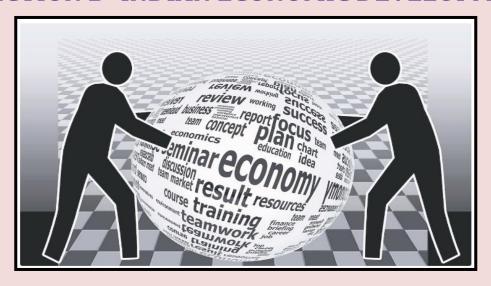
KVS ZONAL INSTITUTE OF EDUCATION AND TRAINING, MUMBAI



COMPETENCY BASED QUESTIONS CLASS - XII

SECTION A- INTRODUCTORY MACROECONOMICS SECTION B- INDIAN ECONOMIC DEVELOPMENT





From the Director's Desk.....

Dear Students and Educators,

It gives me great pleasure to introduce the

Competency-Based Question and Answers for Class XII Economics. In alignment with the latest educational framework, this resource is designed to enhance analytical thinking, problemsolving abilities, and real-world application of economic concepts.

Competency-based learning encourages students to move beyond rote memorization and develop a deeper understanding of Economics through case studies, scenario-based questions, and application-driven assessments. This study material is structured to help you not only excel in examinations but also build the critical skills needed for higher studies and professional success.

I encourage students to engage actively with this resource and teachers to integrate these questions into their pedagogy for a more effective and interactive learning experience.

Wishing you all a productive and enriching journey in Economics!

[Smt. Shahida Parveen]

Director,

[KVS Zonal Institute of Education and Training, Mumbai Name]

PART A- INTRODUCTORY MACROECONOMICS

UNIT-1 National Income Accounting

ASSERTION-REASON QUESTIONS

Read the following statements – Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

Alternatives:

- a) Both Assertion (A) and Reason (R) are true and reason is the correct explanation of assertion.
- b) Both assertion (A) and reason (R) are true and reason is not the correct explanation of assertion.
- c) Assertion (A) His true but reason (R) is false.
- d) Assertion (A) is false but reason (R) is true.
- 1. **Assertion** (A): By economic units or economic agents, we mean those individuals or institutions which take economic decisions.

Reason(R): They can be only consumers who decide what and how much to consume.

Ans: (b)

2. **Assertion** (A): Macroeconomics has deep roots in microeconomics.

Reason(R): Macroeconomics has to study the aggregate effects of the forces of demand and supply in the markets.

Ans: (a)

3. **Assertion** (A): The final goods are the crucial backbone of any production process, in aiding and enabling the production to take place.

Reason(R): These goods form a part of capital and continue to enable the production process to go on for continuous cycles of production.

Ans: (a)

4. **Assertion** (A): Income, or output, or profits are concepts that make sense only when a time period is specified.

Reason(R): These are called stock because they occur at a particular point of time.

Ans (c)

5. **Assertion** (A): Microeconomics and Macroeconomics are interdependent upon each other. One cannot study the two in isolation.

Reason (R): Microeconomics has a smaller degree of aggregation while Macroeconomics has a greater degree of aggregation.

Ans - a

6. **Assertion(A):** The income method calculates GDP by summing all factor incomes earned within an economy.

Reason(R): It includes wages, rent, interest, and profit.

Answer: a) Both Assertion and Reason are true, and Reason is the correct explanation of Assertion.

7. **Assertion(A):** Intermediate goods are counted in the calculation of GDP.

Reason(R): Intermediate goods are those used in the production of final goods and services.

Answer: d) Assertion is true, but Reason is false.

8. **Assertion(A):** In the circular flow of income, households receive factor income.

Reason(R): Factor income represents payments made to factors of production, including wages, rent, interest, and profit.

Answer: a) Both Assertion and Reason are true, and Reason is the correct explanation of Assertion.

9. Assertion(**A**): The value-added method calculates GDP by summing the value added at each stage of production.

Reason(R): It avoids double-counting of intermediate goods.

Answer: a) Both Assertion and Reason are true, and Reason is the correct explanation of Assertion.

10. **Assertion(A):** Transfer payments are included in the calculation of national income.

Reason(R): Transfer payments represent payments made by the government to individuals without any corresponding productive activity.

Answer: d) Assertion is false, but Reason is true.

STATEMENT QUESTIONS

In the following questions, Statement 1 is followed by Statement 2. Mark the correct choice

- (a) Both statements are correct, and Statement 2 is the correct explanation of Statement 1.
- (b) Both statements are correct, but Statement 2 is not the correct explanation of Statement 1.
- (c) Statement 1 is correct, but Statement 2 is incorrect.
- (d) Both statements are incorrect.
- 1. **Statement 1**: Gross Domestic Product at Market Price (GDPMP) includes the value of goods and services produced within the domestic territory of a country.

Statement 2: GDPMP excludes net factor income from abroad.

Answer: (a) Both statements are correct, and Statement 2 is the correct explanation of Statement 1.

2. Statement 1: Transfer payments are not included in the calculation of national income.

Statement 2: Transfer payments do not represent production activity in the economy.

Answer: (a) Both statements are correct, and Statement 2 is the correct explanation of Statement 1.

3. Statement 1: Net National Product at Factor Cost (NNPFC) is the same as National Income.

Statement 2: National Income is calculated by deducting depreciation from Net Domestic Product at Factor Cost (NDPFC).

Answer: (c) Statement 1 is correct, but Statement 2 is incorrect.

4. Statement 1: GDPMP does not include the imputed rent of owner-occupied houses.

Statement 2: GDPMP only includes the market value of goods and services.

Answer: (c) Statement 1 is incorrect, but Statement 2 is correct.

5. **Statement 1**: Nominal GDP measures the value of output at current prices.

Statement 2: Real GDP measures the value of output at constant prices.

Answer: (a) Both statements are correct, and Statement 2 is the correct explanation of Statement 1.

6. **Statement 1**: The circular flow of income demonstrates the interdependence between different sectors of the economy.

Statement 2: In a two-sector model, savings and investments always remain equal.

Answer: (c) Statement 1 is correct, but Statement 2 is incorrect.

7. **Statement 1**: National Income includes income earned by both residents and non-residents within the domestic territory.

Statement 2: National Income excludes net factor income from abroad.

Answer:(d) Both statements are incorrect.

8. Statement 1: Value added method eliminates double counting in the estimation of GDP.

Statement 2: Double counting arises when intermediate goods are included in the calculation of national income.

Answer: (a) Both statements are correct, and Statement 2 is the correct explanation of Statement 1.

9. **Statement 1**: Net Exports are a part of the expenditure method of national income calculation.

Statement 2: Net Exports equal the difference between exports and imports.

Answer: (a) Both statements are correct, and Statement 2 is the correct explanation of Statement 1.

PICTURE BASED QUESTIONS

Question 1: Which of these activities contribute to the national income? Explain why or why not. 3/4

Answer:

- Farming and factory production contribute to national income as they involve the creation of goods and services.
- A bank contributes through financial services, which are included in GDP.
- Household activities (like a person cooking for their family) are not included in national income, as they do not involve market transactions.



