SAMPLE QUESTION PAPER-3
ECONOMICS (030)
Class XII (TERM II) 2021-22

***Time Allowed:* 2 Hours** **Maximum Marks: 40**

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1. During a given year the nominal national income increased by 14 per cent while the real national income increased by only 6 per cent. Population increased by 2 per cent. What has caused the difference between nominal income and real income? What is real per capital income? **2**

OR

Give reasons and categories the following in stock and flow

(*a*) Losses (*b*) Production

Ans. (*i*) Change in nominal income over a year is on account of (*a*) change in quantity of goods and services and (*b*) change in price level. However, change in real income refers to change in quantity of goods and services only.

(*ii*) Therefore, a change of 14 per cent in nominal income over the year is partly on account of 6 percent change in quantity of goods and services and the remaining 8 per cent must be on account of rise in general price level.

(*iii*) Real per capita income rise = Rise in real national income – Rise in population = 6 – 2 = 4 per cent.

OR

(*a*) Losses is a flow as it is calculated during a period of time.

(*b*) Production is a flow as it is measured over a period of time.

2. As a result of increase in investment by ₹ 125 crore, national income increases by ₹ 500 crore. Calculate marginal propensity to consume. **2**

OR

"Economists are generally concerned about the rising Marginal Propensity to Save (MPS) in an economy". Explain why.

Ans. Multiplier,

$$K = \frac{\text{Change in Income } (\Delta Y)}{\text{Change in Investment } (\Delta I)} = \frac{500}{125} = 4$$

We also know that Multiplier

$$(K) = \frac{1}{1 - MPC};\ 4 = \frac{1}{1 - MPC}$$

$$4 - 4MPC = 1;$$

$$MPC = \frac{3}{4} = 0.75$$

OR

(*i*) As we know, the sum of MPC and MPS is unity. Any increase in marginal Propensity to Save (MPS) would lead to decrease in Marginal Propensity to Consume (MPC).

(*ii*) It means, with the increase in income, lesser and lesser proportion of income is spent on consumption.

(*iii*) As consumption is an important component of Aggregate Demand. If consumption falls, Aggregate Demand/ Expenditure Fall, which will further leads to fall in Equilibrium level of Income in the economy.

3. Given that national income is ₹ 80 crore and consumption expenditure ₹ 64 crore, find out average propensity to save. When income rises to ₹ 100 crore and consumption expenditure to ₹ 78 crore, what will be the average propensity to consume and the marginal propensity to consume?

Ans. Average Propensity to Save = $\frac{\text{Savings (S)}}{\text{Income (Y)}} = \frac{80 - 64}{80} = \frac{16}{80} = 0.2$

When income rises to ₹ 100 crore and consumption expenditure to ₹ 78 crore

$$\text{Average Propensity to Consume} = \frac{\text{Consumption (C)}}{\text{Income (Y)}} = \frac{78}{100} = 0.78$$

$$\text{Marginal Propensity to Consume} = \frac{\text{Change in Consumption } (\Delta C)}{\text{Change in Income } (\Delta Y)}$$

$$= \frac{78 - 64}{100 - 80} = \frac{14}{20} = 0.7$$

4. Highlight the prerequisites for private investment in the infrastructure sector in India. **2**

OR

What are the challenges in health sector?

Ans. Commercialisation in infrastructure will allow private entrepreneurs to enter the market.

(*i*) The policy of subsidies needs to be replaced by pricing policies based on market forces for private sector.

(*ii*) Paying proper attention on the existing infrastructure and the anticipated demand is required because privatisation will necessitate a demand-oriented approach.

(*iii*) There is a proper need of allocating it amongst different stakeholders.

(*iv*) A transparent framework is needed so that there is neither direct regulation requirement nor pricing becomes inefficient.

OR

(*i*) Public health refers to the health of the community as a whole. We need to improve public health of Indian community.

(*ii*) If health services are decentralized, public health can be improved.

(*iii*) IT sector and telecommunication along with transport can play a major role in accessibility of health services. Eradication of poverty is essential for affordability of health services.

(*iv*) We also need to reduce rural-urban divide and rich-poor divide to make health care system more effective.

5. Name two diseases caused by air pollution, water pollution and noise pollution each. **2**

Ans. **Air Pollution:** Asthma and lung cancer

Water Pollution: Diarrhea and cholera

Noise Pollution: Hearing problems and hypertension

6. What is real GDP? State three limitations of GDP as an index of economic welfare. **3**

OR

Giving reasons, explain how the following are treated in estimating national income by the income method:

(*a*) Interest on a car loan paid by an individual.

