

# SENIOR SCHOOL CERTIFICATE EXAMINATION

JULY-2014

## MARKING SCHEME – ECONOMICS (Outside)

(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.*

B3	Expected Answer / Value Points	Distribution of Marks
<b>SECTION - A</b>		
☀ 1	Economic growth.	1
2	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
3	When the supply of a good does not change despite of a change in its price.	1

4	Rent of factory building, salary of permanent workers etc. <b>(any two relevant examples)</b>	$\frac{1}{2} \times 2$																												
5	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																												
6	<p>(i) <b>Imposition of unit tax</b> raises cost. Price remaining unchanged, profits fall. This leads to 'decrease' in supply.</p> <p>(ii) <b>Rise in prices of inputs</b> raises cost. Price remaining unchanged, profits fall. This leads to 'decrease' in supply.</p> <p style="text-align: right;">(Any other relevant cause)</p> <p style="text-align: center;"><b>OR</b></p> <p>(i) <b>Use of improved technology</b> reduces cost. Price remaining unchanged, Profits rise. This leads to shift of supply curve to the right.</p> <p>(ii) <b>Fall in prices of inputs</b> reduces cost. Price remaining unchanged, profits rise. This leads to shift of supply curve to the right.</p> <p style="text-align: right;">(Any other relevant cause)</p>	<p>1½</p> <p>1½</p> <p>1½</p> <p>1½</p>																												
7	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																												
8	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Output</th> <th style="text-align: left;">MC</th> <th style="text-align: left;">TVC</th> <th style="text-align: left;">AVC</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>24</td> <td>24</td> <td>24</td> </tr> <tr> <td>2</td> <td>20</td> <td>44</td> <td>22</td> </tr> <tr> <td>3</td> <td>16</td> <td>60</td> <td>20</td> </tr> <tr> <td>4</td> <td>12</td> <td>72</td> <td>18</td> </tr> <tr> <td>5</td> <td>18</td> <td>90</td> <td>18</td> </tr> <tr> <td>6</td> <td>30</td> <td>120</td> <td>20</td> </tr> </tbody> </table> <p style="text-align: right;"><b>(No marks if only the final answer is given)</b></p>	Output	MC	TVC	AVC	1	24	24	24	2	20	44	22	3	16	60	20	4	12	72	18	5	18	90	18	6	30	120	20	$\frac{1}{2} \times 6$
Output	MC	TVC	AVC																											
1	24	24	24																											
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9	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Price</th> <th style="text-align: left;">TR</th> <th style="text-align: left;">Supply</th> </tr> </thead> <tbody> <tr> <td>10</td> <td>2000</td> <td>200</td> </tr> <tr> <td>12</td> <td>2400</td> <td>200</td> </tr> </tbody> </table> $E_s = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$ $= \frac{10}{200} \times \frac{0}{2}$ $= 0$ <p style="text-align: right;"><b>(No marks if only the final answer is given)</b></p>	Price	TR	Supply	10	2000	200	12	2400	200	<p>1</p> <p>1</p> <p><math>\frac{1}{2}</math></p> <p><math>\frac{1}{2}</math></p>																			
Price	TR	Supply																												
10	2000	200																												
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10	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																												

11	<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>1</p> <p>1</p> <p>1</p> <p>1</p>																														
12	$E_d = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$ $-1 = \frac{10}{500} \times \frac{100}{\Delta P}$ $\Delta P = -2$ <p><i>New Price</i> = <math>\Delta P + P = -2 + 10 = Rs. 8</math></p> <p style="text-align: center;"><b>(No marks if only the final answer is given)</b></p>	<p>1</p> <p>1½</p> <p>½</p> <p>1</p>																														
13	<p>Market for a good in which there is only one producer.</p> <p>Features : (1) Single seller / Producer of the product. (2) No close substitutes of the product. (3) Restrictions on entry of new firms.</p>	<p>1</p> <p>3</p>																														
14	<table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th>Output</th> <th>TR</th> <th>TC</th> <th>MR</th> <th>MC</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>12</td> <td>14</td> <td>12</td> <td>14</td> </tr> <tr> <td>2</td> <td>24</td> <td>26</td> <td>12</td> <td>12</td> </tr> <tr> <td>3</td> <td>36</td> <td>36</td> <td>12</td> <td>10</td> </tr> <tr style="border: 2px solid black;"> <td>4</td> <td>48</td> <td>48</td> <td>12</td> <td>12</td> </tr> <tr> <td>5</td> <td>60</td> <td>62</td> <td>12</td> <td>14</td> </tr> </tbody> </table> <p>The equilibrium is at 4 units of output.</p> <p><b>Reasons :</b> (1) At this output MC= MR. (2) MC &gt; MR after equilibrium output.</p>	Output	TR	TC	MR	MC	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	<p>2</p> <p>2</p> <p>1</p> <p>1</p>
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5	60	62	12	14																												
15	<p><b>(1) It is downward sloping :</b></p> <p><b>Because</b> 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><b>(2) It is convex towards the origin :</b></p> <p><b>Because</b> MRS falls as consumer moves along the curve downwards. It is because of the law of diminishing marginal utility.</p> <p><b>(3) IC to the right denotes higher utility:</b></p> <p><b>Because</b> IC to the right has higher quantity of the two goods. By assumption more goods means more utility.</p>	<p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p>																														

