

# SENIOR SCHOOL CERTIFICATE EXAMINATION MARCH-2016

## MARKING SCHEME – ECONOMICS (DELHI)

### Expected Answers / Value Points

#### (SET-2)

#### GENERAL INSTRUCTIONS :

- 1 The Marking Scheme carries only suggested value points for the answers. These are only Guidelines and do not constitute the complete answer. The students can have their own expression and if the expression is correct, the marks be awarded accordingly.
- 2 As per orders of the Hon'ble Supreme Court, the candidates would now be permitted to obtain photocopy of the Answer Book on request on payment of the prescribed fee. All examiners/Head Examiners are once again reminded that they must ensure that evaluation is carried out strictly as per value points for each answer as given in the Marking Scheme.
- 3 All the Head Examiners/Examiners are instructed that while Evaluating the answer scripts, if the answer is found to be totally incorrect, the (x) should be marked on the incorrect answer and awarded '0' marks.
- 4 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.
- 5 Expected suggested answers have been given in the Marking Scheme. To evaluate the answers the value points indicated in the marking scheme should be followed.
- 6 For questions asking the candidate to explain or define, the detailed explanations and definitions have been indicated alongwith the value points.
- 7 For mere arithmetical errors, there should be minimal deduction. Only  $\frac{1}{2}$  mark should be deducted for such an error.
- 8 Where 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.
- 9 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.
- 10 Higher order thinking ability questions are for assessing a student's understanding / analytical ability.

**General Note:** In case of a numerical question, no marks should be awarded if only the final answer has been given, even if it is correct.

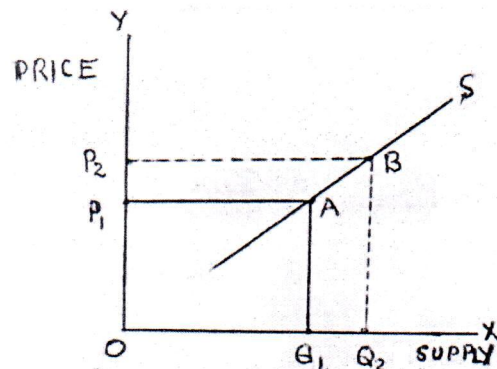
A2	Expected Answer / Value Points	Distribution of Marks
<b>SECTION - A</b>		
1	(c) Both under monopoly and monopolistic competition	1
2	(c) Both (a) and (b)	1
3	(b) Equal to Average Revenue	1
4	When supply rises due to a factor other than the own price of the good or naming a factor like fall in prices of input, deduction in taxes on the good etc.	1
5	MC = AC	1
6	<p>Maximum price of a good refers to the maximum price of a good a seller is allowed to charge by government <b>(Diagram not required)</b></p> <p>Since such a price is below the equilibrium price, it leads to shortage because demand is greater than supply at this price. The shortage in turn may lead to black marketing <b>(Diagram not required)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>When market price is below the equilibrium price demand becomes greater than supply and excess demand emerges. Since buyers will not be able to buy all they want to buy there is competition between buyers leading to rise in price. Rise in price causes fall in demand (contraction) and rise in supply (expansion). This continues till the price reaches equilibrium again.</p> <p style="text-align: right;"><b>(Diagram not required)</b></p>	<p>1</p> <p>2</p> <p>3</p>
7	<p>The consumer is not in equilibrium because</p> $\frac{MU_x}{P_x} < \frac{MU_y}{P_y} \text{ or } \frac{4}{5} < \frac{5}{4}$ <p>Since per rupee MU<sub>x</sub> is lower than per rupee MU<sub>y</sub>, the consumer will buy more of Y and less of X till MU<sub>x</sub> goes up and MU<sub>y</sub> goes down to reach</p> $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$	<p>1</p> <p>2</p>
8	Y is more price elastic because one percent fall (rise) in price will lead to higher percent i.e. rise (fall) in demand. <b>(or any other relevant explanation)</b>	3
9	$E_s = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$ $2 = \frac{20}{100} \times \frac{-20}{\Delta P}$ $200\Delta P = -400$ $\Delta P = -2$ <p style="text-align: right;">}</p> <p>New P = P + ΔP = 20 + (-2) = Rs. 18</p>	<p>2</p> <p>1</p> <p>½</p> <p>½</p>