Question 2: Using the value-added method, explain how GDP should be calculated for this production process.

Answer:

- The GDP should include only the value added at each stage:
 - o Farmer's sale of wheat
 - o Miller's processing into flour
 - o Baker's production of bread
- The final value of bread sold to consumers is counted in GDP to avoid double counting.



Question3: Explain the circular flow of income and how money moves between different sectors of the economy.

Answer:

- Households provide factors of production (land, labor, capital) to firms and receive wages, rent, and profit.
- Firms produce goods and services, which households purchase.
- The government collects taxes and spends on public services.
- The foreign sector involves exports and imports, affecting the national income.

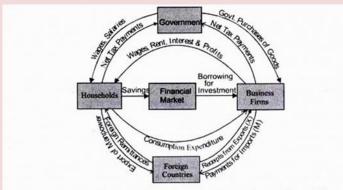


Fig. 6.4. Circular Flow of Income in an Open Economy with Government and Foreign Sector

Question 4: Which of these are included in GDP and why?

Answer:

- The private school teacher's salary is included, as it is part of the service sector.
- The vegetable seller's income is included if it is a registered business.
- The homemaker's work is not included since it is unpaid domestic work.
- The pension is **not included** as it is a transfer payment, not payment for production.



CASE STUDY QUESTIONS

Case 1: Pollution and National Income

National income, measured by indicators like GDP, reflects the economic performance of a country. However, it does not account for environmental degradation caused by economic activities such as industrial production. Pollution, a by-product of growth, leads to negative externalities like health issues, loss of biodiversity, and climate change, which are not deducted from GDP. While rising national income may indicate economic progress, it often overlooks the depletion of natural resources and the long-term costs of pollution. To address this, alternative measures like Green GDP, which adjusts GDP by factoring in environmental costs, provide a more sustainable and accurate representation of economic well-being.

A manufacturing industry in a city has significantly increased its production, contributing to a higher GDP for the country. However, this has led to environmental degradation and health problems for the local population due to pollution.

Q.1 Should GDP be considered the sole measure of economic well-being in this case? Why or why not?

Q.2 What alternative indicators could be used to measure economic well-being?

Ans. 1 GDP should not be considered the sole measure of economic well-being because it does not account for environmental degradation, health issues, or income inequality. While production increases GDP, the negative externalities, such as pollution, reduce the quality of life.

Ans.2 Alternative indicators like the Human Development Index (HDI), Green GDP, and Genuine Progress Indicator (GPI) can be used as they consider environmental, social, and health factors alongside economic growth.

Case 2: Informal Sector and National Income

The informal sector comprises unregistered, small-scale economic activities such as street vending, domestic work, and small businesses. While it plays a crucial role in providing employment and supporting livelihoods, much of its output is not recorded in official national income estimates due to lack of documentation and regulation. This exclusion can lead to an underestimation of a country's actual economic performance. Incorporating the informal sector into national income accounting would provide a more accurate and inclusive picture of economic activity, enabling better policy decisions to address employment, poverty, and income distribution challenges.

In a small town, many workers are engaged in informal activities such as street vending, domestic work, and small-scale tailoring. These activities are not fully recorded in official statistics.

Q.1 Why might these informal activities not be included in GDP?

3

Q.2 How can the inclusion of the informal sector improve the accuracy of national income estimation?

Ans.1 Informal activities might not be included in GDP because they are often unregistered, lack proper documentation, and may operate outside the formal economic framework. This leads to underestimation of the economy's actual size.

Ans.2 Including the informal sector can improve national income estimation by providing a more comprehensive picture of economic activity, helping policymakers address issues like employment and income distribution.

Case 3: Transfer Payments and National Income

A government launches a social welfare scheme where unemployed individuals are given direct cash transfers to support their basic needs. This policy improves their living conditions but does not involve any economic production.

Q.1 Why are transfer payments not included in the calculation of national income?

3

Q.2 How do transfer payments indirectly affect the economy?

3

Ans.1 Transfer payments are not included in national income because they do not correspond to the production of goods or services. They are redistributive in nature and do not represent any new economic activity.

Ans.2 Transfer payments indirectly affect the economy by increasing the purchasing power of individuals, which can boost consumption and aggregate demand, eventually stimulating production and employment.

Case 4: Double Counting in GDP

Case: A farmer grows wheat and sells it to a miller, who then processes it into flour. The flour is sold to a baker, who uses it to make bread, which is sold to consumers.

Q.1 What is double counting, and why should it be avoided when calculating GDP?

3

Q.2 How can the value-added method prevent double counting in this case?

3

Ans.1 Double counting occurs when the same product or value is included multiple times in GDP calculation, leading to an overestimation of national income. It should be avoided to ensure that GDP accurately reflects the total value of final goods and services.

Ans. 2 The value-added method prevents double counting by including only the additional value created at each stage of production (farmer, miller, baker) and excluding intermediate goods, ensuring that only the final value of the bread is counted.

Case 5: External Factors and National Income

Case: A country experiences a significant increase in remittances from its citizens working abroad. These remittances improve the standard of living of their families but are not part of domestic production.

Q.1 Are remittances included in GDP or GNP? Why?

3

Q.2 How do remittances contribute to the national economy despite not being part of GDP?

Ans.1 Remittances are not included in GDP because they do not represent domestic production.

However, they are included in Gross National Product (GNP) as they are part of net factor income from abroad.

Ans. 2 Remittances contribute to the national economy by increasing household income, leading to higher consumption, better education, and health outcomes. They also enhance foreign exchange reserves, which can stabilize the economy.

<u>UNIT 2</u> <u>MONEY AND BANKING</u>

ASSERTION- REASONS QUESTIONS

Read the following statements-Assertion (A) and Reason (R), and select the correct alternative in each case:

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true but Reason (R) is not the correct explanation of Assertion (A)
- (c) Assertion (A) is true but Reason(R) is false.
- (d) Assertion (A) is false but Reason(R) is true.
 - 1. Assertion (A): The RBI decides a certain percentage of deposits which every bank must keep as reserves.

Reason (R): This is done to ensure that no bank is 'over lending'.

Ans (a)

- 2. Assertion (A): With introduction of money as a common unit of value, the market for sale and purchase of assets has considerably expanded.
 - Reason (R): Common unit of value (in terms of money) has facilitated comparison of market value of different assets.

Ans. (a)

- 3. Assertion (A): Money supply is a flow variable.
 - Reason (R): Money supply is the total stock of money in circulation among the public at a point of time.

Ans. (d)

- 4. Assertion (A): To increase the money supply in the economy, Central Bank reduces the margin requirement.
 - Reason (R): Decrease in margin requirements enhances the borrowing capacity of public, which raises the money supply in the economy.

Ans. (a)

- 5. Assertion (A): Demand deposits are not legal tenders.
 - Reason (R): Demand deposits are the deposits which can be easily withdrawable on demand, by cheque or otherwise by the depositor from his bank account.

