

SENIOR SCHOOL CERTIFICATE EXAMINATION MARCH-2016

MARKING SCHEME – ECONOMICS (FOREIGN)

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.

C2	Expected Answer / Value Points	Distribution of Marks
(SECTION-A)		
1	(a) Perfect Competition	1
2	(c) oligopoly	1
3	(b) Less than AR	1
4	Price taker firm is one who has no option but to accept the price determined by the industry.	1
5	Imputed interest of own saving is implicit cost.	1
6	<p>For certain goods and services, government sets minimum price. This minimum price is called minimum price ceiling.</p> <p>This price is normally set at a level higher than the equilibrium price. This leads to excess supply. Since producers are not able to sell all they want to sell, they illegally sell the good or service below the minimum price.</p> <p style="text-align: center;">OR</p> <p>'Increase' in demand leads to excess demand . Since buyers will not be able to buy all they want to buy, competition among buyers emerge leading to rise in price. Rise in price leads to fall (contraction) in demand and rise (expansion) in supply. This continues till demand is equal to supply at a new equilibrium price which is higher than the earlier price</p>	1 2 3
7	<p>The consumer is not in equilibrium because.</p> $MRS > \frac{P_x}{P_y} \text{ or } 2 > \frac{5}{4}$ <p>The consumer is prepared to pay more for one more unit of X than market demands. So, he will buy more of X and less of Y till MRS falls enough to be equal to $\frac{P_x}{P_y}$ and consumer is in equilibrium again.</p>	1 2
8	Y is more elastic than X because one percent change in price of good Y leads to one percent change in quantity demanded while one percent change in good X has no effect on demand of good X.	3
9	$Es = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$ $= \frac{20}{100} \times \frac{-50}{-10}$ $= 1$	1½ 2 ½

<p>10</p>	<p>Related goods are of two types : substitutes and complements. When price of the substitute good rises (falls), demand for the given good rises (falls) because the given good becomes relatively cheaper (dearer) than the substitute good.</p> <p>When price of the complementary good rises (falls) its demand falls (rises). Demand for the given good falls (rises) because the two goods are used jointly.</p>	<p style="text-align: right;">2</p> <p style="text-align: right;">2</p>
<p>11</p>	<p>Short run production function.</p> <ul style="list-style-type: none"> • Initially TP increases at increasing rate. • After a certain level of output TP increases at decreasing rate. • Ultimately TP falls <p style="text-align: center;">OR</p> <p>Cost is the sum of actual money expenditure on inputs and imputed expenditure on inputs supplied by the owner, including normal profit.</p> <p>TFC remains unchanged as output is increased.</p> <p>Initially TVC increases at decreasing rate upto a certain level of output and then increases at increasing rate.</p>	<p style="text-align: right;">1</p> <p style="text-align: right;">3</p> <p style="text-align: right;">1</p> <p style="text-align: right;">1</p> <p style="text-align: right;">2</p>
<p>12</p>	<p>(a) Product differentiation implies that buyers differentiate products of firms various as different. So they are willing to pay different prices for the products of different firms . This product differentiation gives the power to an individual firm to influence the market price on their own.</p> <p>(b) Perfect knowledge implies that buyers are fully aware of price in market and sellers of technique of production. Knowledge by buyers further implies that no buyer is willing to pay a higher price for the product of any firm. Knowledge by sellers implies that cost of production is same for all producers.</p> <p style="text-align: center;">OR</p> <p>(a) Interdependence between firms in an oligopoly market implies that an individual firm takes into consideration the likely reactions 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) Large number of sellers means that number of firms are large enough so that contribution to total output of the industry by any individual firm is negligible. So, no single firm is in a position to influence the market price on its own by changing its own output. Thus, Price remains unchanged.</p>	<p style="text-align: right;">3</p> <p style="text-align: right;">3</p> <p style="text-align: right;">3</p> <p style="text-align: right;">3</p>

13 Shift of supply curve takes place when there is a change in supply due to a factor other than own-price of the good . For example, suppose tax rate on the good is reduced. This reduces cost and shifts the supply curve from S_1 to S_2 . Price remaining unchanged. Supply increases from OQ_1 to OQ_2

(Answer based on any other factor is also correct)