10	<p>If the good is a 'normal good' , a rise/fall in income will raise/lower the demand for that good.</p> <p>If the good is an 'inferior good' a rise/fall in income will decrease/increase the demand for that good.</p> <p style="text-align: center;"><b>(Answer based on fall in income is also correct)</b></p>	<p>2</p> <p>2</p>
11	<p><b>Production function</b> refers to mathematical relation between physical input and physical output.</p> <p><b>Short run</b> production function refers to a situation when output is increased by changing only one input while keeping other inputs unchanged.</p> <p><b>Long run</b> production function refers to a situation when output is increased by increasing all the inputs simultaneously and in the same proportion.</p> <p style="text-align: center;"><b>OR</b></p> <p><b>Cost:</b> in economics means the sum of actual money expenditure on inputs and imputed expenditure on inputs supplied by the owner including normal profit.</p> <p><b>Fixed cost :</b> refers to cost which remains unchanged as output is increased. For example rent, interest etc. (any one)</p> <p><b>Variable cost :</b> refers to cost which rises/falls as output is increased/decreased. For example cost of raw materials etc. (any one)</p>	<p>1</p> <p>1½</p> <p>1½</p> <p>1</p> <p>1½</p> <p>1½</p>
12	<p><b>(a) Large number of buyers :</b>implies that number of buyers is large enough so that each individual buyer has a negligible share in market demand for the good. The implication is that no individual buyer is in a position to influence the market price on its own by changing his individual demand.</p> <p><b>(b) Freedom of entry and exit offirms :</b>implies that there are no obstacles for the firms to move in and out of industry. The implication is that when existing firms are making profits, new firms enter, raise the output of industry, bring down the market price enough for the firm to earn just only normal profit in the long run. The opposite happens if the existing firms are facing losses.</p> <p style="text-align: center;"><b>OR</b></p> <p><b>(a) Interdependence between firms</b> in an oligopoly market implies that an individual firm takes into consideration the likely reaction of its rival firms before making a move to change price or output. It is possible because it is assumed that rival firms may react.</p> <p><b>(b) Non-price competition</b> means competition between firms by means other than changing price, like free gift, home service, customer care etc. The firms in oligopoly do so to avoid price-war because the firm who starts the price-war may be the ultimate loser.</p>	<p>3</p> <p>3</p> <p>3</p> <p>3</p>

- 13 **"Change in quantity supplied"** means change in supply due to change in own price of the good.

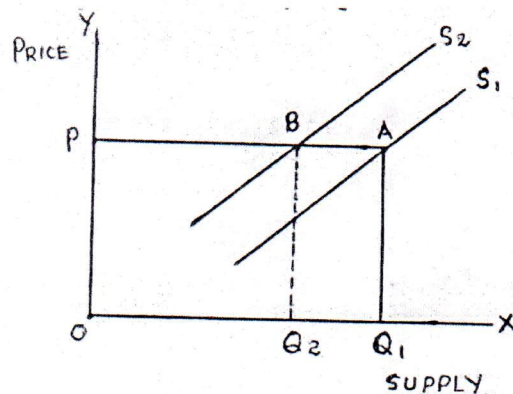
Diagrammatically, it implies movement along the supply curve. When the producer moves from A to B, the rise in quantity of the good from  $OQ_1$  to  $OQ_2$  is on account of rise in price from  $OP_1$  to  $OP_2$



(Answer based on downward movement is also correct)

**"Change in supply"** means change in supply due to change in any factor other than the own price of the good.

Diagrammatically, it means shift of supply curve when producer moves from A to B, the price remains unchanged at  $OP$  while the supply curve shift from  $S_1$  to  $S_2$ . When the producer shifts from  $S_1$  to  $S_2$  the supply falls from  $OQ_1$  to  $OQ_2$ .