 Ans. (b)
- 6. Assertion (A): The Reserve Bank of India acts as a lender of last resort.
 - Reason (R): It provides funds to commercial banks when they are unable to meet their financial requirements.

Ans. (a)

7. Assertion (A): Central bank provides loans to the commercial banks in the situation of financial distress.

Reason (R): Central bank can order the government to help the bank facing the financial crisis. Ans. (c)

STATEMENT QUESTIONS:

TVPF-I

In the following questions, Statement 1 is followed by Statement 2. Mark the correct choice

- (a) Both the statements are true.
- (b) Both the statements are false.
- (c) Statement 1 is true and statement 2 is false.
- (d) Statement 2 is true and statement 1 is false.
- 1. Statement 1: Open market operations refer to the buying and selling of government securities by the central bank.

Statement 2: The Cash Reserve Ratio (CRR) is a percentage of net demand and time liabilities that banks must hold in reserve with the RBI.

Ans. (c)

- 2. Statement 1: Monetary policy tools include CRR, SLR, and repo rate.
 - Statement 2: Monetary policy decisions in India are made by the Ministry of Finance. Ans. (c)
- 3. Statement 1: Primary deposits are the cash deposits by general public with commercial banks Statement 2: Secondary deposits are those deposits which arise on account of credit provided by the commercial bank of the people.
- 4. Statement 1: Standard of Deferred Payments' function of money has led to the emergence of "financial market'.
 - Statement 2: Transfer of Value' function of money has enhanced mobility of capital across different countries.

Ans. (a)

- 5. Statement 1: They accept deposits from the public and lend out part of these funds to those who want to borrow.
 - Statement 2: The interest rate paid by the banks to depositors is lower than the rate charged from the borrowers.

Ans. (a)

TYPE -2

In the following questions, Statement 1 is followed by Statement 2. Mark the correct choice

- a) Both statements are true, and Statement 2 is the correct explanation of Statement 1.
- b) Both statements are true, but Statement 2 is not the correct explanation of Statement 1.
- c) Statement 1 is true, but Statement 2 is false.
- d) Both statements are false.
- 6. **Statement 1:** The central bank controls the money supply in the economy through monetary policy.

Statement 2: The central bank is responsible for printing all types of money, including demand deposits.

Answer: (c) Statement 1 is true, but Statement 2 is false.

Explanation: The central bank controls the money supply using monetary policy tools like CRR, SLR, and repo rate. However, it does not print demand deposits, as they are created by commercial banks through the lending process.

7. Statement 1: A higher Cash Reserve Ratio (CRR) reduces the lending capacity of commercial banks.

Statement 2: CRR is the percentage of a bank's total deposits that must be kept with the central bank in cash.

Answer: (a) Both statements are true, and Statement 2 is the correct explanation of Statement 1. *Explanation:* A higher CRR means banks must keep more cash with the central bank, reducing the funds available for lending, which contracts credit creation.

8. **Statement 1:** Money serves as a medium of exchange, which eliminates the need for a double coincidence of wants.

Statement 2: Under the barter system, transactions were easier as goods were exchanged directly. **Answer: (c)** Statement 1 is true, but Statement 2 is false.

Explanation: The barter system had a major drawback—the need for a double coincidence of wants. Money, as a medium of exchange, overcomes this issue by facilitating transactions without requiring a direct exchange of goods.

9. **Statement 1:** A lower bank rate by the central bank leads to an increase in credit availability in the economy.

Statement 2: The bank rate is the rate at which the central bank lends money to commercial banks.

Answer: (a) Both statements are true, and Statement 2 is the correct explanation of Statement 1. *Explanation:* When the central bank lowers the bank rate, borrowing becomes cheaper for commercial banks, which increases their lending capacity and expands credit in the economy.

10. Statement 1: Commercial banks create money by accepting deposits and giving loans.

Statement 2: The process of money creation by commercial banks leads to an increase in the total money supply in the economy.

Answer: (a) Both statements are true, and Statement 2 is the correct explanation of Statement 1. *Explanation:* When banks accept deposits and lend a portion of them, the borrowed money is deposited again in the banking system, leading to a multiplier effect, which increases the total money supply.

CASE BASED QUESTIONS:

1. Read the following passage and answer the questions given below:

The process of deposit and loan (credit) creation by banks is explained below.

In order to understand this process, let us discuss a story. Once there was a goldsmith named Lala in a village. In this village, people used gold and other precious metals in order to buy goods and services. In other words, these metals were acting as money. People in the village started keeping their gold with Lala for safe-keeping. In return for keeping their gold, Lala issued paper receipts to people of the village and charged a small fee from them. Slowly, over time, the paper receipts issued by Lala began to circulate as money. This means that instead of giving gold for purchasing wheat, someone would pay for wheat or shoes or any other good by giving the paper receipts issued by Lala. Thus, the paper receipts started acting as money since everyone in the village accepted these as a medium of exchange. Now, let us suppose that Lala had 100 Kgs of gold, deposited by different people and he had issued receipts corresponding to 100 kgs of gold. At this time Ramu comes to Lala and asks for a loan of 25 kgs of gold. Can Lala give the loan? The 100 kgs of gold with him already has claimants. However, Lala could decide that everyone with gold deposits will not come to withdraw their deposits at the same time and so he may as well give the loan to Ramu and charge him for it. If Lala gives the loan of 25 kgs of gold, Ramu could also pay Ali with these 25 kgs of gold and Ali could keep the 25 kgs of gold with Lala in return for a paper receipt. In effect, the paper receipts, acting as money, would have risen to 125 kgs now. It seems that Lala has created money out of thin air! The modern banking system works precisely the way Lala behaves in this example.

- 1. Define money multiplier.
- 2. Explain in brief the process of credit creation by Commercial Banks. 5
 Answers:
 - 1. The **money multiplier** is the ratio that determines the maximum amount of money that banks can create with each unit of reserves. It is given by the formula:

$$Money Multiplier = \frac{1}{Reserve Ratio}$$

- 2. Commercial banks create credit through the process of **deposit creation**. This happens when banks accept deposits and use a fraction of them to give loans, thereby increasing the money supply in the economy. The process works as follows:
- 1. **Initial Deposit:** A person deposits money in a bank, which becomes part of the bank's reserves.
- 2. **Reserve Requirement:** The bank keeps a fraction (as per the Reserve Ratio set by the central bank) and lends out the rest.
- 3. **Loan and Re-Deposit:** The loaned-out money is spent and eventually gets deposited into another bank.
- 4. **Further Lending:** The second bank also keeps a fraction and lends out the rest. This cycle continues, multiplying the initial deposit.

The total credit created is determined by the **money multiplier formula**:

$$Total\ Money\ Supply = Initial\ Deposit \times \frac{1}{Reserve\ Ratio}$$

This mechanism plays a crucial role in increasing liquidity and facilitating economic activities.

2. Read the following passage and answer the questions given below:

Demonetisation was a new initiative taken by the Government of India in November 2016 to tackle the problem of corruption, black money, terrorism and circulation of fake currency in the economy. Old currency notes of Rs 500, and Rs 1000 were no longer legal tender. New currency notes in the denomination of Rs 500 and Rs 2000 were launched. The public were advised to deposit old currency notes in their bank account till 31 December 2016 without any declaration and upto 31March 2017 with the RBI with declaration.

