

Answers to Sample Paper 7

SECTION A (Introductory Macroeconomics)

1. Value; output
2. Assets are things a firm owns or what a firm can claim from others.
3. Liabilities
4. Indirect tax
5. (a)
6. Budget receipts refer to the funds planned to be raised from various sources.

Or

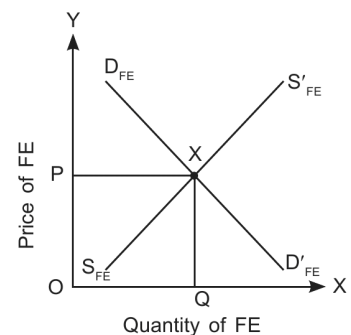
Non-tax revenue receipts consist of all revenue receipts other than taxes like fees, fines, penalties etc.

7. True
8. Transfers
9. (b) – (ii)
10. The reserve bank sells foreign exchange when there is a deficit. This is called ‘official reserve sale’.
11. (a) $GNP_{MP} = (i) + (iv) + (ii)$
 $= 25,215 + 40 + 1,575$
 $= ₹ 26,830$ crores
(b) $NNP_{FC} = (i) + (iv) - (iii)$
 $= 25,215 + 40 - 1,000$
 $= ₹ 24,255$ crores

Or

There are many goods and services contributing to economic welfare but not included in GDP (Non-Monetary Exchanges). They are left out from the estimates of NI, on account of practical difficulties of measurement, like the services of housewives and other family members, own-account production etc. These are left out due to non-availability of data and also the problem of their valuation. Thus, to depend only on GDP as such, would result in an underestimation of economic welfare.

12. Flexible exchange rate is determined by the interaction of the market forces of demand for and supply of foreign exchange. Foreign Exchange Rate is a ‘price’ of foreign exchange, which is determined by the demand for and supply of a given currency in the Foreign Exchange Market. ‘Point X’ in the diagram denotes the point of equilibrium as the $D_{FE} = S_{FE}$ at this point. OP in the diagram denotes the equilibrium exchange rate and OQ denotes the equilibrium quantity at this rate.



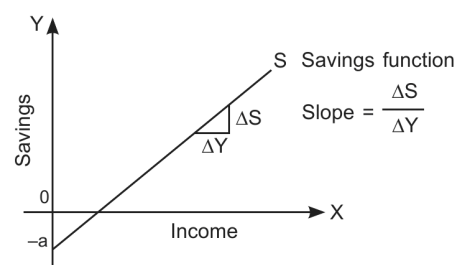
13. The two methods of credit control used by central bank are:
- Raising the Cash Reserve Ratio:** CRR is the percentage of deposits with the commercial banks which they are legally required to keep as a reserve with the Central Bank. Raising the CRR will leave less funds for credit creation with the banks.
 - By selling the Securities (open market operations):** The Central Bank will reduce the credit creation capacity of the commercial banks, as the buyers of these securities make payment by cheque. As a result, the deposits with the commercial banks will decrease and thus, their credit creation capacity will get reduced, leading to a fall in demand in the economy.
14. The saving function is:

$$S = -\bar{C} + (1 - b)Y$$

Here $-\bar{C}$ is called the intercept and it represents the amount of savings done when there is zero level of income. Savings is negative at zero level of income because at zero level of income, consumption is positive. Negative savings is nothing but dissaving, this means that at zero level of income there is dissaving of amount $-a$.

Note: $-a$ can also be denoted by $-\bar{C}$, i.e., $-a/-\bar{C}$.

The coefficient $(1 - b)$ measures the slope of the savings function. The slope of the savings function gives the increase in savings to per unit increase in income. This is known as marginal propensity to save (MPS). Since b , i.e., MPC is less than one, it follows that $(1 - b)$, i.e., MPS is positive. Savings is an increasing function of income. The given figure illustrates the idea. Y denotes income.



[**Note:** Diagram is not asked, but given for understanding purpose only.]

Or

The components of aggregate demand are:

Aggregate demand represents the planned expenditure on final goods and services in an economy during a period of time.

There are four components of aggregate demand (AD):

- 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 firms on the purchase of capital goods such as plant 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 exports and imports. It shows the effect of domestic spending on foreign goods and services (Imports) and foreign spending on domestic goods and services (Exports).

15. (a) Indeed, the government, through its budget, can be instrumental to promote proper allocation of resources in the economy. This could be done by promoting the development of remote backward regions in the economy, left out from the orbit of development till so far. It can offer incentives to the private sector like tax concessions, subsidies to lure them to start their projects in these areas, in the interest of the masses. This will promote the march towards a better and equitable distribution of resources to remove imbalances in the economy.
- (b) Instrument of government budget can also be used for bringing economic stability in the economy. Government can control large scale fluctuations in prices which lead to uncertainties. Government can control these fluctuations through its taxation and expenditure policy. During inflation, it can raise its revenue and reduce its expenditure. During period of deflation, it can give tax concessions and subsidies to encourage spending and also increase its own expenditure.