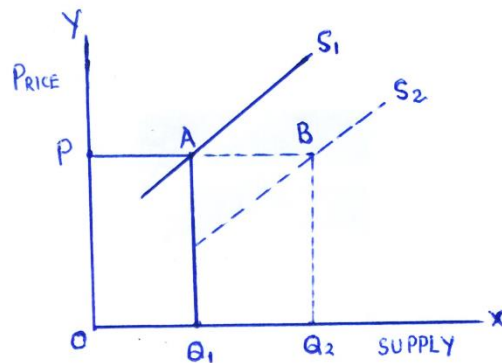


Diagram
Example (factor)
Explanation

1
1
1

(Answer based on leftward shift is also correct)

Movement along the supply curve takes place when there is change in own price of the good. Suppose own price rises, this expands supply. The change is shown along the same supply curve S , from A to B leading to change in quantity supplied from OQ_1 to OQ_2

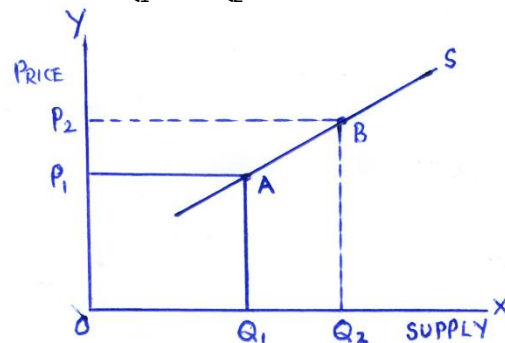


Diagram
Example (factor)
Explanation

1
1
1

(Answer based on fall in price is also correct)

For the blind candidates

Market Supply schedule is derived by summing up supplies of all the suppliers of the good at each price. Suppose there are only two firms A and B producing a good. The supply curve is derived from the figures as given below.

Price(Rs.)	Supply by A	Supply by B	Market Supply
20	100	80	180
25	200	150	350

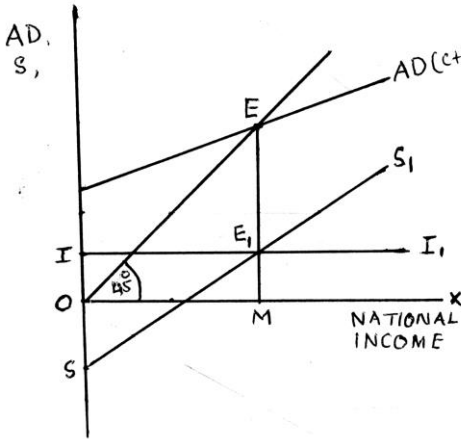
2

4

(Explanation based on fall in price is also correct)

14	<p>The conditions of consumer to be in equilibrium are</p> <p>(1) $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$</p> <p>(2) MU falls as more of a good is consumed.</p> <p>Explanation:</p> <p>(1) suppose $\frac{MU_x}{P_x}$ is greater than $\frac{MU_y}{P_y}$. This shows that per rupee MU_x is higher than per rupee MU_y. The consumer is induced to buy more of X and less of Y. This continues till MU_x falls and MU_y rises enough to make $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$ i.e. to reach back to the equilibrium.</p> <p style="text-align: center;">(Answer based on $\frac{MU_x}{P_x} < \frac{MU_y}{P_y}$ is also correct)</p> <p>(2) The condition that MU_x falls as more of good X is consumed is required because unless it is not so the consumer may end up consuming only one good and not reach equilibrium.</p>	1 1 3 1																								
15	<p>Suppose the only two goods produced are X and Y.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Combinations</th> <th>X (Units)</th> <th>Y (Units)</th> <th>MRT(=$\Delta Y : \Delta X$)</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>0</td> <td>20</td> <td>-</td> </tr> <tr> <td>B</td> <td>1</td> <td>18</td> <td>2Y:1X</td> </tr> <tr> <td>C</td> <td>2</td> <td>14</td> <td>4Y:1X</td> </tr> <tr> <td>D</td> <td>3</td> <td>8</td> <td>6Y:1X</td> </tr> <tr> <td>E</td> <td>4</td> <td>0</td> <td>8Y:1X</td> </tr> </tbody> </table> <p style="text-align: center;">(or any other relevant schedule)</p> <p>Opportunity Cost refers to the quantity of one good foregone to obtain more quantity of the other good. For example when we move from combination A to B the economy foregoes 2 units of Y to obtain one more units of X. So opportunity cost of obtaining 1X is 2Y.</p> <p>MRT means quantity of one good sacrificed to produce an additional unit of the other good. For example , When we move from combination B to C the MRT is 4Y:1X. MRT increases as to produce more of good X. We need to transfer less and less efficient resources from good Y.</p>	Combinations	X (Units)	Y (Units)	MRT(= $\Delta Y : \Delta X$)	A	0	20	-	B	1	18	2Y:1X	C	2	14	4Y:1X	D	3	8	6Y:1X	E	4	0	8Y:1X	2 2 2
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<u>SECTION - B</u>																										
16	(c) Autonomous payments over autonomous receipts.	1																								
17	(b) Selling of shares of public enterprises held by it.	1																								
18	(b) Capital loss.	1																								
19	Revenue expenditure is one which neither creates any assets nor reduces any liabilities.	1																								
20	Gross investment is addition to stock of capital before making allowance for depreciation.	1																								