Further to avoid a complete breakdown and cash crunch, notes government had allowed exchange of Rs 4000 old currency the by new currency per person and per day. Further till 12 December 2016, old currency notes were acceptable as legal tender at petrol pumps, government hospitals and for payment of government dues, like taxes, power bills, etc.

This move received both appreciation and criticism. There were long queues outside banks and ATM booths. The shortage of currency in circulation had an adverse impact on the economic activities. However, things improved with time and normalcy returned.

This move has had positive impact also. It improved tax compliance as a large number of people were bought in the tax ambit. The savings of an individual were channelised into the formal financial system. As a result, banks have more resources at their disposal which can be used to provide more loans at lower interest rates. It is a demonstration of State's decision to put a curb on black money, showing that tax evasion will no longer be

tolerated. Tax evasion will result in financial penalty and social condemnation. Tax compliance will improve and corruption will decrease. Demonetisation could also help tax administration in another way, by shifting transactions out of the cash economy into the formal payment system. Households and firms have begun to shift from cash to electronic payment technologies.

1.	What is Demonetisation?	1
2.	Why was Demonetization introduced in the country?	2
3.	Discuss any three positive impacts of Demonetisation.	3
	Answer:	

- 1. **Demonetisation** is the process by which a government declares a particular currency note invalid as legal tender. It means that the specified currency notes can no longer be used for transactions, and people must exchange them for new currency or deposit them in banks within a given period.
- **2.** Demonetisation was introduced to address several economic challenges and achieve key policy objectives. The main reasons were: (any 2)

Curbing Black Money: To eliminate unaccounted cash holdings and undisclosed income stored in high-value currency.

Tackling Fake Currency: To reduce the circulation of counterfeit notes, which were being used for illegal activities.

Combating Corruption: To discourage cash-based corruption and promote transparency in financial transactions.

Promoting Digital Transactions: To encourage cashless payments, boost formal banking, and increase financial inclusion.

3. Three Positive Impacts of Demonetisation

- (i) Increase in Digital Transactions: Demonetisation led to a significant rise in cashless payments through UPI, debit/credit cards, and mobile wallets. This promoted financial inclusion and transparency in the economy.
- (ii) Reduction in Black Money: Many people were forced to deposit unaccounted cash in banks, bringing hidden wealth into the formal economy. It increased tax compliance as more individuals and businesses had to declare their income.
- (iii) Boost to Formal Banking System: A surge in bank deposits provided banks with more funds to lend, reducing interest rates on loans. This helped in economic growth by increasing credit availability for businesses and individuals.

3. Read the following passage and answer the questions given below:

Reserve Bank is the only institution which can issue currency. When commercial banks need more funds in order to be able to create more credit, they may go to market for such funds or go to the Central Bank. Central bank provides them funds through various instruments. This role of RBI, that of being ready to lend to banks at all times is another important function of the central bank, and due to this central bank is said to be the lender of last resort.

The RBI controls the money supply in the economy in various ways. The tools used by the Central bank to control money supply can be quantitative or qualitative. Quantitative tools, control the extent of money supply by changing the CRR, or bank rate or open market operations. Qualitative tools include persuasion by the Central bank in order to make commercial banks discourage or encourage lending which is done through moral suasion, margin requirement, etc.

It should be evident It should be evident by now that if the Central bank changes the reserve ratio, this would lead to changes in lending by the banks which, in turn, would impact the deposits and hence, the money supply. In the previously discussed example, what would the money multiplier be if the RBI increases the reserve ratio to 25 per cent? Notice that in the previous case, Rs 100 in reserves could support deposits of Rs 400. But the banking system would now be able to loan Rs 300 only. It would have to call back some loans to meet the increased reserve requirements. Hence, money supply would fall.

- 1. Explain in brief the lender of last resort function of the Central Bank.
- 2. Differentiate between Quantitative and Qualitative tools used by the Central bank to control money supply.

Answer:

1. When commercial banks need more funds in order to be able to create more credit, they may go to market for such funds or go to the Central Bank. Central bank provides them funds through

- various instruments. This role of RBI, that of being ready to lend to banks at all times is another important function of the central bank, and due to this central bank is said to be the lender of last resort.
- 2. Quantitative tools, control the extent of money supply by changing the CRR, or bank rate or open market operations. Qualitative tools include persuasion by the Central bank in order to make commercial banks discourage or encourage lending which is done through moral suasion, margin requirement, etc.

UNIT-3

DETERMINATION OF INCOME AND EMPLOYMENT

ASSERTION – REASON QUESTIONS

Read the following statements-Assertion (A) and Reason (R), and select the correct alternative in each case:

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true but Reason (R) is not the correct explanation of Assertion (A)
- (c) Assertion (A) is true but Reason(R) is false.
- (d) Assertion (A) is false but Reason(R) is true.
 - 1. **Assertion (A):** Aggregate demand increases when consumption expenditure rises.

Reason (**R**): Consumption expenditure is a component of aggregate demand.

Answer

- (a) Both A and R are true, and R is the correct explanation of A.
- 2. **Assertion (A):** When Aggregate Demand is equal to Aggregate Supply, the economy is in equilibrium.

Reason (R): Equilibrium occurs when planned expenditure equals planned output.

Answer:

- (a) Both A and R are true, and R is the correct explanation of A.
- 3. **Assertion (A):** An increase in the marginal propensity to save (MPS) leads to a lower value of the investment multiplier.

Reason (**R**): The value of the multiplier is inversely related to MPS.

Answer:

- (a) Both A and R are true, and R is the correct explanation of A.
- 4. **Assertion** (A): A fall in the rate of interest always increases investment expenditure.

Reason (**R**): Investment expenditure is influenced by the cost of borrowing.

Answer:

- (b) Both A and R are true, but R is not the correct explanation of A.
- 5. Assertion (A): When Aggregate Supply exceeds Aggregate Demand, inventories increase.

Reason (**R**): Firms accumulate unsold stock due to lower demand.

Answer:

- (a) Both A and R are true, and R is the correct explanation of A.
- 6. **Assertion (A):** Higher government expenditure increases the level of income in the economy. **Reason (R):** Government expenditure forms part of Aggregate Demand.

Answer:

(a) Both A and R are true, and R is the correct explanation of A.

- 7. **Assertion** (A): The equilibrium level of income depends only on Aggregate Demand.
 - **Reason (R):** Aggregate Demand determines output in the short run under Keynesian theory. **Answer:**
 - (b) Both A and R are true, but R is not the correct explanation of A.
- 8. **Assertion** (A): In a two-sector economy, the multiplier is higher when the Marginal Propensity to Consume (MPC) is higher.

Reason (R): A higher MPC implies a greater proportion of income is spent.

Answer:

- (a) Both A and R are true, and R is the correct explanation of A.
- 9. **Assertion (A):** Involuntary unemployment can persist in the economy according to Keynes. **Reason (R):** Wages and prices are rigid in the short run.

