SENIOR SCHOOL CERTIFICATE EXAMINATION
MARCH-2014
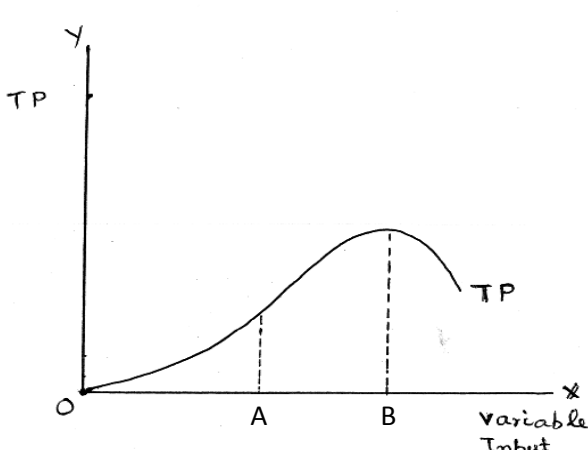## MARKING SCHEME – ECONOMICS (Foreign)
(SET -2)
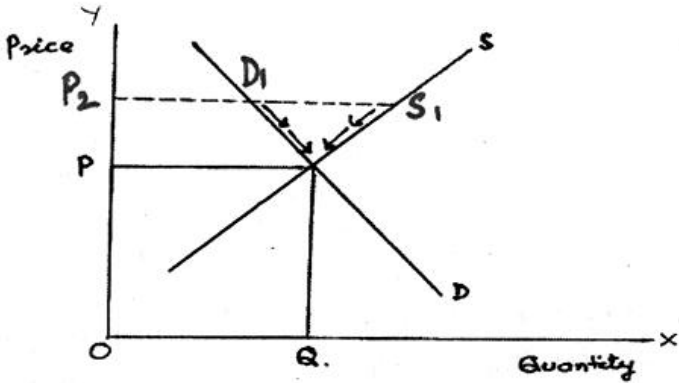### Expected Answers / Value Points

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.

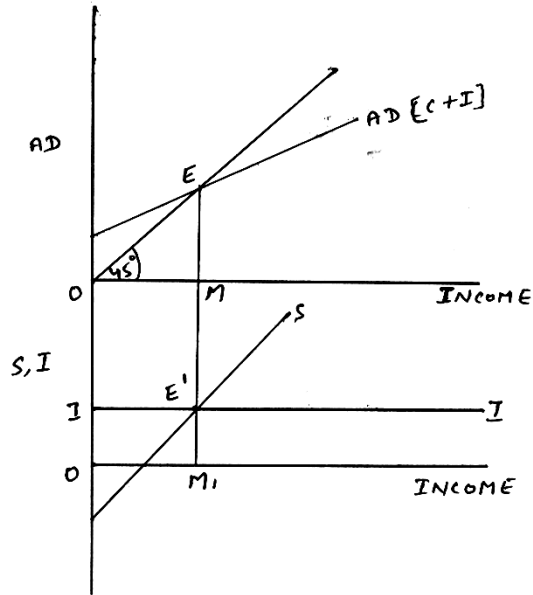| C2	Expected Answer / Value Points	Distribution of Marks
1	When in an oligopoly market firms co-operate with each other in determining price and output , it is called collusive oligopoly	1
2	Production function refers to the relationship between inputs and output.	1
3	Supply refers to the quantity of a good producers of that good are willing to supply at a price during a period of time.	1
☼ 4	The economic value of technical training is that it raises the production potential of the country by raising the efficiency of the labor.	1

5	The demand of a good is called perfectly inelastic when with the change in the price there is no change in demand for the good.	1
6	Suppose per unit tax is raised. This raises cost of producing the good. Price remaining unchanged, profits decline. This is disincentive to producers who supply less. **OR** Suppose government gives subsidy on production of good. This raises total revenue. Cost remaining unchanged profit rise. This provides incentive to the producers to supply more.	3 3
7	PPC is downward sloping because to produce more of one good, the economy has to produce less of the other good. It is because resources are fixed.	3
8	$$E_p = \frac{\text{Percent change in demand}}{\text{percent change in price}}$$ $$-1 = \frac{\frac{10}{20} \times 100}{\text{percent change in price}} = \frac{50}{\% \text{ change in price}}$$ $$\text{percent change in price} = \frac{50}{-1} = -50$$ Price falls by 50% (No marks if only the final answer is given)	1½ 1 ½
9	The large number of buyers is assumed to be so large that an individual buyer's share in total purchases is so negligible that he cannot influence the market price on its own by purchasing more or less. The outcome is that price remains unchanged.	3
10	It is under the market condition when a firm can sell more at the given price that AR = MR throughout as production is increased by the firm. It is because the firm is a price taker. It means that price, which is same as AR, remains unchanged throughout. By the average – marginal relationship, AR remains unchanged only when AR = MR throughout.	3
11		2