(*b*) Interest on a car loan paid by a government – owned company.

Ans. When gross domestic product (GDP) of a given year is estimated on the basis of price of the base year, it is called real GDP.

Three limitations of GDP as an index of economic welfare are as follow:

(*i*) Many goods and services contributing economic welfare are not included in GDP Or non-monetary exchanges.

(*ii*) Externalities.

(*iii*) Non-monetary exchanges.

OR

(*a*) Interest on a car loan paid by an individual is not included in the national income because it is taken for consumption purpose.

(*b*) Interest on a car loan paid by a government is not included in the national income because it is taken for consumption purpose.

7. Can you give some evidence to prove that health infrastructure has improved in India? **3**

Ans. There is no doubt about it that health infrastructure in India has improved. It can be proved from the statistics given below:

Public Health Infrastructure in India

Item	1951	1981	2000
Hospitals	2694	6805	15888
Hospital/Dispensary Bed	117000	504538	719861
Dispensaries	6600	16745	23065
PHCs	725	9115	22842
Subcenters		84736	137311
CHCs		761	3043

It is absolutely clear that number of hospitals, dispensaries, PHCs, CHCs all have increased many times during 1951-2000.

Read the following text carefully and answer question number 8 and 9 given below:

Introduction

China, with its military might and strong economic presence, is considered one of the most influential states on today's world stage by many experts. India, on the other hand, with its constant growth since the 1990s, is regarded as a rising power. The rise of these two states brings a change to the existing world order which makes it essential to examine their policies and actions since they affect not just the Asian subcontinent, but the majority of the world. One method to do the same can be through the exploration of their foreign policies and diplomacy. A state's Foreign policy and diplomacy dictate the state's politics, power and position in the global order.

Defining Soft Power

Power in diplomacy refers to the ability to influence or direct other states to act in ways that might be beneficial to one's national interest [i]. This definition helps understand the role of diplomacy in influencing foreign policies and the nature of power in international relations. Based on this definition of power, it can be further divided into three entities, hard, soft and smart power. However, in this paper, the focus will be on soft power, which also forms a part of smart power.

American political scientist Joseph Nye discussed the need for a shift from the prevailing hard power policies in the contemporary world due to the rise of transnational actors, globalisation-driven interdependent economies, changing nature of military technology and resurgence of nationalism, among other political problems [ii] [iii]. He introduced an alternative in the form of soft power. He defined it as "the ability to get what one wants through persuasion or attraction rather than coercion" [ii]. It is based on the belief that on occasions, mutual understanding, growth and harmony makes a state's power seem more legitimate and less threatening compared to the use of hard power, thus the state is likely to encounter less resistance against its demands or wishes [ii]. A state's soft power usually rests on three resources- its cultural attractiveness, its political values, and its foreign policy, all of which legitimises the state as a trustworthy and capable partner [iv].

India and China's Soft Power

Records of ancient India's engagement with other states through trade and other forms of cultural exchange, similar to the ancient Chinese civilisation, can be presented as an early example of the long existence of soft power diplomacy in human societies. This is perhaps why the influence of Indian civilisation and culture can often be found in Southeast Asian states, while some of the other states in the region carry the influence of Chinese civilisation and culture [iv]. The ties of ancient cultural roots provide a useful tool for soft power. The cultural similarities and shared colonial experiences create a bond based on faith and understanding among the general citizens and sometimes governments as well. China realising this potential promotes the exchange of research, arts, growth in trade, business and more. India, however, has failed to strengthen their cultural ties and roots with its South-East Asian counterparts other than the Non-Alignment movement started by Nehru right after independence. Some attempts were made through the Look East and subsequently the Act East policies by Narsimha Rao and Narendra Modi respectively. But a noticeable change has been seen through the projection of India as the birthplace of Buddhism. India has used this to its advantage to build stronger ties with states in South-East and East Asia. An example of the same is the extensive restoration of the Mahabodhi temple and the rebuilding of Nalanda University. The latter was a successful project as a symbol of historical-cultural ties in Asia and saw financial contributions from Japan, China, Thailand, Singapore, South Korea and several other Asian states [v].

