



INDIAN SCHOOL AL WADI AL KABIR

DEPARTMENT OF COMMERCE

ASSESSMENT 1 -XII 2025-26

ANSWER KEY ECONOMICS (030)

Q. NO	SECTION A – MACRO ECONOMICS	MARKS
1	A: a	1
2	A: b	1
3	A: b	1
4	A: a	1
5	A: a	1
6	A: b	1
7	A: b	1
8	A: b	1
9	A: a	1
10	A: a	1
11	<p>LRR = 20% or 0.20 Initial fresh deposit = ₹50,000 Total Deposit Creation</p> $= \text{Initial fresh deposit} \times \frac{1}{\text{LRR}}$ $= 50,000 \times \frac{1}{0.20}$ $= 50,000 \times 5 = ₹2,50,000$	3

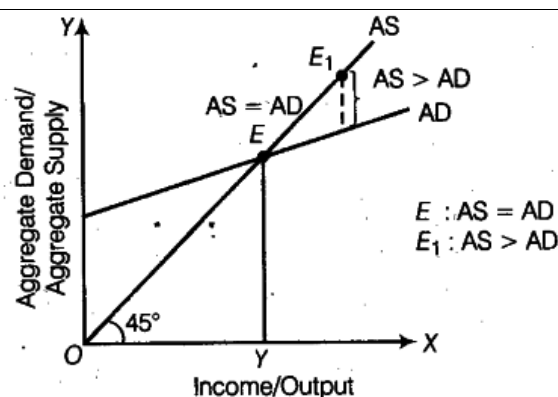
	<p>The Repo Rate is the interest rate at which the Central Bank (RBI) provides short-term loans to commercial banks. It is a tool used to regulate money supply and credit creation.</p> <ol style="list-style-type: none"> 1. Impact of Rising Repo Rate: Higher Repo Rates make borrowing costlier for commercial banks, prompting them to increase lending rates for the public. This discourages borrowing, reduces credit demand, and lowers credit creation in the economy. 2. Impact of Falling Repo Rate: Lower Repo Rates reduce borrowing costs for banks, encouraging them to lend more. This increases credit creation and expands the money supply in the economy. 	
12	<p>Marginal propensity to Consume (MPC) is defined as the ration of change in consumption to change in income. $MP\ C = \frac{\Delta\ C}{\Delta\ Y}$</p> <p>The value of MPC always lies between 0 and 1, i.e. $0 < MP\ C \leq 1$.</p> <p>Marginal propensity to Save (MPS) is the ratio of change in savings to change in income. $MP\ S = \frac{\Delta\ S}{\Delta\ Y}$</p> <p>Relationship between MPC and MPS: The sum of the MPC and MPS is always equal to one or $MPC+MPS=1$</p> <p>The relationship is derived as follows: We have $Y=C+S$ or $\Delta\ Y = \Delta\ C + \Delta\ S$</p> <p>Dividing both sides by $\Delta\ Y$, we have</p> $\frac{\Delta\ Y}{\Delta\ Y} = \frac{\Delta\ C}{\Delta\ Y} + \frac{\Delta\ S}{\Delta\ Y}$ <p>or $MPC+MPS=1$ or $MPC=1-MPS$ $MPS=1-MPC$</p> <p>Yes, the average propensity to consume can be greater than one when the consumption exceeds income. At that level, the average propensity to save will be negative. APC will be greater than 1 if the APS is negative.</p>	3