Answer:

- (a) Both A and R are true, and R is the correct explanation of A.
- 10. **Assertion (A):** The economy achieves full employment when Aggregate Demand is maximized.

Reason (R): Full employment occurs when all resources are fully utilized.

Answer:

(c) A is true, but R is false.

STATEMENT QUESTIONS:

In the following questions, Statement 1 is followed by Statement 2. Mark the correct choice

- (a) Both the statements are true.
- (b) Both the statements are false.
- (c) Statement 1 is true and statement 2 is false.
- (d) Statement 2 is true and statement 1 is false.
 - 1. **Statement 1:** Aggregate Demand is the sum of consumption, investment, and net exports in an open economy.

Statement 2: In a closed economy, net exports are excluded from Aggregate Demand.

Answer:

- (a) Both Statement 1 and Statement 2 are true, and Statement 2 is the correct explanation of Statement 1.
- 2. **Statement 1:** Marginal Propensity to Save (MPS) is equal to 1 minus Marginal Propensity to Consume (MPC).

Statement 2: MPC and MPS together explain the division of additional income into consumption and saving.

Answer:

- (a) Both Statement 1 and Statement 2 are true, and Statement 2 is the correct explanation of Statement 1.
- 3. **Statement 1:** The multiplier effect is stronger when Marginal Propensity to Consume (MPC) is high.

Statement 2: A higher MPC implies a smaller fraction of income is saved, leading to greater rounds of spending.

Answer:

- (a) Both Statement 1 and Statement 2 are true, and Statement 2 is the correct explanation of Statement 1.
- 4. **Statement 1:** The equilibrium level of income is determined when Aggregate Demand equals Aggregate Supply.
 - **Statement 2:** Any deviation from equilibrium results in changes in inventory levels.

Answer:

- (a) Both Statement 1 and Statement 2 are true, and Statement 2 is the correct explanation of Statement 1.
- 5. **Statement 1:** A decrease in investment leads to a proportionate decrease in income.

Statement 2: The multiplier magnifies the effect of investment changes on income.

Answer:

- (b) Both Statement 1 and Statement 2 are true, but Statement 2 is not the correct explanation of Statement 1.
- 6. **Statement 1:** Keynes argued that full employment is always achieved in a free-market economy.

Statement 2: Keynes believed that wage and price rigidity cause persistent unemployment. **Answer:**

- (d) Statement 1 is false, but Statement 2 is true.
- 7. **Statement 1:** A higher Marginal Propensity to Save (MPS) leads to a lower value of the multiplier.

Statement 2: The value of the multiplier is inversely proportional to MPS.

Answer

- (a) Both Statement 1 and Statement 2 are true, and Statement 2 is the correct explanation of Statement 1.
- 8. **Statement 1:** An increase in Aggregate Demand always ensures full employment in the economy.

Statement 2: Full employment depends on the productive capacity of the economy and not just demand.

Answer:

- (d) Statement 1 is false, but Statement 2 is true.
- 9. **Statement 1:** The equilibrium level of income can change even without a change in investment.

Statement 2: Autonomous changes in consumption can affect the equilibrium level of income.

Answer:

- (a) Both Statement 1 and Statement 2 are true, and Statement 2 is the correct explanation of Statement 1.
- 10. **Statement 1:** When Aggregate Demand is less than Aggregate Supply, unemployment increases.

Statement 2: Unemployment increases because firms cut production when there is excess supply.

Answer:

(a) Both Statement 1 and Statement 2 are true, and Statement 2 is the correct explanation of Statement 1

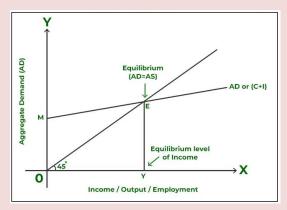


PICTURE-BASED AND DATA INTERPRETATION QUESTIONS

- 1. Look at the following diagram and answer the questions below:
 - a) What does the point of intersection of AD and AS represent?
 - b) If AD increases, what will happen to the equilibrium income and employment? Explain 3
 - c) What happens when AS is perfectly inelastic in the short run?



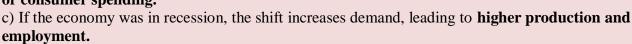
a) The intersection represents the **equilibrium level of income and employment**, where aggregate demand equals aggregate supply.



- b) If AD increases, equilibrium income and employment will also increase, leading to economic growth.
- c) When AS is perfectly inelastic in the short run, any increase in AD leads only to an increase in prices, not output.
- 2. Look at the following graph and answer the questions below:
 - a) What happens to the equilibrium level of income when AD shifts from AD to AD₁?
 - b) Explain one possible reason for the shift in AD. 3
- c) If the economy was initially in recession, how does this shift affect employment?

Answers:

- a) The equilibrium level of income increases as the new intersection of AD1 and AS is at a higher output level.
 - b) One possible reason for the AD shift is an increase in government expenditure, investment, or consumer spending.



- 3. Given the following data on a hypothetical economy:
- a) Find the Marginal Propensity to Consume (MPC).
- b) Calculate the equilibrium level of income if the Autonomous Investment is ₹200 crore. 2
- c) If government expenditure increases by ₹50 crore, what will be the new equilibrium income? 2 Assume MPC = 0.8.



a) **MPC** = Change in Consumption / Change in Income

X	
(AD)	$AD_{1}(C+I+\Delta I)$
Aggregate Demand (AD)	AD (C + I)
0	M Y
	Income / Output / Employment

	1
National Income	Consumption
(₹ Crore)	(₹ Crore)
0	100
100	180
200	260
300	340
400	420

2

$$= (180 - 100) / (100 - 0)$$

 $= 80/100 = 0.8$

b) **Equilibrium level of income** is determined using:

c) Using the Multiplier Formula,

We know,

$$K = \Delta Y / \Delta I$$
 or $\Delta Y = K \times \Delta I$
 $K = 1/(1 - MPC) = 1/(1-0.8) = 1/0.2 = 5$

Therefore, $\Delta Y = 5 \times 1500 = 1750$ crores

New equilibrium income = ₹1500 + ₹250 = ₹1750 crore

- **4.** A country's consumption function is given by the following data:
 - a) Calculate the Marginal Propensity to Consume (MPC).
 - b) Find the equilibrium level of income if investment (I) is ₹100 crore.
 - c) What is the value of the multiplier?

Answers:

- a) MPC = Change in Consumption / Change in Income = (120 50) / (100 0) = 0.7
- b) Equilibrium condition: Y = C + I

Using the formula:

$$C = C^{-} + MPC \times Y$$
; $C = 50 + 0.7 \text{ Y}$
 $Y = 50 + 0.7 \text{ Y} + 100$
 $Y - 0.7 \text{ Y} = 150$
 $0.3Y = 150$
 $Y = 150/0.3 = 500$

So, the equilibrium level of income = Rs. 500 crores

c) Multiplier (K) = 1/1-MPC

$$K=1/1-0.7=1/0.3=10/3=3.33$$

- 5. The government introduces a new infrastructure project, leading to an increase in investment and employment. The data is given below:
 - a) What is the trend between investment and employment?
 - b) If the investment multiplier is **4**, estimate the total income generated when investment increases from ₹250 crore to ₹400 crore.
 - c) What happens to employment if investment continues to increase at the same rate?