Compared to its neighbour China, the Indian state, since its independence, has consistently made use of soft power diplomacy. Past policies show that India, since its independence, has shown more inclination towards soft power, unlike China. Even though the state shifted focus to soft power diplomacy much later, the concept rapidly rose to popularity in the mid-2000s and now acts as an integral part of Chinese foreign policy [vi]. The state wanted to use the popularity of Chinese art, culture, cuisine, architecture and history to promote Chinese cinema, literature, businesses and education, and soften its image abroad [vii]. Some of their efforts for the same can be seen through the construction of several hundred Confucius Institutes around the world to teach their language and culture, and the promotion of the Xinhua News Agency- the official state news service to counter 'western propaganda' [vii]. These efforts have proved to be only partially successful as they did not do much to soften their public image. Similarly, Indian culture also enjoys significant popularity around the world, which empowers the state's soft power diplomacy. Indian cuisine, fashion, sports, classical music, classical dances, cinema, academics, books, healthcare, spirituality and more enjoy popularity globally, which positively impacts the state's image [iv]. But the key difference here lies in the fact that the Indian cultural centres are far few in number and the popularity of Indian culture and its attributes have seen popularity naturally and through Indian immigrants rather than through a mixture of immigration and government effort. The Indian government fails to make use of the potential through state promotions.

The current administration instead has chosen to promote India's soft power through different avenues. The administration continues to depict India's affinity for soft power through consistent foreign state visits where the prime minister makes concentrated efforts to project India's culture, economic growth and development. This projection of India's soft power comes through strategic plans used to mitigate anxieties about India's rise, improve the state's image, attract investment and tourists, and also overcome the weaknesses in their hard power diplomacy [v]. The current administration's key soft power resources include Buddhism, Yoga and the Indian diaspora and businesses. The state has made use of these tools to increase foreign investment and consistently improve the state's image abroad [v]. Despite the attractiveness of India's soft power assets, the state still falls short due to overestimation of its soft power attraction, a serious dearth of infrastructure, and domestic investment, and proper promotion of its plethora of assets [v]. This is where India seems to lag behind China, the most crucial factor being the lack of capacity and monetary resources to match China's investment into soft power. As a state with a strong economy and the world's largest holder of foreign exchange reserves, China's strongest asset is its expenditure of money. Estimates suggest that China spends nearly $10 billion annually on soft power diplomacy [vii]. Their extensive expenditure on their soft power assets can be seen in the multiple new initiatives that the current administration has introduced, such as the Asia-Pacific dream, the Twenty-First-Century Maritime Silk Road, and more [vii].

While the two states start on similar footing when it comes to their existing resources of soft power, China's investment creates a massive difference. However, India's democratic nature presents it with a benefit over its neighbour in the East. India's democratic values and openness makes it a more trustworthy and dependable partner. But for China, despite huge investments, the success of Chinese businesses, and the popularity of Chinese culture, the state still lags in terms of soft power diplomacy primarily due to its undemocratic nature [vi]. The excessive control of Chinese authorities, their censorship, clamping down on freedom of speech and expression, and growing human rights abuses in Xinjiang, makes their soft power diplomacy seem inconsistent with domestic realities [vii]. China hopes to solve issues such as the South China Sea dispute through soft power to become a preferred partner to Taiwan, Malaysia, the Philippines, and Vietnam [viii]. But, they fail to realise that its inconsistent domestic policies and secretive nature of functioning make them a hard partner to trust and depend on in terms of security issues among others, despite having strong economic ties [vii]. Soft power cannot be bought, it needs to be earned without unnatural interference from the state. For China, this would mean "loosening restrictions at home and reducing attempts to control opinion abroad" [vii]. On the other hand, India, as the world's largest democracy, and a representative of democratic values, gained the trust and respect of other states but, India's poor human development indicators, increasing human rights violations, along with increasing tensions in Kashmir have become reasons of concern. This causes loss of trust from other states and therefore loss of trust in its soft power assets.

Source: https://www.claws.in/comparative-analysis-of-india-and-chinas-soft-power-diplomacy/

8. Give three recommendation to India on the basis of your reading on how it can get a better soft power. **3**

Ans. (*i*) India needs to invest further in its soft power resources by restoring heritage buildings and Buddhist monasteries.

(*ii*) The Act East policy needs to be backed by stronger engagement with the states in South-East Asia by promoting their similar roots and tapping into their shared colonial experiences.

(*iii*) The government needs to take a more active role in promoting Indian literature, research, cuisine, music, arts and cinema that have seen global popularity.

(*iv*) As Robert Cooper has said before, a state cannot solely depend on soft power, which is why India needs to maintain its reputation as a strong democracy and follow democratic values at home to continue winning the support of its allies.