16. (a)
$$\begin{aligned} \text{GNP}_{\text{FC}} \text{ by Income Method} &= (iii) + (iv) + (v) + (viii) + (vii) + (x) \\ &= 400 + 800 + 250 + 150 + 60 + (-10) \\ &= ₹ 1650 \text{ crores} \end{aligned}$$

(b)
$$\begin{aligned} \text{NVA}_{\text{MP}} &= (iii) + (iv) - (ii) - \text{*Depreciation} \\ &= 25 + (-2) - 6 - 3 \\ &= ₹ 14 \text{ Lakhs} \end{aligned}$$

$$\text{*Depreciation} = \frac{\text{Cost of the fixed capital good}}{\text{Life span}} = \frac{15}{5} = 3$$

Or

(a)
$$\begin{aligned} \text{National Income/NNP}_{\text{FC}} &= (ii) + (iv) + (vii) - (viii) + (x) - (ix) \\ &= 900 + 200 + 120 - 10 + (-10) - 150 \\ &= ₹ 1,050 \text{ crores} \end{aligned}$$

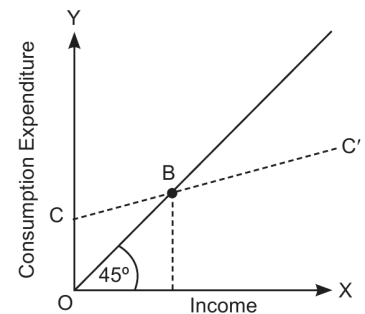
- (b) Contribution to PF by the employees is paid out from the compensation of employees, thus it is not considered separately in NI calculation. This is to avoid its double counting.

17. The point of intersection of the consumption curve CC' and the 45° line is called the "break-even point". It is shown by point 'B' in the diagram as $C = Y$, and savings are zero at this point.

$$\begin{aligned} \because Y &= C + S \\ \Rightarrow C &= Y - S \\ \Rightarrow S &= Y - C \end{aligned}$$

At the break-even point there are neither savings nor dissavings as $Y = C$.

- To the left of point B, $C > Y$, i.e., dissavings are there.
- To the right of point B, $Y > C$, i.e., savings take place.



SECTION B (Indian Economic Development)

18. Mahatma Gandhi National Rural Employment Guarantee Act 2005 (MGNREGA)
19. True
20. (iii), (i), (iv), (ii)

21. (d)

Or

1907

22. (a)

23. (c)

24. (b) (iv), (iii), (ii), (i)

25. (b)

26. (c) (iv), (iii), (ii), (i)

27. Pakistan

28. A socialist society answers the three questions related to “What, How and For Whom” through the government, which as a central body, decides what goods are to be produced according to the needs of the people. It is assumed that the government knows what is good for the people of the country. Individual consumers are not given much importance. Thus it is the government which acts as the deciding authority on how goods are to be produced and how they should be distributed.

Or

(i) **Growth** as a goal of the Five Year Plans in India refers to the increase in the country’s capacity to produce the output within the country. A steady increase in the Gross Domestic Product (GDP) of a country is a good indicator of economic growth.

It is necessary to produce more output, *i.e.*, the size of the cake of GDP should be big, so as to enjoy a richer life.

(ii) **Modernisation:** Adoption of new technology is called “modernisation”. But it is a wide term as it also includes changes in the social outlook like giving recognition to the talent of women in the work place ... etc.

(iii) **Self-reliance** refers to reducing imports of those goods which can be produced in the country itself. It was considered necessary in order to reduce our dependence on imported food supplies, foreign technology and foreign capital.

29. Yes, indeed the British intended to achieve their colonial interest through their policies of infrastructure development in India.

The main objective behind development of infrastructure in India by the British was to serve their colonial interests.

(a) The roads were built to be used for mobilising the army within India.

(b) Roads were used to carry out raw materials from one part of the country to another.

(c) Waterways were used to send raw material to far off places like Britain.

(d) The railways were developed to promote commercialisation of Indian agriculture which adversely affected the self-sufficiency of the village economy in India.

30. Yes, it is accepted that the elimination of subsidies will definitely violate the goal of equity. In other words, it will increase the inequality between the rich and the poor farmers. This is because most of the farmers in India are poor and it will be very difficult for them to afford the required inputs without subsidies. Rather they will become further poor.

Instead of eliminating subsidies it should be ensured that their benefit reaches the right hands, *i.e.*, the poor farmers. It should be strictly and seriously seen that the subsidies should not benefit fertilizer industry and the big farmers only, but the poor farmers should enjoy the benefit of subsidies exclusively as they are intended to be meant for them.