Answers:

a) The trend shows a **positive relationship**—as

National	Consumption	Savings (₹
Income (₹	(₹ Crore)	Crore)
Crore)		
0	50	-50
100	120	-20
200	190	10
300	260	40
400	330	70

Year	Investment (₹ Crore)	Employment (Million Workers)
2021	200	5
2022	250	6
2023	300	7.5
2024	400	9

investment increases, employment also increases.

b) Change in Investment (ΔI) = ₹400 - ₹250 = ₹150 crore Using the multiplier formula:

$$\Delta Y = K \times \Delta I$$

 $\Delta Y = 4 \times 150 = ₹600 \text{ crore}$

so, total income generated = ₹600 crore.

- c) If investment continues to rise at the same rate, **employment is likely to increase further**, reducing unemployment.
- 6. The government of Country X has decided to increase public expenditure on infrastructure projects such as roads, bridges, and schools. This results in an increase in employment and income in the economy.
 - a) Explain how the increase in government expenditure affects Aggregate Demand (AD).
 - b) If the Marginal Propensity to Consume (MPC) is **0.75**, calculate the investment multiplier. 1
 - c) If the government spends an additional ₹500 crore on infrastructure, what will be the total increase in income?

Answers:

- a) Increased government expenditure leads to higher incomes, increasing consumption and shifting AD **rightward**, raising output and employment.
 - b) Multiplier (K) = 1/(1 MPC)

$$K = 1/(1-0.75) = 1/0.25 = 4$$

c) Change in Income (ΔY) = Multiplier × Change in Investment (ΔI)

$$\Delta Y = 4 \times 500 = 2000$$
 crore

7. Country Y is experiencing a recession due to a decline in consumer confidence. As a result, Aggregate Demand (AD) has fallen, leading to lower output and higher unemployment.

Questions:

- a) How does a fall in AD affect the equilibrium level of income and employment?
- b) What fiscal policy measures can the government take to restore full employment?
- c) If the government introduces a tax cut, how will this impact Aggregate Demand and the Multiplier Effect?

Answers:

- a) A fall in AD reduces total spending, lowering income, output, and employment. The economy moves to a **lower equilibrium with higher unemployment.**
- b) The government can **increase spending, cut taxes, or provide subsidies** to boost demand and employment.
- c) A tax cut increases **disposable income**, leading to **higher consumption and AD**. The **Multiplier Effect** amplifies this increase in total income.

CASE BASED QUESTIONS

1. Read the case carefully and answer the following questions:

An economy is experiencing low levels of income and employment. The government decides to increase its spending on infrastructure projects. As a result, households have more income, and businesses see a rise in demand for their goods and services.

- (i) What component of Aggregate Demand is directly affected by increased government spending?
- (ii) How will the increase in government spending impact the level of income in the economy?1
- (iii) Why does the multiplier effect occur in this situation?

1

2

2

ANSWERS:

- (i) Government expenditure (G).
- (ii) Increased government spending will raise Aggregate Demand, leading to higher income and employment levels through the multiplier effect.
- (iii) The multiplier effect occurs because the initial increase in government spending leads to additional rounds of consumption and income generation in the economy.

2. Read the case carefully and answer the following questions:

An economy is in equilibrium at an income level of ₹500 crore. At this level, the Aggregate Demand is ₹500 crore, and Aggregate Supply is also ₹500 crore. However, due to a global recession, investment decreases by ₹50 crore.

- What will happen to the equilibrium level of income initially?
 If the multiplier is 5, calculate the total change in income.
 What can the government do to restore the previous level of income?
 ANSWERS
- 1. The equilibrium level of income will decrease due to the fall in Aggregate Demand caused by the decrease in investment.
- 2. Total change in income = Multiplier × Change in Investment = $5 \times (-50) = -₹250$ crore.
- 3. The government can increase its expenditure by an amount equal to the fall in investment (₹50 crore) to restore Aggregate Demand and income.

3.Read the case carefully and answer the following questions:

In an economy, the Aggregate Demand exceeds Aggregate Supply. Businesses are unable to meet the growing demand, leading to a rapid decrease in inventories.

- What does this situation indicate about the economy?
 How will firms respond to the reduction in inventories?
 What role does inventory adjustment play in achieving equilibrium?
 ANSWERS
- 1. The economy is operating below its equilibrium level, with demand outpacing supply.
- 2. Firms will increase production to meet the higher demand, leading to an increase in income and employment.
- 3. Inventory adjustments signal whether Aggregate Demand is higher or lower than Aggregate Supply, prompting changes in production to restore equilibrium.
 - 4. An economy is experiencing a situation where Aggregate Demand (AD) is less than Aggregate Supply (AS). Businesses are left with unsold goods, and unemployment levels are rising.
- 1. What is this situation called in macroeconomics?
- 2. How does deficient demand affect unemployment?
 3. Suggest one policy measure the government can take to address this situation.
- **ANSWERS:**1. This situation is called **deficient demand.**
- 2. Deficient demand leads to higher unemployment as businesses reduce production due to excess inventory.
- 3. The government can increase **public expenditure** or reduce taxes to boost Aggregate Demand.

5. A government introduces a scheme to provide subsidies for startups to encourage private
investment. As a result, new businesses emerge, and the Aggregate Demand in the economy
increases

- How does private investment affect Aggregate Demand?
 What is the role of the multiplier in this situation?
- 3. Why is encouraging private investment important for economic growth?

 ANSWERS:
- 1. Private investment directly increases Aggregate Demand, as it is one of its components.
- 2. The multiplier amplifies the initial increase in investment, leading to a larger increase in national income.
- 3. Encouraging private investment increases production, creates employment, and boosts income, contributing to overall economic growth.

6. The government decides to reduce interest rates to encourage borrowing and investment. This leads to increased demand for housing and automobiles, resulting in higher income and employment levels.

- 1. How does a reduction in interest rates influence Aggregate Demand?
- 2. What is the relationship between interest rates and investment?
- 3. Name one limitation of using interest rate policies to boost Aggregate Demand.

 ANSWERS
- 1. A reduction in interest rates makes borrowing cheaper, encouraging investment and consumption, thereby increasing Aggregate Demand.
- 2. Interest rates and investment have an **inverse relationship**—lower interest rates lead to higher investment.
- 3. One limitation is that **if consumer confidence is low**, people may not borrow or invest despite lower interest rates.

7. A global recession leads to a sharp decline in exports from a country. As a result, businesses face lower revenues, and unemployment rises.

- 1. How does a decline in exports affect Aggregate Demand?
- 2. What type of unemployment is likely to arise in this situation?
- 3. Suggest one policy measure to counter the impact of declining exports.