(Answer based on shift to the right is also correct)

For blind Candidates:

**"Change in quantity supplied"** means change in supply due to change in own price of the good.

Price (Rs.)	Supply (units)
10	100
11	120

**"Change in supply"** means change in supply due to change in any factor other than the own price of the good.

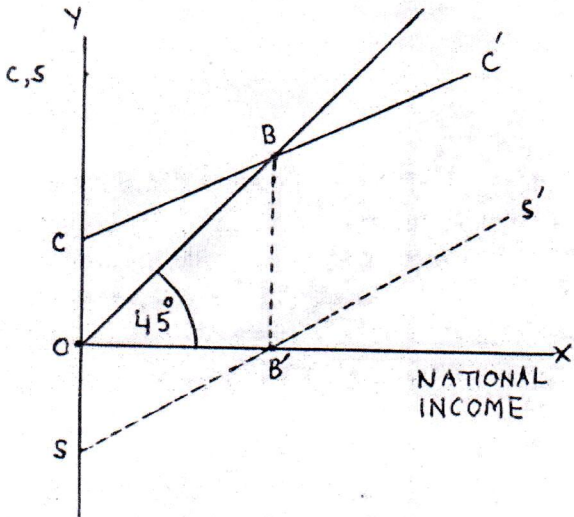
Price (Rs.)	Supply (units)
10	100
10	120



14	<p>Given that two goods are X and Y, the two conditions are</p> <ol style="list-style-type: none"> <li>1. <math>MRS = \frac{P_x}{P_y}</math></li> <li>2. MRS declines as more of a commodity X is consumed.</li> </ol> <p><b>Explanation:</b></p> <p>(i) Suppose <math>MRS &gt; \frac{P_x}{P_y}</math>. It means that consumer is willing to pay more for an extra unit of X as compared to what market price is. The consumer consumes more and more of good X and less of good Y till MRS falls enough to be equal to the ratio of prices and the consumer is in equilibrium.</p> <p>(ii) Unless MRS declines continuously as more and more of good X is consumed, it will not be equal to <math>\frac{P_x}{P_y}</math> and consumer will not be able to reach equilibrium.</p>	<p>1</p> <p>1</p> <p>3</p> <p>1</p>
15	<p>The curve is called production possibilities frontier or curve</p> <p><b>Properties</b></p> <p><b>(1) PPF slope downwards from left to right</b> It is because to produce more quantity of one good, some quantity of other good has to be sacrificed because resources are limited.</p> <p><b>(2) PPF is Concave</b> This implies that slope of the curve (i.e. marginal rate of transformation) increases as we move along the curve from left to right. MRT increases because no resource is equally efficient in production of all goods, so that to obtain more quantity of one good, the quantity of the other good is sacrificed at an increasing rate. (Diagram not required)</p>	<p>1</p> <p>1</p> <p>1½</p> <p>1</p> <p>1½</p>
<b><u>SECTION - B</u></b>		
16	(d) Accommodating transactions.	1
17	(b) Borrowings.	1
18	(c) Normal wear and tear and foreseen obsolescence.	1
19	Revenue receipts are receipts which neither reduce assets nor increase liabilities.	1
20	Stocks are the variables whose magnitude is measured at a point of time.	1
21	$\Delta Y = \Delta I \frac{1}{1 - MPC}$ $2000 = \Delta I \frac{1}{1 - 0.8}$ $2000 = \frac{\Delta I}{0.2}$ $\Delta I = 400 \text{ crore}$ <p>(Answer based on <math>\Delta Y = K \times \Delta I</math> is also correct)</p>	<p>1½</p> <p>1</p> <p>½</p>