21	$Y = \bar{C} + MPC(Y) + I$ $2000 = 100 + MPC(2000) + 100$ $MPC = \frac{2000 - 100 - 100}{2000} = \frac{900}{1000} = 0.9$	1½ 1 ½
22	$Real\ income = \frac{Nominal\ income}{Price\ Index} \times 100$ $= \frac{375}{125} \times 100$ $= Rs. 300$	1½ 1 ½
23	<p>MPC is the ratio of change in consumption expenditure (ΔC) to change in total income (ΔY).</p> <p>Suppose $\Delta C = 70$ and $\Delta Y = 100$ then $MPC = \frac{70}{100} = 0.7$</p> <p style="text-align: right;">(or any other example)</p> <p>APC is the ratio of total consumption expenditure (C) to total income (Y).</p> <p>Suppose $C = 80$ and $Y = 100$ then $APC = \frac{80}{100} = 0.8$ (or any other example)</p> <p style="text-align: center;">OR</p> <p>Deficient demand means excess of AS over AD at full employment . Since government expenditure is component of AD, increasing it will help in removing deficient demand in the economy.</p>	1 ½ 1 ½ 3
24	<p>Although central bank does not deal with public it deals with government. It conducts the same banking operations for government as commercial banks do for public it gives them loans, does interbank transfers etc. for government.</p>	4
25	<p>Government spending on child immunization programme is government consumption final expenditure. Therefore, it raises GDP. Since such a programme improves health, it will raise efficiency level of people and increase welfare.</p>	4
26	<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> <p style="text-align: center;">OR</p> <p>Deferred payments are postponed payments to be made in future. Such payments arise on account of borrowing and lending activities. It has removed the problem of absence of financial institutions in the barter system. It has also removed the problem of trading in wider areas.</p>	4 4
27	$GDP_{fc} = ii + ix - x + iv - vi + viii$ $= 800 + 60 - 10 + (-10) - 170 + 30$ $= Rs. 700\ Crore$ $P.D.I. = vii - iii - v - i$ $= 600 - 50 - 20 - 100$ $= Rs. 430\ Crore$	2 1½ ½ 1 ½ ½

<p>28</p>	<p>(a) Borrowings from abroad are recorded in the capital account of the B.O.P. because these give rise to foreign exchange liabilities.</p> <p>These are recorded on the credit side because these bring foreign exchange into the country.</p> <p>(b) Borrowing from abroad raise supply of foreign exchange. Demand for foreign exchange remaining unchanged, exchange rate is likely to fall.</p>	<p>2</p> <p>2</p> <p>2</p>
<p>29</p>	<p>$AD = AS$(i)</p> <p>$(C + I) = (C + S)$</p> <p>$S = I$(ii)</p>  <p>$AD = AS$ is at E where AD curve intersect 45° line at E</p> <p>$S = I$ is at E', when saving curve intersects investment curve at equilibrium national income is OM.</p> <p>For blind Candidates:</p> <p>$AD = AS$(i)</p> <p>$(C + I) = (C + S)$</p> <p>$S = I$(ii)</p> <p>Suppose $AD > AS$ or $S < I$, then inventory will fall short of desired level. The producers will raise output AS will rise till $AD = AS$ i.e. point E.</p> <p>(Answer based on $AD < AS$ or $S > I$ is also correct)</p>	<p>2</p> <p>2</p> <p>2</p> <p>3</p> <p>3</p>
<p>30</p>	<p>Revenue receipts are the receipt which do not create any liabilities nor lead to reduction in any assets.</p> <p>Stability in the economy means keeping fluctuations in 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 consumption expenditure to fight it. Government can also use taxes and subsidies to influence personal disposable income and bring economic stability in the country.</p>	<p>1</p> <p>5</p>

	OR	
	<p>Government budget is a statement showing estimated government expenditure and receipts during a financial year.</p>	1
	<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.</p>	5
	<p>Increasing taxes and reducing subsidies will have the opposite effect.</p>	