13	<p>Ans : DELHI 2015</p> <p>Depreciation = Gross domestic capital formation – Net domestic capital formation = 140 – 120 = ₹20</p> <p>NDP_{FC} = Compensation of employees + Rent + Interest + Royalty + Profit + Mixed income = 500 + 100 + 110 + 20 + 200 + 600 = ₹1,530 crores</p> <p>Gross National Product at Market Price = NDP_{FC} + Depreciation + Net indirect tax + Net factor income from abroad = 1,530 + 20 + 150 + (–10) = ₹1,690 crores</p>	4
4	<p>Aggregate demand represents the planned expenditure on final goods and services in an economy during a period of time.</p> <p>There are four components of aggregate demand (AD):</p> <ol style="list-style-type: none"> Private Consumption Expenditure(C). It is the most important component of aggregate demand. It refers to the total amount of expenditure incurred by the households on the purchase of final goods and services to satisfy their wants. Investment Expenditure(I). It refers to the expenditure incurred by the private firm on the purchase of capital goods such as machinery and equipment, construction work, etc. Government Expenditure(G). It refers to the expenditure incurred by the government on the purchase of final goods and services. The level of government expenditure is determined by the government's policy. Net Exports. Net exports is the difference between export and imports. It shows the effect of domestic spending on foreign goods and services (Imports) and foreign spending on domestic goods and services (Exports). 	4
15	<p>a. Direct tax</p> <p>Difference between Direct tax and Indirect tax:</p>	4

Direct Tax	Indirect Tax
1. Final Burden 1. The burden of direct tax falls on the person who makes the payment to the government.	1. Indirect taxes are those which are paid to the govt. by one person but their burden is borne by another persons.
2. Shifting of a Tax 2. Direct taxes cannot be shifted.	2. Indirect taxes can be shifted to other persons.
3. Progressiveness 3. Direct taxes are generally progressive. Their real burden is more on the rich.	3. Indirect taxes are generally regressive. Their real burden is more on the poor.
4. Example 4. Income tax and Corporate Profit tax.	4. Sale tax, VAT, (value added tax).

The government budget in this context emphasizes the objective of resource allocation. By providing subsidies to Micro, Small and Medium Enterprises (MSME), the government aims to boost national output, attract advanced technology and create employment opportunities. These efforts align with broader socio-economic objectives, such as reducing poverty and promoting equitable growth. In a developing country like India, such measures play a vital role in fostering inclusive economic development, enhancing productivity and contributing to the overall growth and sustainability of the economy.

16



Explain the graph

6

17	<p>(ii) Fiscal Deficit = Plan capital expenditure + Revenue expenditure + Non-plan capital expenditure – Revenue receipts – Capital receipts net of borrowings = 120 + 100 + 80 – 70 – 140 = 300 – 210 = ₹90 arab</p> <p>(iii) Primary Deficit = Fiscal Deficit – Interest payments = 90 – 30 = ₹60</p> <p>(i) Revenue Deficit = Revenue expenditure – Revenue receipts = 100 – 70 = ₹30 arab</p> <p>Ans : COMP 2007</p> <p>(i) A capital receipt occurs when it results in a reduction of the government's assets. (ii) A revenue receipt is characterized by the fact that it neither creates any liability nor leads to a reduction in the government's assets. (iii) Another example of a revenue receipt is one that does not affect the government's assets or liabilities. (iv) A capital receipt arises when there is a decrease in the government's assets, reflecting its non-recurring nature in financial transactions.</p>	6
	SECTION B – INDIAN ECONOMIC DEVELOPMENT	
18	A:c	1
19	A:c	1
20	A: b	1
21	A: b	1
22	A: a	1
23	A: c	1
24	A: b	1
25	A: b	1
26	A: b	1
27	A: d	1