 ANSWERS
- 1. A decline in exports reduces Aggregate Demand as exports are a component of it.
- 2. This situation may lead to **cyclical unemployment**, caused by reduced economic activity during a recession.
- 3. The government can focus on increasing **domestic demand** through higher public spending or tax cuts.
- 8. An economy is facing persistent unemployment despite sufficient productive capacity. Businesses are reluctant to expand production, and Aggregate Demand is significantly lower than Aggregate Supply.
- Why is the economy experiencing unemployment despite having sufficient capacity?
 What policy measures can the government take to address this issue? Explain.
 ANSWERS:
 - 1. The economy is facing **deficient demand**, where Aggregate Demand is insufficient to utilize the available productive capacity. Businesses do not expand production because there is no

demand for additional goods and services.

- 2. The government can adopt **expansionary fiscal policy** or **monetary policy**:
 - **Fiscal Policy:** Increase government expenditure (e.g., on infrastructure) or reduce taxes to boost Aggregate Demand.
 - Monetary Policy: Reduce interest rates to encourage borrowing and investment.
 These measures will stimulate demand, leading to increased production and employment.
- 9. An economy is operating at full employment, and the government decides to implement a large public expenditure program. This leads to increased Aggregate Demand, but production does not increase as all resources are already fully utilized. Prices rise sharply.
 - 1. Explain why production does not increase despite higher Aggregate Demand.
 - 2. What measures can the government take to manage the situation?
 ANSWERS:
 - 1. The economy is operating at **full employment**, meaning all resources (labor and capital) are already fully utilized. In this situation, any increase in Aggregate Demand leads to **demand-pull inflation** rather than an increase in output.
 - 2. The government can adopt **contractionary fiscal or monetary policies**:
 - a. Reduce government spending.
 - b. Increase taxes to reduce disposable income and, thus, demand.
 - Raise interest rates to discourage borrowing.
 These measures will help stabilize prices by reducing Aggregate Demand
- 10. Due to a global recession, exports from a country fall drastically. This leads to a reduction in national income and widespread unemployment. The government introduces a policy to increase domestic consumption through subsidies and tax reductions.
 - 1. How does a fall in exports affect income and employment?
 - 2. Evaluate the effectiveness of the government's policy to increase domestic consumption.
 - 4 ANSWERS
 - (i) Exports are a component of Aggregate Demand. A fall in exports reduces Aggregate Demand, leading to lower production, income, and employment levels. Businesses cut back on production due to reduced demand, causing unemployment.
 - (ii) **Positive Impact:** Subsidies and tax reductions increase disposable income, boosting domestic consumption and Aggregate Demand. This can offset the decline in exports and stabilize income and employment.
 - **Limitations:** The policy's effectiveness depends on the marginal propensity to consume (MPC). If people save rather than spend the additional income, the impact will be limited. Additionally, prolonged subsidies may strain government finances.



UNIT-4

GOVERNMENT BUDGET AND THE ECONOMY

ASSERTION-REASON QUESTIONS

Read the following statements-Assertion (A) and Reason (R), and select the correct alternative in each case:

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true but Reason (R) is not the correct explanation of Assertion (A)
- (c) Assertion (A) is true but Reason(R) is false.
- (d) Assertion (A) is false but Reason(R) is true.
- **1. Assertion** (**A**): Fiscal deficit is an indicator of the total borrowing requirements of the government.

Reason (R): Fiscal deficit represents the difference between total expenditure and total revenue, excluding borrowings.

Answer: (a) Both A and R are true, and R is the correct explanation of A.

2. Assertion (A): Capital expenditure is undertaken to create long-term assets in the economy.

Reason (R): Expenditure on salaries of government employees is an example of capital expenditure.

Answer: (c) A is true, but R is false.

3. Assertion (A): A government budget helps in reducing income inequalities.

Reason (R): The government uses progressive taxation and provides subsidies to bridge the gap between the rich and the poor.

Answer: (a) Both A and R are true, and R is the correct explanation of A.

4. Assertion (A): Revenue deficit indicates the inability of the government to manage its routine expenses from its current income.

Reason (R): Revenue receipts include both tax and non-tax revenues.

Answer: (a) Both A and R are true, and R is the correct explanation of A.

5. Assertion (A): The government imposes indirect taxes to increase revenue.

Reason (R): Indirect taxes are regressive in nature as their burden is shared equally by all income groups.

Answer: (a) Both A and R are true, and R is the correct explanation of A.

6. Assertion (A): Disinvestment of public sector undertakings (PSUs) is a source of revenue for the government.

Reason (R): Disinvestment involves the sale of a government's stake in PSUs to private entities.

Answer: (a) Both A and R are true, and R is the correct explanation of A.

7. Assertion (A): Fiscal policy helps in achieving economic stability.

Reason (R): The government uses tools like taxation, expenditure, and borrowing to manage economic fluctuations.

Answer: (a) Both A and R are true, and R is the correct explanation of A.

8. Assertion (A): Primary deficit is always equal to fiscal deficit.

Reason (R): Primary deficit is calculated by subtracting interest payments from the fiscal deficit.

A gr: (c) A is false, but R is true.

- **9. Assertion** (**A**): The implementation of subsidies increases the burden of revenue deficit on the government.
 - **Reason** (**R**): Subsidies are a part of revenue expenditure.

Answer: (a) Both A and R are true, and R is the correct explanation of A.

10. Assertion (A): Deficit financing leads to inflation in the economy.

Reason (**R**): Deficit financing involves borrowing from the central bank, which increases money supply in the economy.

Answer: (a) Both A and R are true, and R is the correct explanation of A.

STATEMENT QUESTIONS:

In the following questions, Statement 1 is followed by Statement 2. Mark the correct choice

- (a) Both the statements are true.
- (b) Both the statements are false.
- (c) Statement 1 is true and statement 2 is false.
- (d) Statement 2 is true and statement 1 is false.
- **1. Statement 1:** Fiscal deficit is an indicator of the financial health of the government.

Statement 2: A high fiscal deficit indicates that the government is borrowing more to finance its expenditure.

Answer: (a) Both Statement 1 and Statement 2 are correct, and Statement 2 is the correct explanation of Statement 1.

2. Statement 1: Revenue receipts include only tax revenues.

Statement 2: Non-tax revenues such as interest receipts and dividends are also part of revenue receipts.

Answer: (c) Statement 1 is incorrect, but Statement 2 is correct.

3. Statement 1: Primary deficit is the total borrowing requirement of the government.

Statement 2: Primary deficit is the fiscal deficit minus interest payments.

Answer: (c) Statement 1 is incorrect, but Statement 2 is correct.

4. Statement 1: Revenue deficit indicates the excess of total revenue expenditure over total revenue receipts.

Statement 2: Revenue deficit does not consider borrowings as a source of revenue.

Answer: (a) Both Statement 1 and Statement 2 are correct, and Statement 2 is the correct explanation of Statement 1.

- **5. Statement 1:** The government can reduce income inequality by using fiscal policy.
 - **Statement 2:** Fiscal policy instruments such as progressive taxation and subsidies are used to bridge the income gap.

