


# SENIOR SCHOOL CERTIFICATE EXAMINATION MARCH-2014


## MARKING SCHEME – ECONOMICS (Delhi) (SET - 3)

### 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.

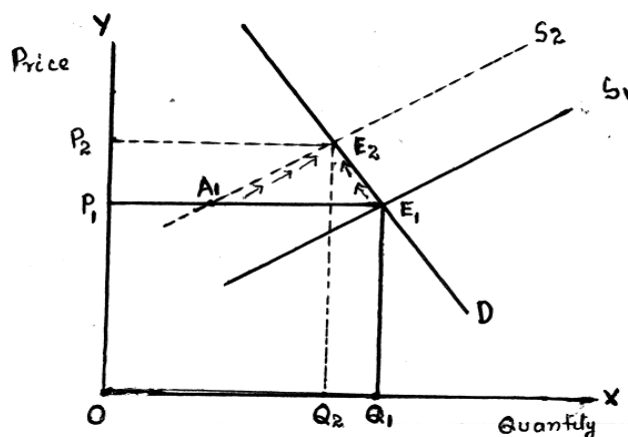
*General Note* : In case of numerical question no mark is to be given if only the final answer is given.

A3	Expected Answer / Value Points	Distribution of Marks
1	MR is addition to TR on account of selling or producing one more unit of output.	1
 2	The economic value of reduction in unemployment is that it will help the economy in realizing its production potential.	1
3	Returns to a factor refers to change in output when only one input is changed, other inputs remaining unchanged.	1
4	If in an oligopoly market firms produce homogeneous products, it is called perfect oligopoly.	1
5	The set of indifference curves of a consumer is called indifference map.	1



	<p><b>(3) MP continues to fall and is negative:</b> Because there is so much pressure of the variable input on the fixed inputs that total product starts declining.</p> <p>(To be marked as a whole. Diagram not required)</p>	<b>4</b>																																				
<b>13</b>	<p>Assuming that the only two goods the consumer consumes are X and Y, the conditions of equilibrium are :</p> <p><b>(1)</b> <math>\frac{MU_x}{P_x} = \frac{MU_y}{P_y}</math></p> <p><b>(2)</b> MU falls as more is consumed</p> <p><b>Explanation :</b></p> <p><b>(1)</b> Suppose <math>\frac{MU_x}{P_x} &gt; \frac{MU_y}{P_y}</math>. 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<sub>x</sub> and rise in MU<sub>y</sub>. This will continue till <math>\frac{MU_x}{P_x} = \frac{MU_y}{P_y}</math>.</p> <p><b>(2)</b> Unless MU falls as more of a good is consumed the consumer will not reach equilibrium.</p> <p style="text-align: center;">(Explanation based on <math>\frac{MU_x}{P_x} &lt; \frac{MU_y}{P_y}</math> is also correct.)</p> <p style="text-align: center;"><b>OR</b></p> <p>Given <math>\frac{MU_A}{P_A} = \frac{MU_B}{P_B}</math> (Consumer is in equilibrium)</p> <p>Given that P<sub>B</sub> falls, then</p> <p><math>\frac{MU_A}{P_A} &lt; \frac{MU_B}{P_B}</math> (Or <math>\frac{MU_B}{P_B} &gt; \frac{MU_A}{P_A}</math>)</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<sub>B</sub> falls, demand for B rises.</p>	<p><b>1</b></p> <p><math>\frac{1}{2}</math></p> <p><b>2</b></p> <p><math>\frac{1}{2}</math></p> <p><b>4</b></p>																																				
<b>14</b>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Output</th> <th style="text-align: center;">TR</th> <th style="text-align: center;">TC</th> <th style="text-align: center;">MR</th> <th style="text-align: center;">MC</th> <th></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1</td> <td style="text-align: center;">7</td> <td style="text-align: center;">8</td> <td style="text-align: center;">7</td> <td style="text-align: center;">8</td> <td></td> </tr> <tr> <td style="text-align: center;">2</td> <td style="text-align: center;">14</td> <td style="text-align: center;">15</td> <td style="text-align: center;">7</td> <td style="text-align: center;">7</td> <td></td> </tr> <tr> <td style="text-align: center;">3</td> <td style="text-align: center;">21</td> <td style="text-align: center;">21</td> <td style="text-align: center;">7</td> <td style="text-align: center;">6</td> <td></td> </tr> <tr style="border: 2px solid black;"> <td style="text-align: center;">4</td> <td style="text-align: center;">28</td> <td style="text-align: center;">28</td> <td style="text-align: center;">7</td> <td style="text-align: center;">7</td> <td style="text-align: left;"><b>Equilibrium</b></td> </tr> <tr> <td style="text-align: center;">5</td> <td style="text-align: center;">35</td> <td style="text-align: center;">36</td> <td style="text-align: center;">7</td> <td style="text-align: center;">8</td> <td></td> </tr> </tbody> </table> <p>The producer is in equilibrium at 4 units of output</p> <p><b>Reasons (1)</b> MC = MR</p> <p style="padding-left: 40px;"><b>(2)</b> MC &gt; MR after equilibrium</p> <p><b>Profit</b> = TR – TC = 28- 28 = 0</p>	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	<b>Equilibrium</b>	5	35	36	7	8		<p><b>2</b></p> <p><b>1</b></p> <p><b>1</b></p> <p><b>1</b></p> <p><b>1</b></p>
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5	35	36	7	8																																		

