CBSE Class 12 Economics
Sample Paper-3 (2017-18)

[Time : 3 Hrs.] [M.M. : 80]

General Instruction:

i. All questions in both the sections are compulsory.
ii. Marks for questions are indicated against each questions.
iii. Questions No. 1-4 and 13-16 are very short answer questions carrying 1 mark each.
iv. Question No. 5-6 and 17-18 are short answer questions carrying 3 marks each. Answer to them should not normally exceed 60 words each.
v. Questions No. 7-9 and 19-21 are also short answer questions carrying 4 marks each. Answer to them should not normally exceed 70 words each.
vi. Questions No. 10-12 and 22-24 are long answer questions carrying 6 marks each. Answer to them should not normally exceed 100 words each.
vii. Answer should be brief and to the point and above word limit be adhered to as far as possible.

Section - A

1. Define economy.
2. When marginal utility is zero, total utility is:
   a. Zero
   b. Minimum
   c. Maximum
   d. Negative
3. A consumer consumer only two goods. If the price of one of the goods falls, the indifference curve.
   a. Shifts upwards
   b. Shifts downwards
   c. Can shift both upwards or downwards
   d. Does not shift
4. State the law of demand.

5. Why does an economic problem arise? Explain.

OR

Why is a production possibility curve concave to the origin? Explain.

6. State the relation between marginal revenue and average revenue.
7. Explain the different phases in the behaviour of total product in the law of variable proportions.
8. Explain "perfect knowledge about the markets" feature of perfect competition.

OR

Why are the firms said to be interdependent in an oligopoly market? Explain.

9. Price of a commodity falls from ₹ 20 to ₹ 15 per unit. Its demand rises from 600 units to 750 units. Calculate its price elasticity of demand.
10. Explain the conditions of consumer's equilibrium using indifference curve analysis.
11. Complete the following table:

Output (units)	Average fixed cost (₹)	Marginal cost (₹)	Average variable cost (₹)	Average cost (₹)
1	60	20	-	-
2	-	-	19	-
3	20	-	18	-
4	-	18	-	-
5	12	-	-	31

OR

State whether the following statements are true or false. Give reasons for your answer:

a. Under diminishing returns to a factor marginal product and total product both increase at a diminishing rate.
b. When marginal cost rises, average cost also rises.
c. Marginal revenue can never be negative.

12. Explain the meaning and implications of maximum price ceiling and minimum price ceiling.

Section - B

13. Define money supply.

14. Repo rate is the rate at which.

   a. Commercial banks purchase government securities from the central bank.

   b. Commercial banks can keep their deposits with the central bank.

   c. Short-term loans are given by commercial banks.

15. When aggregate demand is greater than aggregate supply, inventories.

   a. Fall

   b. Rise

   c. Do not change

   d. First fall, then rise

16. Given the meaning of under-employment equilibrium.

17. Distinguish between current account and capital account of balance of payments account.

OR

Distinguish between autonomous transaction and accommodating transaction of balance of payments account.

18. What are fixed and flaxible exchange rates.

19. What is rueal GDP? Sate three limitation of GDP as an index of economic welfare.

OR

Explain circular flow of income.

20. Explain the "Bank of Issue Function" of the central bank.

21. An economy is in equilibrium. Calculate the investment expenditure from the following:

    National income = 800

    Marginal propensity to save = 0.3

    Autonomous consumption = 100

22. What is 'deficient demand'? Explain the role of 'Bank Rate' in removing it.

OR

What is excess demand? Explain the role of 'Reverse Repo Rate' in removing it.

23. Explain how the government can use the budgetary policy in reducing inequalities in income?

24. Calculate a. GDP and b. factor income to abroad from following data:

	(₹ crore)
i. Compensation of employees	800
ii. Profit	200
iii. Dividends	50
iv. Gross national product at market price	1400
v. Rent	150
vi. Interest	100
vii. Gross Domestic fixed capital formation	200
viii. Net domestic capital formation	200
ix. Change in stock	50
x. Factor income from abroad	60
xi. Net indirect taxes	120

Answer

Section - A

1. An economy is a system that heeps to produce goods and services and enables prople to earn their living.

2. c. Maximum

3. d. Does not shift

4. Other things remaining the same, there is on inverse relationship between price of a good and its quantity demanded.

5. Economic problem arise because of resources are limited with respect to their wants and they have alternative uses.

OR

It is concave to the origin because of increasing MRT i.e., in producing an additional unit of a commodity more and more units of the other commodity are to be sacrificed, as no resources is not equally efficient in production of both the goods.

6. When MR < AR, AR falls

   When MR = AR, AR is constant

   When MR > Ar, AR rises

7. Phase I : TP increases at increasing rate

   Phase II : TP increases at decreasing rate.

   Phase III : TP falls.

8. In a perfectly competitive market buyers and seller have fire knowledge about the market. So, no seller can charge a price higher than the price determined by the market and no buyer is willing to pay the price higher than market price.