9. What strategies has India adopted for increasing its soft power? Mention any three. **3**

Ans. (*i*) Popularizing Indian Culture

(*ii*) Foreign visits by our Prime Minister

(*iii*) Democratic set up and pre-existent image

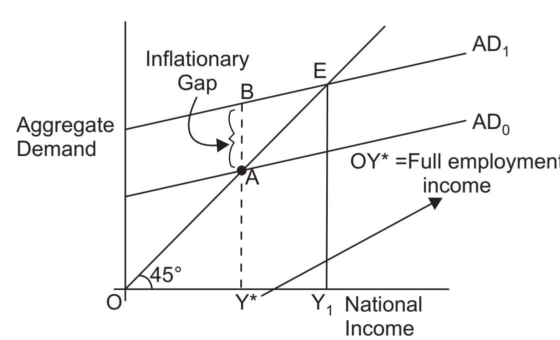
10. Distinguish between consumer goods and capital goods. Which of these are final goods? **3**

Ans.

Consumption Goods	Basis	Capital Goods
Consumption goods are those which satisfy the wants of the consumers directly.	*Meaning*	Capital Goods are defined as all goods produced for use in future productive processes.
These goods do not help to promote production capacity.	*Addition to Production Capacity*	These goods help in adding the production capacity.
These goods have a short expected life (except durable goods)	*Expected Life*	These goods are used for several years i.e. they have an expected life of more than one year.

11. Explain the concept of 'inflationary gap'. Also explain the role of 'legal reserves' in reducing it. **5**

Ans. (*i*) Inflationary gap is the gap showing excess of current aggregate demand over 'aggregate supply at the level of full employment'. It is called inflationary because it leads to inflation (continuous rise in prices).



(*ii*) A simple example will further clarify it. Let us suppose that an imaginary economy by employing all its available resources can produce 10,000 quintals of rice. If aggregate demand of rice is say 12,000 quintals, this demand will be called an excess demand, because aggregate supply at level of full employment of resources is only 10,000 quintals as the result of the gap of 2000 quintals will be called as inflationary gap. **In the above diagram Inflationary gap is AB because at Full employment Y*, Aggregate demand (BY*) is greater than Aggregate Supply(AY*).**

Increase in Varying Reserve Requirements or Legal Reserve Ratio

(*i*) Banks are obliged to maintain reserves with the central bank, which is known as legal reserve ratio. It has two components. One is the Cash Reserve Ratio or CRR and the other is the SLR or Statutory Liquidity Ratio.

(*ii*) **Cash Reserve Ratio (Increase in CRR):**

- It refers to the minimum percentage of a bank's total deposits, which it is required to keep with the central bank. Commercial banks have to keep with the central bank a certain percentage of their deposits in the form of cash reserves as a matter of law.
- For example, if the minimum reserve ratio is 10% and total deposits of a certain bank is ₹ 100 crore, it will have to keep ₹ 10 crore with the central bank.
- In a situation of excess demand leading to inflation, cash reserve ratio (CRR) is raised to 20 per cent, the bank will have to keep ₹ 20 crore with the central bank, which will reduce the cash resources of commercial bank and reducing credit availability in the economy, which will control excess demand.

(*iii*) **Statutory Liquidity Ratio (Increase SLR):**

- It refers to minimum percentage of net total demand and time liabilities, which commercial banks are required to maintain with themselves.
- In a situation of excess demand leading to inflation, the central bank increases statutory liquidity ratio (SLR), which will reduce the cash resources of commercial banks and reducing credit availability in the economy.

12. (*a*) Calculate National Income from the following data: **3**

	Particulars	(₹ in crores)
(*i*)	Private final consumption expenditure	900
(*ii*)	Profit	100
(*iii*)	Government final consumption expenditure	400
(*iv*)	Net indirect taxes	100
(*v*)	Gross domestic capital formation	250
(*vi*)	Change in stock	50
(*vii*)	Net factor income from abroad	(–) 40
(*viii*)	Consumption of fixed capital	20
(*ix*)	Net Imports	30

(*b*) Explain how 'externalities' are a limitation of taking gross domestic product as an index of welfare. **2**

OR

(*a*) Calculate Gross National Product at factor cost. **3**

	Particulars	(₹ in crores)
(*i*)	Compensation of employees	3,000
(*ii*)	Profit	800
(*iii*)	Opening stock	200
(*iv*)	Closing stock	150
(*v*)	Indirect taxes	700
(*vi*)	Rent	600
(*vii*)	Interest	900
(*viii*)	Subsidies	100
(*ix*)	Consumption of fixed capital	850
(*x*)	Net exports	(–) 250
(*xi*)	Net factor income to abroad	300
(*xii*)	Net current transfers from rest of the world	400
(*xiii*)	Mixed income of self-employed	5,000