28	<p>The Green Revolution might have primarily benefited wealthy farmers if the government had not actively ensured that small farmers also reaped its advantages. The government played a crucial role in this regard by:</p> <ul style="list-style-type: none"> (i) Offering loans to small farmers at low-interest rates, enabling them to invest in new technology. (ii) Providing subsidized fertilizers, ensuring that small farmers could afford essential inputs. (iii) Reducing the risk of crop failure due to pest attacks by establishing research institutes that offered solutions and support to safeguard crops. <p>These measures ensured that the benefits of the Green Revolution were more inclusive and extended to small farmers as well.</p> <p>Restriction on import was necessary as there was a risk of drain of Foreign Exchange Reserves due to increasing imports.</p> <p>Protection from imports took two forms:</p> <ul style="list-style-type: none"> (i) Tariffs refer to taxes levied on imported goods. The main aim for imposing heavy duty on imported goods was to make them more expensive and discourage their use. (ii) Quotas refer to fixing the maximum limit on the imports of a commodity by a domestic producer. <p>Using the protection provided by the policy of tariffs and quotas, the domestic firms could expand without fear of competition from the foreign market.</p>	3
29	<ol style="list-style-type: none"> 1. Regulated markets 2. Cooperative agricultural marketing societies 3. Provision of warehouse <p>(any other points explain)</p>	3
30	<p>a) True. Because Vocationalisation imparts skill and expertise to the potential workforce.</p> <p>b) True. Because it reduces the quality of life and capacities to acquire knowledge and specialised skills.</p>	4
31	<ol style="list-style-type: none"> a. iv b. a 	4

	<p>c. In 1955, the village and small- scale industries committee (Karve committee) recognized the possibility of using small scale industries to promote rural development.</p> <p>I) Small scale industries are more labour intensive; therefore, they generate more employment.</p> <p>II) After agriculture, small scale industries provide employment to the largest number of people in India.</p> <p>III) Setting up of SSI is location flexible & hence useful in balanced regional development</p> <p>IV) SSI can easily be established with local resources & small investment</p>	
32	<p>The concept highlighted in the paragraph is 'Outsourcing.' Outsourcing refers to the business practice of contracting external parties to perform services or produce goods that were traditionally handled in-house by a company's own employees. In the context of globalization, outsourcing often involves hiring services from external sources, frequently from other countries, for tasks that were previously managed internally.</p> <p>Key advantages of outsourcing include :</p> <p>(i) Focus on Core Functions : By outsourcing non-core activities such as administrative and back-office operations, organizations can concentrate on their primary functions and strategic goals.</p> <p>(ii) Cost Savings : One of the most significant benefits of outsourcing is cost reduction. Lower operational and labor costs, along with reduced overhead expenses, make outsourcing an appealing option.</p> <p>(iii) Operational Efficiency : When certain functions become difficult to manage internally, outsourcing provides an effective solution, ensuring smoother operations and better control.</p>	4
33	<p>a. Agricultural diversification refers to adopting farming patterns, practices, techniques etc different from the present one in order to increase production and income. Diversification includes two aspects, one relates to diversification of crop production and the other relates to a shift of workforce from agriculture to other allied activities (livestock, poultry, fisheries etc) and non-agriculture sector. Main forms of diversification are:</p> <p>a) Shifting from food grains to cash crops</p> <p>b) Introduction of organic farming (any other points)</p>	6

	<p>b. Advantage of Agricultural Diversification</p> <ul style="list-style-type: none"> a) It increases farmer's income b) It helps in maintaining and improving soil fertility c) It helps in raising farm production 	
34	<p>1. It refers to the opening of the country's economy to the world with the goal of making the economy more market and service-oriented and expanding the role of private and foreign investment.</p> <p>Some of the steps taken for liberalisation are:</p> <ul style="list-style-type: none"> A. reducing import tariffs B. deregulating markets C. reducing taxes etc. <p>2.</p> <ul style="list-style-type: none"> 1. From 1992 to 2005, foreign investment increased 316.9%, and India's gross domestic product (GDP) grew from \$266 billion in 1991 to \$2.3 trillion in 2018 2. Poverty reduced from 36 percent in 1993-94 to 24.1 percent in 1999-00. 3. The ratio of total exports of goods and services to GDP in India approximately doubled from 7.3 percent in 1990 to 14 percent in 2000. <p>Within 10 years, the ratio of total goods and services trade to GDP rose from 17.2 percent to 30.6 percent.</p>	6