31. Between 1951 – 2014 milk production in the country increased more than eight times, mainly on account of the successful implementation of ‘**Operation Flood**’. This is a system in which all the farmers can pool their milk produced according to different grading and it is then processed and marketed to the urban centres through ‘Co-operatives’. Fair price and income is assured to the farmers from the supply of milk to urban markets. Gujarat state is a success story in the efficient implementation of milk co-operatives, which in turn is being emulated by many other states.

Or

It is true to say that the horticulture sector contributes to nearly one-third of the value of agricultural output.

- It contributes 6% to the GDP of India. Horticulture crops like fruits, vegetables, flowers, spices and plantation crops play a vital role in providing food and nutrition.
 - India has emerged as a world leader in producing a variety of fruits, spices and is considered to be the second largest producer of fruits and vegetables.
 - It has improved the economic condition of large number of farmers engaged in horticulture and has been a means to improve livelihood of the many unprivileged ones. Not only that it has also provided highly remunerative employment options for women in rural areas like bee-keeping, food processing, tissue culture ... etc., which they are taking as an entrepreneurial activity.
32. (a) In China, as per the normal course of development, agriculture is contributing the least (9%) and Industry and Service sector contribute highly to its GDP at 43% and 48% respectively. In India, agriculture contributed the least 17% followed by industry at 30% and services at 53%.
- (b) In both the countries services sector is emerging the major player of development as it contributes the most to GDP — 53% (India) and 48% (China).
33. Indeed “removing poverty has been one of the major development strategy in India.” Measures adopted to remove poverty in India are:
- (a) ‘Trickle-down effect’ is an economic theory that says that the growth of gross domestic product and per capita income by allowing the rich to flourish, would eventually benefit lower income groups also through increased economic activity and reduced unemployment.
- It was government’s approach to poverty reduction.
- It was felt that rapid industrial development and transformation of agriculture through green revolution would benefit the underdeveloped regions and the more backward sections of the community.
- (b) Expanding self-employment and wage-employment programmes are being considered as the major ways of addressing poverty. Some of them are:
- (i) **Self-employment programmes:**
- National Social Assistance Programme
 - Rural Employment Generation Programme (REGP)
 - Prime Minister’s *Rozgar Yojana (PMRY)*
 - *Swarna Jayanti Shahari Rozgar Yojana (SJSRY)*
- (ii) **Wage-employment programmes:**
- National Food for Work Programme (NFWP)
 - National Rural Employment Guarantee Act, 2005
 - *Sampoorna Grameen Rozgar Yojana (SGRY)*

- (c) The third measure is to provide minimum basic amenities to the people, through public expenditure on social consumption needs, provision of foodgrains at subsidised rates, education, health, water supply and sanitation. Programmes under this approach are expected to supplement the consumption of the poor, create employment opportunities and bring about improvements in health and education.

Or

The three dimensions of the government's approach to the poverty reduction in India are:

- (a) The **growth-oriented approach** based on the expectation that effects of economic growth (by way of rapid increase in GDP and per capita income) would spread to all sections of the society and world and trickle down to the poorer sections also. But the fact is population growth led to a very low growth in per capita income (PCI). The gap between the rich and the poor further widened. The Green Revolution augmented disparities between regions and large and small farmers.
- (b) **Specific poverty alleviation programmes** were implemented, in order to raise the incomes and employment for the poor through the creation of additional assets and work generation. Selfemployment programmes like Rural Employment Generation Programme (REGP) and Prime Minister Rozgar Yojana (PMRY) were implemented. Swarna Jayanti Shahari Rozgar Yojana (SJSRY) mainly aimed at creating employment opportunities for self-employment and wage employment in the urban areas.
- (c) To meet the basic and minimum needs of the poor by providing minimum basic amenities. Three major programmes to improve the food and nutritional status of the poor were started by way of :
- (i) Public Distribution System
 - (ii) Integrated Child Development Scheme
 - (iii) Mid-day Meal Scheme

Additionally, the government also launched a number of other social security programmes like National Social Assistance Programme especially for elderly poor and women, who are desitutes or widows.

34. Despite of India realising the importance of provision of education and health facilities, many problems related to human capital formation are being faced in India like:

- The quality of education (especially primary education) remains poor. Literacy level has risen, yet a large population remains illiterate. This poor performance of India on the literacy front has affected its overall development process. It has to go a long way before achieving the educational attainment desirable for better development. Spread of secondary education has also been limited.
- Higher education is also available to a few.
- In technical education there are certain imbalances.
- The health sector too faces problems. So access to health facilities has to be promoted. Deliberate public intervention is required to ensure delivery of the health services.
- The plan expenditure on health and education has to be increased substantially. But mere increase in expenditure without accountability will make no sense. Monitoring the performance and enforcing accountability of both these sectors is very essential.