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- OP1 in equilibrium price & OQ1 equilibrium quantity.
- When supply decreases, supply curve shifts to the left. S<sub>2</sub> is new supply curve.
- This creates excess demand A<sub>1</sub>E<sub>1</sub> at the existing price OP<sub>1</sub>.
- The excess demand leads to competition among buyers causing price to rise.
- Rise in price leads to fall in demand along the D- curve and rise in supply along the S<sub>2</sub> curve as indicated by the arrows.
- These changes continue till the market reaches new equilibrium at E<sub>2</sub> with a higher price OP<sub>2</sub> and lower quantity OQ<sub>2</sub>.

2

4

#### **For the Blind Candidates**

Decrease in supply will result in excess demand at given Eq. price. This will result in competition among buyers. The price will rise. Demand will fall and supply will rise. These changes will continue till price falls to a level at which demand and supply equal.

4

The new equilibrium price will be higher than old equilibrium price.

2

16

Let the two goods the consumer consumes be X and Y.

The two conditions of equilibrium are :

(1)  $MRS = \frac{P_x}{P_y}$

1

(2) MRS falls as more of X is consumed in place of Y.

1

#### **Explanation :**

(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.


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(2) Unless MRS falls as consumer consumes more of X , the consumer will not reach equilibrium again.

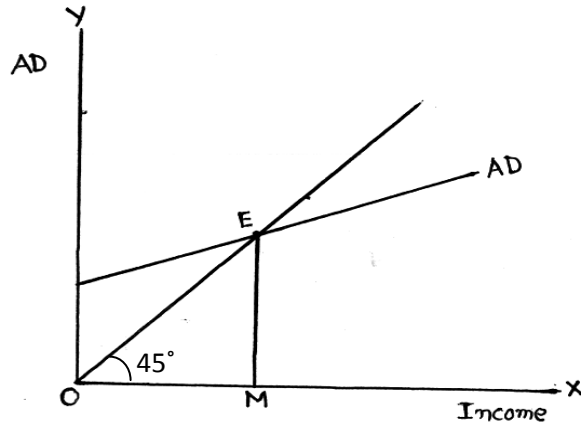
1

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

	<b>OR</b>	
	<p><b>The Three properties are</b></p> <p><b>(i)</b> IC slopes downwards from left to right.</p> <p><b>(ii)</b> IC is strictly convex</p> <p><b>(iii)</b> IC to the right has higher utility.</p> <p><b>Explanation :</b></p> <p><b>(1)</b> 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><b>(2)</b> Strictly convex because it is assumed that MRS continuously falls due to the law of diminishing marginal utility.</p> <p><b>(3)</b> IC to the right has higher utility level because it is assumed that higher consumption means higher utility.</p>	<p><b>1x3</b></p> <p><b>1</b></p> <p><b>1</b></p> <p><b>1</b></p>
	<b><u>SECTION - B</u></b>	
<b>17</b>	Aggregate supply is the value of total quantity of final goods and services planned to be produced in the country during the year.	<b>1</b>
<b>18</b>	Government budget is an annual financial statement showing estimated receipts and estimated expenditure of government.	<b>1</b>
<b>19</b>	Devaluation is said to occur when the exchange rate is increased by the official action (government) under fixed exchange rate system.	<b>1</b>
<b>20</b>	The deposits which can be withdrawn from the banks on demand, through cheques.	<b>1</b>
<b>21</b>	MPC is the ratio of 'change in consumption expenditure' to 'change in income'	<b>1</b>