(*b*) Describe the expenditure method of calculating Gross Domestic Product at market price. **2**

Ans. (*a*)

$$\mathbf{GDP_{MP}} = \text{Government Final Consumption Expenditure + Private Final Consumption Expenditure + Gross Domestic Capital Formation + Net Export}$$

$$= (iii) + (i) + (v) + (-ix)$$

$$= 400 + 900 + 250 - 30$$

$$= ₹\ 1{,}520 \text{ crores}$$

$$\mathbf{NNP_{FC}} = GDP_{MP} - \text{Depreciation + Net Factor Income from abroad} - \text{NIT}$$

$$= 1{,}520 - (viii) + (vii) - (iv)$$

$$= 1{,}520 - 20 + (-40) - 100$$

$$= ₹\ 1{,}360 \text{ crores}$$

(*b*) (*i*) When the activities of somebody result in benefits or harms to others with no payment received for the benefit and no payment made for the harm done, such benefits and harms are called **externalities**.

(*ii*) Activities resulting in benefits to others are positive externalities and increase welfare; and those resulting in harm to others are called negative externalities, and thus decrease welfare.

(*iii*) GDP does not take into account these externalities.

(*iv*) For example, construction of a flyover or a highway reduces transport cost and journey time of its users who have not contributed anything towards its cost. Expenditure on construction is included in GDP but not the positive externalities flowing from it. GDP and positive externalities both increase welfare. Therefore, taking only GDP as an index of welfare understates welfare. It means that welfare is much more than it is indicated by GDP.

(*v*) Similarly, GDP also does not take into account negative externalities. For example, factories produce goods but at the same time create pollution of water and air. River Yamuna, now a drain, is a living example. The pollution harms people. The factories are not required to pay anything for harming people. Producing goods increases welfare but creating pollution reduces welfare. Therefore, taking only GDP as an index of welfare overstates welfare. In this case, welfare is much less than indicated by GDP.

OR

(*a*)

$$\mathbf{NDP_{FC}} = \text{Compensation of Employees + Operating Surplus + Mixed Income}$$

$$= (i) + (vi) + (vii) + (ii) + (xii)$$

$$= 3{,}000 + 600 + 900 + 800 + 5{,}000$$

$$= ₹\ 10{,}300 \text{ crores}$$

$$\mathbf{GNP_{FC}} = NDP_{FC} + \text{Depreciation + Net Factor Income from abroad}$$

$$= 10{,}300 + (ix) + (-xi)$$

$$= 10{,}300 + 850 + (-300)$$

$$= ₹\ 10{,}850 \text{ crores}$$

(*b*) **Step 1:** Identification of economic units incurring final expenditure like household or consuming sector, firms or producing sector and government sector.

Step 2: Classification of final expenditure into following category:

(*i*) Government final consumption expenditure (GFCE)

(*ii*) Private final consumption expenditure (PFCE)

(*iii*) Gross domestic capital formation (GCF)

(*iv*) Net exports (NX)

Step 3: Measurement of final expenditure on components of GDP. Their sum total gives us value of GDP_{MP}.

$$\mathbf{GDP_{MP}} = \text{GFCE} + \text{PFCE} + \text{GCF} + \text{NX}$$

Step 4: Deduction of depreciation and NIT and addition of NFIA in GDP to get NY, i.e., NNP_{FC}.

$$\mathbf{NNP_{FC}} = GDP_{MP} - \text{Depreciation} + \text{NFIA} - \text{NIT}$$

13. (*a*) Why has water become an economic commodity? **2**

(*b*) How are economic growth and infrastructure development related to each other? **3**

Ans. (*a*) An economic commodity is one which is sold and purchased in the market. A commodity becomes economic when it is not so abundant that it can be made freely available to one and all. Water has become an economic commodity because:

(*i*) Due to water pollution, drinking water has become scarce.

(*ii*) Rising population has increased demand for drinking water.

(*iii*) 97% of the earth's surface is covered with water but only 1% of the total water is fit for consumption.

(*b*) Sufficient availability of the power, water transport, etc may result in optimal utilisation of assets. Infrastructure developments such as transport, power, finance, etc expand the size of markets and improve productivity significantly. Infrastructure brings modern technology in all sectors. There is a close association between infrastructure spending on and GDP growth. Around 6.5 % of the total value added is contributed by infrastructure services in UDCs, 9 % in developing countries and 11 % in developed countries. Infrastructural development is important not only for economic growth, globalisation and technological innovation in manufacturing but also for poverty reduction.