


SENIOR SCHOOL CERTIFICATE EXAMINATION MARCH-2014

MARKING SCHEME – ECONOMICS (Delhi)


(SET - 1)

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 $\frac{1}{2}$ 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.

A1	Expected Answer / Value Points	Distribution of Marks
 1	The economic value of reduction in unemployment is that it will help the economy in realizing its production potential.	1
2	Budget set consists of all the bundles of the goods which at given prices cost less than or equal to the given income of the consumer.	1
3	Receipts from sale of a good <u>Or</u> market value of the output produced is called revenue	1
4	Returns to a factor refers to change in output when only one input is changed, other inputs remaining unchanged.	1

5	If in an oligopoly market firms produce homogeneous products, it is called perfect oligopoly.	1
6	For whom to produce means that who will buy the goods and services produced. Clearly, those who have income will be able to buy. So, the problem amounts to how the national income is distributed in an economy.	3
7	$E_p = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$ $-1 = \frac{9}{18} \times \frac{\Delta Q}{1}$ $9 \times \Delta Q = -18$ $\Delta Q = -2$ <p>Consumer will buy $Q + \Delta Q = 18 + (-2) = 16$ units</p> <p style="text-align: right;">(No marks if only the final answer is given)</p>	1 1 ½ ½
8	When $MR < AR$, AR falls When $MR = AR$, AR is constant When $MR > AR$, AR rises <p style="text-align: center;">OR</p> When TC rises at a decreasing rate, MC falls. When TC rises at an increasing rate MC rises. When TC rises at a constant rate MC is constant.	3 3
9	AFC falls continuously as output is increased. It is because, even when output is increased TFC remains unchanged. <p style="text-align: right;">(Diagram not required)</p>	1 2
10	When there are only a few firms in the market, it is likely that each firm has some knowledge as to how its rivals operate. Each firm expects reactions from the rival firms. Therefore, each firm in deciding price and output, takes into account the expected reactions by the rival firms. In this way the firms are interdependent on each other.	3
11	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 <u>Explanation</u> : (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. <p style="text-align: right;">(Explanation based on $\frac{MU_x}{P_x} < \frac{MU_y}{P_y}$ is also correct.)</p>	1 ½ 2 ½

	OR	
	<p>Given $\frac{MU_A}{P_A} = \frac{MU_B}{P_B}$ (Consumer is in equilibrium)</p> <p>Given that P_B falls, then</p> <p>$\frac{MU_A}{P_A} < \frac{MU_B}{P_B}$ (Or $\frac{MU_B}{P_B} > \frac{MU_A}{P_A}$)</p> <p>Since per rupee MU of B is higher than per rupee MU of A, the consumer will reduce expenditure on A and increase that on B. So, when P_B falls, demand for B rises.</p>	4
12	<p>The effect of change in income of the consumer on demand of a good depends upon whether the good is inferior or normal. <u>If the good is normal</u> for the given consumer, its demand is likely to increase with an increase in income. <u>If the good is inferior</u> for the consumer, its demand is likely to decrease with an increase in income.</p>	4
13	<p>There are three phases of change in MP :</p> <p>(1) MP rises : Because when the variable input is increased, efficient utilization of the fixed inputs takes place due to specialisation. This raises efficiency of the variable input.</p> <p>(2) MP falls but is positive: Because beyond a point increasing variable input puts pressure on fixed inputs leading to decline in efficiency.</p> <p>(3) MP continues to fall and is negative: Because there is so much pressure of the variable input on the fixed inputs that total product starts declining.</p> <p style="text-align: right;">(To be marked as a whole. Diagram not required)</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 continue 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 style="text-align: center;">OR</p> <p>The Three properties are</p> <p>(i) IC slopes downwards from left to right.</p> <p>(ii) IC is strictly convex to the origin.</p> <p>(iii) IC to the right has higher utility.</p>	<p>1</p> <p>1</p> <p>3</p> <p>1</p> <p>1x3</p>