	The different phases in the law of variable proportions are	
	Phase : I TP rises at an increasing rate and MP rises, as is upto A.	
	Phase : II TP rises at decreasing rate and MP falls but remains positive, i.e. B.	**2**
	Phase : III TP falls and MP and MP becomes negative after B.	
	FOR THE BLIND CANDIDATES :	
	On the same lines as above (without diagram) but with reasons.	**4**
12	Assuming that the only, two goods the consumer consumes are X and Y, the condition of equilibrium are :	
	(1) $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$	**1**
		½
	(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 from × is greater than per rupee MU from Y. This will induce the consumer to buy more of × by reducing expenditure on Y. It will lead to fall in MUx and rise in MUy, till $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$.	**2**
	(2) Unless MU falls as more is consumed of a good the consumer will not reach equilibrium.	**½**
	(Explanation based on $\frac{MU_x}{P_x} < \frac{MU_y}{P_y}$ is also correct.)	
	OR	
	According to the utility analysis, the consumer is in equilibrium when	
	$\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$	
	Now, given that P_x falls, then	
	$\frac{MU_x}{P_x} > \frac{MU_y}{P_y}$	
	Since per rupee MU_x is higher than per rupee MU_y, the consumer will buy more of X and less on Y.	**4**
13	Demand by an individual refers to the quantity of a good the consumer is willing to buy at a price during a period of time .While market demand refers to the quantity of a good the consumers of that good are willing to buy at a price during a period of time .	**2**
	The factors leading to fall in demand by an individual consumers are :	
	1) Rise in own price of the normal good . 2) Fall in the price of substitute good . 3) Rise in the price of complementary good . 4) Fall in the income of the consumers in case of a normal good . 5) Rise in income of the consumers in case of an inferior good . 6) Decline in taste for the good (any four) (or any other)	**(½x4=2)**

14		
		2
	Excess supply for a good in a market occurs when the actual price of the good is higher than the equilibrium price .In diagram excess supply at the actual price OP$_2$ is D$_1$S$_1$. At this price producers will not able to sell all they want to sell. Its chain of effects are :	**4**
	- There will be competition between sellers leading to fall in price. - Fall in price will reduce supply along the supply curve S and lead to rise in demand along the demand curve D as indicate by the arrows. - The trend will continue till the market reaches equilibrium at E.	
	For the blind candidates	
	Schedule :	**2**
	Meaning of excess supply and chain of effects (on the above line)	**4**
15	Let the only two goods the consumer consumes are X and Y. The two conditions of equilibrium are	
	(1) MRS = $\dfrac{P_x}{P_y}$	**1**
	(2) MRS falls as more of × is consumed in place of Y.	**1**
	Explanation :	
	(1) Suppose MRS > $\dfrac{P_x}{P_y}$ 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 $\dfrac{P_x}{P_y}$ and the consumer is in equilibrium.	**3**
	(2) Unless MRS falls as consumer consumes more of X , the consumer will not reach equilibrium again.	
	(Explanation based on MRS < $\dfrac{P_x}{P_y}$ is also correct)	**1**
	OR	
	The Three properties are **(i)** IC slopes downwards from left to right. **(ii)** IC is strictly convex **(iii)** IC to the right has higher utility.	**1x3=3**

Explanation :

(1) Slope downwards because to consume more of good on the ×-axis , the consumer must give up some quantity of good on the Y-axis so that the consumer remains on the same level of satisfaction.

(2) Strictly convex because it is assumed that MRS continuously falls due to the law of diminishing marginal utility.

(3) IC to the right has higher utility level because it is assumed that higher consumption means higher utility.

1x3=3

16	**Output**	**TR**	**TC**	**MR**	**MC**
	1	8	10	8	10
	2	16	18	8	8
	3	24	23	8	5
	4	32	31	8	8	**Equilibrium**
	5	40	41	8	10

