i) + (viii) + (iii) + (ii) - (ix) - (iv) - (v) - (vi)$ $= 800 + 20 + 70 + 50 - (-10) - 200 - 40 - 30$ $= Rs. 680 \text{ Crore}$ <p style="text-align: center;">(No marks if only the final answer is given)</p>	<p>3</p> <p>2</p> <p>1</p> <p>3</p> <p>2</p> <p>1</p>



<p>31</p>	<p>(a) Aggregate demand refers to the total value of final goods and services that all sectors of the economy taken together are planning to buy at a given level of income during a period of time</p> <p>Components are –</p> <ul style="list-style-type: none"> (i) Private consumption expenditure (ii) Investment expenditure (iii) Government expenditure (iv) Net exports <p>(b) $Y = C + I$ $Y = \bar{C} + MPC(Y) + I$ $= 200 + .75(Y) + 6000$ $.25Y = 6200$ } $Y = 24800$</p> <p style="text-align: right;">(No marks if only the final answer is given)</p>	<p style="text-align: center;">2</p> <p style="text-align: center;">1</p> <p style="text-align: center;">1</p> <p style="text-align: center;">1</p> <p style="text-align: center;">1</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 style="text-align: center;">3</p> <p style="text-align: center;">3</p>