<b>22</b>	<p><b>(i)</b> Expenditure on collection of taxes is revenue expenditure because it neither creates any asset nor reduces any liability.</p> <p><b>(ii)</b> Expenditure on purchasing computers is capital expenditure because it creates assets.</p>	<p><b>1 ½</b></p> <p><b>1 ½</b></p>
<b>23</b>	Incentives for exports are aimed at increasing exports. Increase in exports will bring more foreign exchange into the country .Demand for foreign exchange remaining unchanged, exchange rate is likely to fall.	<b>3</b>
<b>24</b>	<p>Externalities refer to the benefits (or harms) a firm or an individual causes to another for which it is not paid (or penalised)</p> <p><b>Example :</b> Polluting river by an oil refinery Or any other relevant example.</p> <p><b>Impact :</b> Reduces welfare through negative effect on health</p>	<p><b>1</b></p> <p><b>1</b></p> <p><b>1</b></p>
<b>25</b>	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.	<b>3</b>

	<b>OR</b>	
	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.	<b>3</b>
<b>26</b>	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.	<b>3</b>
<b>27</b>	$Y = \bar{c} + MPC(Y) + I$ $1500 = 300 + MPC(1500) + 300$ $1500MPC = 1500 - 300 - 300 = 900$ $MPC = \frac{900}{1500} = 0.6$ <p style="text-align: right;">(No marks if only the final answer is given)</p>	<b>1½</b> <b>1½</b> <b>1</b>
 <b>28</b>	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.  (To be marked as a whole)	<b>4</b>
<b>29</b>	<p>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.</p> <p style="text-align: center;"><b>OR</b></p> <p>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.</p>	<b>4</b>          <b>4</b>
<b>30</b>	<p><b>(i) Fees paid to mechanic by a firm</b> is not included because it is an intermediate cost of the firm.</p> <p><b>(ii) Interest paid by an individual</b> 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><b>(iii) Expenditure on purchasing car by a firm</b> 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>	<b>2</b>          <b>2</b>          <b>2</b>

31



1

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  $45^\circ$  line. The equilibrium income is  $OM$ .

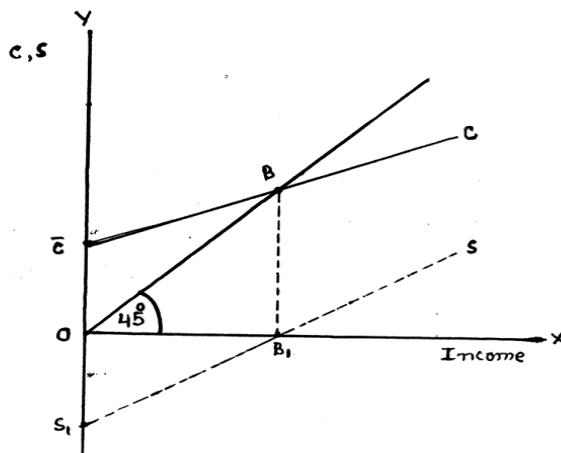
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When the economy is not in equilibrium  $AD$  is not equal to  $AS$ . Suppose  $AD > AS$ , it will lead to fall in inventories with the producers. The producers in turn will produce more to reach the desired level of inventories : This raises  $AS$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

3

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

OR



3

**Steps :**

- (i)  $\bar{C}\bar{C}$ , is the given consumption curve on  $OY$  axis take  $OS_1$  equal to  $O\bar{C}$ .
- (ii) Draw a  $45^\circ$  line from point of origin. It intersects  $\bar{C}\bar{C}$  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

3

**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.

1

2

3