	<p>Explanation :</p> <p>(1) Slopes downward because to consume more of good X , the consumer must give up some quantity of good Y so that the consumer remains on the same level of satisfaction.</p> <p>(2) Strictly convex because it is assumed that MRS continuously falls due to the law of diminishing marginal utility.</p> <p>(3) IC to the right has higher utility level because it is assumed that higher consumption means higher utility.</p>	<p>1</p> <p>1</p> <p>1</p>
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15	Output	TR	TC	MR	MC	
	1	7	8	7	8	
	2	14	15	7	7	
	3	21	21	7	6	
	4	28	28	7	7	Equilibrium
	5	35	36	7	8	

The producer is in equilibrium at 4 units of output

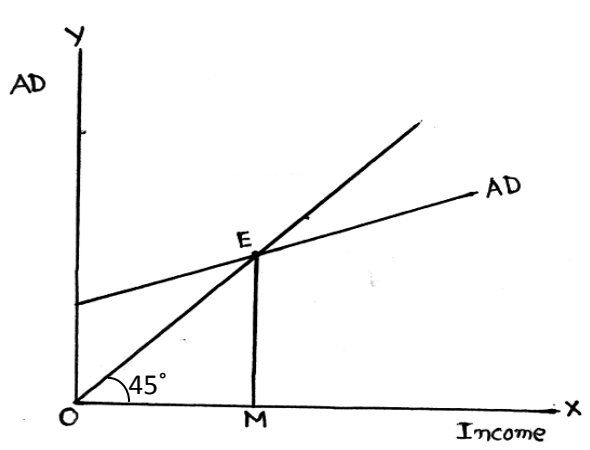
Reasons (1) $MC = MR$

(2) $MC > MR$ after equilibrium

Profit = $TR - TC = 28 - 28 = 0$

16		2
	<ul style="list-style-type: none"> - OP_1 is the equilibrium price and OQ_1 is equilibrium quantity. When demand increases, the demand curve shifts to the right. D_2 is new demand curve. - This creates an excess demand E_1A_1 at the existing price OP_1. - The excess demand causes competition among buyers resulting in rise in price . - Rise in price leads to fall in demand and rise in supply as indicated by the arrows. - These changes continue till the market reaches new equilibrium at E_2 with a higher price OP_2 and higher quantity OQ_2. <p>For the Blind Candidate</p> <ul style="list-style-type: none"> • Increase in demand result in excess demand • It causes competition among buyers resulting in rise in price • Price rise reduces demand and increases supply. • Excess demand is reduced. • These changes continue till demand and supply are equal at new price. • New price is higher than old price. 	4

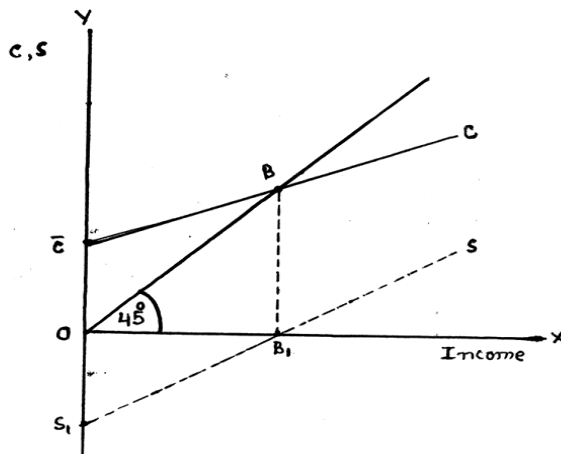
	<u>SECTION - B</u>	
17	The deposits which can be withdrawn from the banks on demand, through cheques.	1
18	Involuntary unemployment occurs when those who are able and willing to work at the going wage rate do not get work.	1
19	MPC is the ratio of 'change in consumption expenditure' to 'change in income'	1
20	Government budget is an annual financial statement showing estimated receipts and estimated expenditure of government.	1
21	'Balance of trade' refers to 'export of goods' less 'import of goods' during a given year.	1
22	Externalities refer to the benefits (or harms) a firm or an individual causes to another for which it is not paid (or penalised) Example : Polluting river by an oil refinery Or any other relevant example. Impact : Reduces welfare through negative effect on health	1 1 1
23	The significance of money as a store of value is that money can be stored for use in future. One can use one's present income in future because money comes in convenient denominations and is easily portable. OR Medium of exchange function has solved the problem of double coincidence of wants. The buyer can pay money to the seller and the seller in turn can buy what he wants to buy. Money facilitates the exchange.	3 3
24	(i) Expenditure on collection of taxes is revenue expenditure because it neither creates any asset nor reduces any liability. (ii) Expenditure on purchasing computers is capital expenditure because it creates assets.	1 ½ 1 ½
25	Deficit in the BOP occurs when autonomous foreign exchange receipts fall short of autonomous foreign exchange payments. Autonomous transactions are those which are not influenced by other transactions in the BOP.	3
26	Increasing import duty on gold will make imports of gold costly. It will reduce demand for import of gold and consequently of foreign exchange. Supply of foreign exchange remaining unchanged, price of foreign exchange is likely to fall.	3
27	Money supply refers to the stock of money in the country on a particular day. It has two components : Currency with public outside the banks and demand deposits with banks. Demand deposits are deposits which can be withdrawn by writing cheque. Both these are directly usable for carrying out transactions at will. OR Lending of money by the Central Bank to commercial banks in times of emergent need is referred to as the 'lender of last resort' function of the central bank.	4 4