	<b>OR</b>	
	<p><b>Conditions : (Assuming that the consumer consume only two goods X and Y)</b></p> <p>(1) Ratio of marginal utility to price in case of each good must be the same.</p> <p>OR <math>\frac{MU_x}{P_x} = \frac{MU_y}{P_y}</math></p> <p><b>Because.</b> Suppose <math>\frac{MU_x}{P_x} &gt; \frac{MU_y}{P_y}</math> the consumer will buy more of X by diverting expenditure from Y. As a result , <math>MU_x</math> will fall and <math>MU_y</math> will rise till <math>\frac{MU_x}{P_x} = \frac{MU_y}{P_y}</math></p> <p>(2) Marginal utility falls as more of a good is consumed</p> <p><b>because</b> unless it happens the consumer will not reach equilibrium.</p>	<p>1</p> <p>3</p> <p>1</p> <p>1</p>

16	<p>Excess supply (AB) occurs when the market price (<math>OP_1</math>) is greater than the equilibrium price(<math>OP</math>). This leads to competition among sellers as a result of which.</p> <ol style="list-style-type: none"> <li>1. Price starts falling.</li> <li>2. Demand starts rising along the demand curve</li> <li>3. Supply starts falling along the supply curve.</li> <li>4. Till the equilibrium price (<math>OP</math>) is reached.</li> </ol> <p><b>For the blind Candidates</b></p> <p>Meaning of excess supply</p> <p>Effects with the help of schedule</p>	<p>2</p> <p>4</p> <p>2</p> <p>4</p>
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**SECTION - B**

17	Salaries of Government employees, Interest payment etc.	$\frac{1}{2} \times 2$
18	Fall in the value of a capital good due to normal wear and tear and foreseen obsolescence, during its use in production.	1
19	<b>Statutory Liquidity Ratio</b> is the fraction of total deposits of a commercial bank which it has to keep with itself in the form of specified liquid assets.	1
20	<b>Government Budget</b> is statement of expected receipts and expected expenditure of government during a financial year.	1





28	<p><b>Bank rate</b> 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 style="text-align: center;">(Opposite happens when bank rate is reduced)</p>	<b>4</b>
29	<p>Restricting <b>autonomous</b> 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>	<b>4</b>
30	<p>(i) <b>Direct tax</b> is one whose liability to pay and incidence lie on the same person. An <b>indirect tax</b> is one whose liability to pay and incidence lie on different persons.</p> <p>(ii) <b>Primary deficit</b> = Fiscal deficit – interest payments</p> <p><b>Revenue deficit</b> = Revenue expenditure – revenue receipts</p>	<b>1 ½</b> <b>1 ½</b> <b>1 ½</b> <b>1 ½</b>
31	<p>(a) The consumption not affected by change in income is autonomous whereas the consumption affected by change in income is “induced”</p> <p>(b) <math>Y = C + I</math></p> $Y = \bar{C} + MPC(Y) + I$ $Y = 400 + .5(Y) + 4000$ $\left. \begin{array}{l} .5Y = 4400 \\ Y = 8800 \end{array} \right\}$ <p style="text-align: center;"><b>(No marks if only the final answer is given)</b></p>	<b>2</b>  <b>1</b> <b>1</b> <b>1</b> <b>1</b>
32	$N.I. = (ii) + (vi) + (iii) + (vii) - (ix) - (viii)$ $= 400 + 200 + 100 + 40 - 10 - 80$ $= Rs. 650 \text{ crore}$ <p style="text-align: center;"><b>OR</b></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;"><b>(No marks if only the final answer is given)</b></p>	<b>3</b> <b>2</b> <b>1</b>  <b>3</b> <b>2</b> <b>1</b>