OR

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 firm. 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.

9. $Ed = \dfrac{P}{Q} \cdot \dfrac{\Delta Q}{\Delta \Pi}$

   $= \dfrac{20}{600} \cdot \dfrac{150}{-5}$

   Ed = -1

10. Given that two goods are X and Y, the two condition are

    1. $MRS = \dfrac{Px}{Py}$

    2. MRS declines are more of a commodity x is consumed.

    Explanation:

    a. Suppose $MRS \dfrac{Px}{Py}$. 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 market price and the consumer is in equilibrium.

    b. Unless MRS declines continuously as more and more of X is consumed. It will not be

equal to $\frac{Px}{Py}$ and consumer will not reach equilibrium again.

11.

Output (units)	Average fixed cost (₹)	Marginal cost (₹)	Average variable cost (₹)	Average cost (₹)
1	60	20	**20**	**80**
2	**30**	**18**	19	**49**
3	20	**16**	18	**38**
4	**15**	18	**18**	**33**
5	12	**19**	**19**	31

OR

a. False, because when MP falls, while TP increases at diminishing rate.

b. False because AC rises only when MC > AC.

c. False, because when a firm can sell more only by lowering the price it is possible that marginal revenue becomes negative after a level of output.

12. When the government imposes upper limit of on the price of a good it is called maximum price ceiling. It is fixed below the equilibrium price.

Implication: It will lead to excess demand. This in turn may lead to black marketing of goods. When the govt imposes lower limit on the price of a good, it is called maximum price ceiling.

Implication: It leads to excess supply. This in turn may lead to illegal selling below the ceiling price as the producers are not able to sell what they desire to sell.

Section - B

13. Money supply refers to the total volume of money hold by public at a particular point of time in an economy.

14. b.

15. a. Fall

16. When aggregate demand and aggregate supply are equal at below full employment level, it is called under employment equilibrium.

17. Current account records exports and imports of goods and services and transfer payments whereas capital account records borrowings and lending to and from abroad, investments to and from abroad and changes in foreign exchange reserve.

OR

Transaction made independent of the state of balance of payments are called autonomous transaction whereas transactions made on account of the state of balance of payments are called accommodating transactions.

18. Fixed exchange rate is the exchange rate fixed by the government/central bank and is not influenced by the demand and supply of foreign exchange. Flexible exchange rate is the exchange rate determine by the forces of demand and supply of foreign exchange in the market and influenced by the market forces.

19. When GDP represents quantities of final goods and services produced or when GDP is measured on the basis of constant prices, it is called real GDP.

    Limitations:

    1. It does not reflect distribution of income among people.
    2. It does not take into account non-monetary exchanges.
    3. It does not take into Account externalities.

OR

It refers to continuous flow of goods and services and money income between firms and households in two sector economy. It is circular in nature. It has neither any and end nor any beginning point.

20. The central bank is the sole authority for the issue of currency in the country. It promotes efficiency in the financial system. It leads to uniformity in the issue of currency and it gives central Bank control over money supply.

21. Y = C + MPC (Y) + I

    800 = 100 + (1 - 0.3) 800 + I

    I = 800 - 100 - 560

    I = 140

22. Deficient demand: Is the amount by which the aggregate demand falls short of aggregate supply at full employment level. It causes fall in price level.

    Bank Rate is the rate of interest at which central bank lends to commercial banks for long

term. The central bank lowers bank rate to reduce defilement demand. When central bank lowers. Bank rate commercial banks also lower their lending rates.

Since burrowing becomes cheaper, people burrow more. This leads to raise in aggregate demand and thus helps in reducing deficient demand.

OR

Excess demand is the amount by which the aggregate demand exceeds aggregate supply at full employment level. It causes inflation.

Reverse Repo Rate is the rate of interest paid by the central bank on deposits by commercial banks. Central Bank can reduce excess demand by raising the reverse repo-rate. When the rate is raised, it encourages the commercial banks to park their funds with the central bank. This reduces lending capacity of the commercial banks. Lending by the commercial banks to public declines leading to fall in aggregate demand.

23. Government can reduce in equalities through its tax and expenditure policy. Government can charge higher rate of tax from higher income groups by imposing higher rate of income tax and higher rate on goods and services purchased by the rich. The money so collected can be spent on the poor in the form of free education, free medical facilities, cheaper housing etc. in order to raise their disposable income.

24. a. GDP_{FC} = (i) + (ii) + (v) + (vi) + [(vii) + ix) - viii]

$$= 800 + 200 + 150 + 100 + [(200 + 50) - 200]$$

GDP_{FC} = ₹ 1300 cr [∵ Dep = GDCF - NDCF]

b. Factor income to abroad

$GNP_{MP} = GDP_{FC} + NIT + NFIA$

$$1400 = 1300 + 120 + FIFA - FITA$$

$$1400 = 1300 + 120 + 60 - FITA$$

FITA = ₹ 80 crore