<p>28</p>	$Y = \bar{C} + MPC(Y) + I$ $1000 = 200 + (1 - .25)1000 + I$ $I = 1000 - 200 - 750$ $I = 50$ <p style="text-align: right;">(No marks if only the final answer is given)</p>	<p>1½</p> <p>1½</p> <p>1</p>
<p>29</p>	<p>Increased expenditure by government on public goods like defence, maintaining law and order etc. increases their availability to the people of the country. For example more expenditure on maintaining law and order raises the sense of security among the people. Any such expenditure raises welfare of the people.</p> <p style="text-align: right;">(To be marked as a whole)</p>	<p>4</p>
<p>30</p>	$NI = ii + iv + x - vi - v + iii - ix$ $= 600 + 100 + 110 - 20 - 120 + 20 - 5$ $= Rs. 685 \text{ Arab.}$ $GNDI = N.I. + vii + v - iii - i$ $= 685 + 35 + 120 - 20 - (-15)$ $= Rs. 835 \text{ Arab}$ <p style="text-align: right;">(No marks if only the final answer is given)</p>	<p>2</p> <p>1½</p> <p>½</p> <p>1</p> <p>½</p> <p>½</p>
<p>31</p>	<p>(i) Fees paid to mechanic by a firm is not included because it is an intermediate cost of the firm.</p> <p>(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.</p> <p>(iii) Expenditure on purchasing car by a firm is included because it is an investment expenditure, a final expenditure.</p> <p style="text-align: right;">(No marks if the reason is not given)</p>	<p>2</p> <p>2</p> <p>2</p>
<p>32</p>	 <p>The national income is in equilibrium when $AD = AS$. In the figure the equilibrium is at E, the intersection of the AD curve and the 45° line. The equilibrium income is OM.</p>	<p>1</p> <p>2</p>

When the economy is not in equilibrium AD is not equal to AS. Suppose $AD > AS$, it will lead to fall in inventories with the producers. The producers in turn will produce more to reach the desired level of inventories : This raises AS till it becomes equal to AD.

(Answer based on $AD < AS$ is also correct)

OR



Steps :

- (i) $\bar{C}C$, is the given consumption curve on OY axis take OS_1 equal to $O\bar{C}$.
- (ii) Draw a 45° line from point of origin. It intersects $\bar{C}C$ at B.
- (iii) From point B draw a perpendicular on OX which cuts OX at B_1 .
- (iv) Join S_1 and B_1 by a straight line and extend it to S.
- (v) SS_1 is the saving curve

For Blind Candidates

- The sum of demand of all goods and services is called aggregate demand.
- Equilibrium level of income is that level of income at which aggregate demand and supply are equal.
- When the economy is not in equilibrium then aggregate demand and supply are not equal. Suppose aggregate demand is greater than aggregate supply. This will reduce inventories. To make up this deflation producers will produce more.
- This will increase aggregate supply and ultimately it will become equal to aggregate demand.

OR

Relation between saving and income is saving function

$$C = \bar{C} + MPC(Y)$$

$$S = Y - C$$

$$= Y - \bar{C} + MPC(Y)$$

$$= -\bar{C} + (1 - MPC)Y$$

This is derivation of saving function from C function.