22	$NVA_{fc} = \left. \begin{aligned} &\text{Sales} + \text{Net change in stock} - \text{raw material} - \text{Depreciation} \\ &25 + (-2) - 6 - \left(\frac{15}{5}\right) \\ &= 25 - 2 - 6 - 3 \\ &= \text{Rs. 14 Lakh} \end{aligned} \right\}$	1½ 1 ½
23	<p>MPC is the ratio of change in consumption expenditure (<math>\Delta C</math>) to change in total income (<math>\Delta Y</math>).</p> <p>Suppose <math>\Delta C = 70</math> and <math>\Delta Y = 100</math> then <math>MPC = \frac{70}{100} = 0.7</math></p> <p style="text-align: right;">(or any other example)</p> <p>APC is ratio of total consumption expenditure (C) to total income (Y).</p> <p>Suppose <math>C = 80</math> and <math>Y = 100</math> then <math>APC = \frac{80}{100} = 0.8</math> (or any other example)</p> <p style="text-align: center;">OR</p> <p>By raising taxes government can reduce personal disposable income of the people. This in turn will reduce private final consumption expenditure depending upon MPC. This will reduce aggregate demand.</p>	1 ½  1 ½  3
24	<p>Bank Rate is the rate of interest which central bank charges from commercial banks on long term loans. When bank rate is raised, borrowings by commercial banks become costly, as a result they are forced to raise their lending rate. At higher lending rate, people borrow less. Thus credit creation by commercial banks decline.</p> <p style="text-align: center;">(Answer based on lowering of bank rate is also correct)</p>	4
25	<p>Government expenditure on popularising yoga raises GDP because it is government's final consumption expenditure. It also raises welfare of the people because yogic exercises may improve health and thus raise efficiency of the people.</p>	4
26	<p><b>Store of value</b> function of money means that money can be used as an asset for storing value. It further means that the stored money can be used for transactions in future. This is because money comes in convenient denominations, easily mobile and can easily be used for transactions.</p> <p style="text-align: center;">OR</p> <p>Unit of account function of money means that money can be used for quoting prices or recording transactions. This removes the difficulty of keeping accounts and makes possible the existence of financial institutions.</p>	4  4
27	$NDP_{fc} = v + i + vii + (iv + viii + ix)$ $= 900 + 200 + 400 + (100 + 50 + 250)$ $= \text{Rs. 1900 Crore}$ <p>Personal Income = <math>NDP_{fc} - xi - x + iii + vi - ii - iv - viii</math></p> $= 1900 - 120 - (-10) + 60 + 150 - 10 - 100 - 50$ $= \text{Rs. 1840 Crore}$	2 1½ ½ 1 ½ ½



28	<p>(a) Foreign investment will be recorded in the capital account of the BOP a/c because these give rise to foreign exchange liabilities. Foreign investment will be recorded on the credit side because these bring in foreign exchange to the economy.</p> <p>(b) Foreign investment adds to supply of foreign exchange. Demand remaining unchanged, it brings downward influence on exchange rate.</p>	<p>1½</p> <p>1½</p> <p>3</p>
29	<p>Given consumption curve <math>CC'</math> the steps in derivation of saving curve are:</p>  <ul style="list-style-type: none"> <li>• Take OS equal to OC.</li> <li>• Draw a <math>45^\circ</math> line on OX-axis from point O intersecting <math>CC'</math> at point B.</li> <li>• Draw a perpendicular from B to intersect X-axis at <math>B'</math>.</li> <li>• Joint S and <math>B'</math> and extend it to derive saving curve <math>SS'</math></li> </ul> <p><b>For blind Candidates:</b> Consumption function is <math>C = \bar{C} + MPC(Y)</math> Where C = total consumption expenditure <math>\bar{C}</math> = Autonomous consumption expenditure MPC = Marginal Propensity Consume Y = National Income</p> <p>Derivation</p> $C = \bar{C} + MPC(Y)$ <p>Deduct both side of the equation from Y</p> $Y - C = Y - [\bar{C} + MPC(Y)]$ $S = Y - \bar{C} - MPC(Y)$ $S = -\bar{C} + Y - MPC(Y)$ $= -\bar{C} + Y(1 - MPC)$ $= -\bar{C} + MPS(Y)$	<p>3</p> <p>3</p> <p>3</p> <p>3</p> <p>3</p>

30	<p>Government budget is a statement showing estimated government expenditures and receipts during a financial year.</p> <p>Government can encourage production of selected goods and services by providing tax concessions. For example electricity generation etc. Government can also give subsidies to enterprises who are willing to undertake production in backward areas etc. In this way government budget can be used to influence allocation of resources in the country. Increasing taxes and reducing subsidies will have the opposite effect.</p>	<p>1</p> <p>5</p>
	<p style="text-align: center;"><b>OR</b></p> <p><u>Revenue receipts</u> are the receipts which do not create any liabilities nor lead to any reduction in assets.</p> <p>Stability in the economy means keeping fluctuations in the general price level within limits. When there is inflation, government can reduce its own expenditure to bring down the price level. When there is deflation government can increase its own expenditure to fight it. Government can also use taxes and subsidies to influence personal disposable income and bring in economic stability in the country</p>	<p>1</p> <p>5</p>