The producer is in equilibrium at 4 units of output

Reason (1) MC = MR

      (2) MC > MR after equilibrium

Profit = TR – TC =32- 31 = 1

2
1
1
1
1

SECTION – B

17	Aggregate supply refers to the values of final goods and services planned to be produced in an economy during a given year.	1
18	Devaluation is said to occur when the exchange rate is increased by the official action (government) under the fixed exchange rate system.	1
19	The central bank is the apex bank engaged in regulating commercial banks.	1
20	When at the full employment level of income AD exceeds AS, the difference is called excess demand.	1
21	Primary deficit refers to fiscal deficit less interest payments.	1
22	Deferred payments mean payment contracted to be made at some future date. Money serves as a standard of such deferred payments, like in borrowing and lending activities. It has made possible the creation of banking system. **OR** 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.	3 3
23	BOP deficit occurs when autonomous foreign exchange receipts fall short of autonomous payments. Autonomous transactions are those which are not influenced by other transactions in BOP.	3

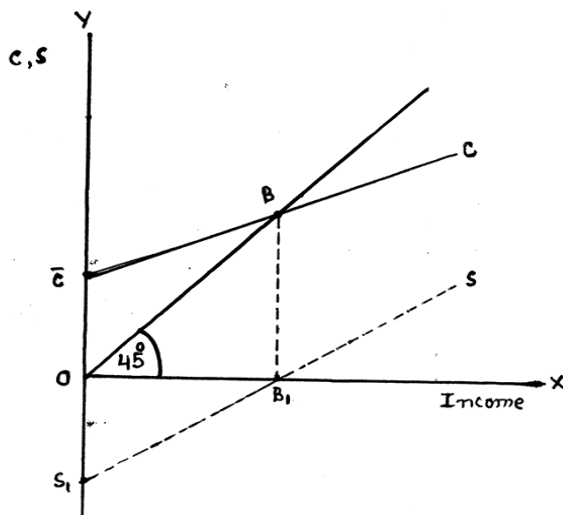|			
24	Appreciation of domestic currency occurs when market determined exchange rate falls.	1
	It signifies that foreign buyers will be able to buy less from one unit of currency. This makes exports costly for the foreign buyers. As a result exports are likely to decline.	2
25	Non-monetary exchanges refer to the goods and services produced but not exchanged through money, like the domestic services rendered by the members of a family to each other. The value of these services is many a times difficult to estimate and so it escapes national income estimation. These exchanges however have positive effect on the welfare of the people.	3
26	(i) Expenditure on scholarships is revenue expenditure because it neither creates any assets nor reduces liability.	1½
	(ii) Expenditure on building a bridge is capital expenditure because it leads to creation of assets	1½
27	Spending on free services to the poor raises their standard of living and at the same time helps in reduction in income inequalities. It also helps in raising production potential of the country by raising the efficiency level of the working class among the poor.	4
28	Stock of money in a country on a particular day is termed as money supply. It has two components : currency with public outside banks and demand deposits. Demand deposits are deposits which can be withdrawn by writing cheques. Both the components are usable for carrying out transactions at will.	4
	OR	
	Currency authority function means that the central bank has the sole authority to issue currency. It brings uniformity in note circulation. It also gives power to the central bank to directly control money supply.	4
29	$Y = \bar{C} + MPC\,(Y) + I$	1½
	$800 = 100 + MPC\,(800) + 100$	1
	$800\,MPC = 800 - 100 - 100 = 600$	1
	$MPC = 600/800 = 0.75$	½
	(No marks if only the final answer is given)	

30

The two alternative approaches of national income determination are

(1) AD = AS which is on E in the upper part of diagram when AD curve intersects the 45° line with equilibrium income OM.

(2) S = I which is E1 in the lower part of the diagram when saving curve intersects the investment curve at E1 with OM as the equilibrium income level.

OR

Steps :

(i) Given consumption Curve $\bar{C}C$, take OS_1 equal to $O\bar{C}$
(ii) Draw a perpendicular from B to intersect X-axis on B_1.
(iii) Join S1 and B1 and extend to obtain the saving curve.

3

1½

1½

3

3

	For the Blind Candidates :	
	• Derivation of the two approaches Explanation	**6**
	OR	
	• Consumption function : Meaning Explanation of components	
	• Saving function : Meaning Explanation of component	**6**

31	$N.I = v + iv + (iii + vii) - i - ix - viii$	**2**
	$= 700 + 200 + (300 + 30) - 60 - 100 - 20$	**1½**
	$= Rs\ 1050\ arab$	**½**
	$GNDI = NI + vi + ix - ii$	**1**
	$= 1050 + 70 + 100 - (-10)$	**½**
	$= Rs\ 1240\ arab$	**½**
	(No marks if only the final answer is given)	

32	**(i) Bonus** should be included because it is compensation paid to employees.	**2**
	(ii) Addition to stocks should be included because it is investment a final expenditure.	**2**
	(iii) Purchase of a taxi by taxi driver should be included because it is final expenditure on investment.	**2**
	(No marks if the reason is not given)	