Answer: (a) Both Statement 1 and Statement 2 are correct, and Statement 2 is the correct explanation of Statement 1.

6. Statement 1: A budgetary deficit occurs when total revenue exceeds total expenditure.

Statement 2: Budgetary deficit includes revenue deficit, fiscal deficit, and primary deficit.

Answer: (c) Statement 1 is incorrect, but Statement 2 is correct.

7. Statement 1: Capital receipts include both borrowings and non-debt creating receipts.

Statement 2: Disinvestment is a non-debt creating receipt.

Answer: (a) Both Statement 1 and Statement 2 are correct, and Statement 2 is the correct explanation of Statement 1.

8. Statement 1: Deficit financing is a tool of fiscal policy to stimulate economic growth.

Statement 2: Deficit financing involves the government borrowing from the Reserve Bank of India.

Answer: (a) Both Statement 1 and Statement 2 are correct, and Statement 2 is the correct explanation of Statement 1.

9. Statement 1: Plan expenditure is the expenditure incurred on the routine functioning of the government.

Statement 2: Non-plan expenditure is related to the creation of productive assets like infrastructure.

Answer: (d) Both Statement 1 and Statement 2 are incorrect.

10. Statement 1: Balanced budgets are always desirable for economic growth.

Statement 2: Deficit budgets can be used for economic growth through higher public investment.

Answer: (c) Statement 1 is incorrect, but Statement 2 is correct.

PICTURE-BASED QUESTIONS

Question 1: Fiscal Deficit Trend

- 1. What trend do you observe in the fiscal deficit over the given years?
- 2. Why might the fiscal deficit have increased in the third year?
- 3. Suggest one way to reduce the fiscal deficit.

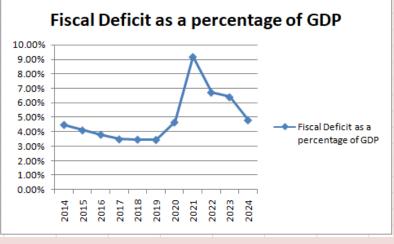
Answers:

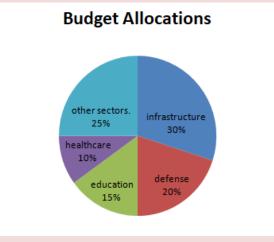
- 1. The fiscal deficit increased significantly in the third year but started to decline in subsequent years.
- 2. The increase may have been due to higher government spending on welfare, infrastructure, or pandemic relief.
- 3. The deficit can be reduced by increasing tax revenues, reducing unnecessary expenditures, or promoting disinvestment.

Question 2: Budget Allocation Chart

- 1. Which sector receives the highest allocation in the budget?
- 2. Why do you think infrastructure has been given the largest share?
- 3. If the government wants to improve human capital, which sector should receive more funds, and why?

Answers:





- 1. Infrastructure receives the highest allocation at 30%.
- 2. Infrastructure spending boosts economic growth by creating jobs and improving connectivity.
- 3. Education and healthcare should receive more funds as they improve human capital, leading to higher productivity and long-term economic development.

Question 3: Tax Revenue Composition

- 1. Which tax contributes the most to government revenue?
- 2. Why is GST a significant source of revenue?
- 3. How can the government increase tax revenue without increasing tax rates?



- 1. GST contributes the most, at 40% of total revenue.
- 2. GST is significant because it is levied on goods and services, covering a broad base.
- 3. The government can increase revenue by improving tax compliance, reducing evasion, and expanding the tax base.

Question 3: Government spending on education and healthcare

- 1. What trend do you observe in government spending on education and healthcare over the five years?
- 2. Why is increased spending on education important for long-term economic growth?
- 3. How does higher healthcare expenditure contribute to economic productivity?

Answers

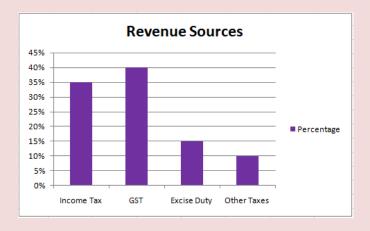
- 1. Both education and healthcare spending have consistently increased over the five years, indicating the government's focus on social sector development.
- 2. Education spending improves **human capital**, enhances skills, and boosts employability, leading to **higher economic growth** in the long run.
- 3. Higher healthcare expenditure results in a **healthier workforce**, reducing absenteeism and increasing productivity, ultimately benefiting the economy.

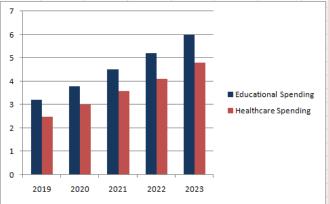
DATA INTERPRETATION-BASED QUESTIONS

Question 1: Revenue and Expenditure Data

(Imagine a table showing the government's revenue and expenditure figures in ₹ lakh crore.)

Year	Revenue Receipts	Total Expenditure	Fiscal Deficit
2021	19.76	34.50	6.80%
2022	22.04	37.70	6.40%





Year	Revenue Receipts	Total Expenditure	Fiscal Deficit
2023	24.35	39.45	5.90%

- 1. How has the government's revenue changed over the three years?
- 2. What trend do you observe in the fiscal deficit?
- 3. Suggest one measure to further reduce the fiscal deficit.

Answers:

- 1. Revenue receipts have increased each year, from ₹19.76 lakh crore in 2021 to ₹24.35 lakh crore in 2023.
- 2. The fiscal deficit is gradually declining, indicating improved financial management.
- 3. The government can reduce the deficit by **increasing non-tax revenue sources like disinvestment and better tax compliance**.

Question 2: Tax Collection Growth

(A table shows the growth of direct and indirect tax collections over three years.)

Year	Direct Tax Collection (₹ lakh crore)	Indirect Tax Collection (₹ lakh crore)
2021	9.45	10.32
2022	11.28	12.85
2023	12.98	14.52

- 1. Which tax category has shown higher absolute growth?
- 2. Why might indirect tax collection be increasing?
- 3. How can the government ensure fair taxation policies?

Answers:

- 1. Indirect tax collection has grown by ₹4.2 lakh crore, slightly higher than direct tax growth.
- 2. Indirect tax collection increases due to higher consumption and better GST compliance.
- 3. Fair taxation can be ensured by **progressive taxation policies and reducing the burden on lower-income groups**.

Question 7: Capital vs. Revenue Expenditure

(A table displays capital and revenue expenditure of the government.)

Year	Capital Expenditure (₹ lakh crore)	Revenue Expenditure (₹ lakh crore)
2021	4.75	29.75
2022	5.50	32.20
2023	7.50	33.90

- 1. Which type of expenditure is increasing at a faster rate?
- 2. Why is capital expenditure important for economic growth?
- 3. Should the government focus more on capital or revenue expenditure? Explain.

Answers:

- 1. Capital expenditure is increasing at a **faster rate** compared to revenue expenditure.
- 2. Capital expenditure builds long-term assets like infrastructure, boosting economic growth.
- 3. The government should focus more on **capital expenditure** to ensure sustainable development and future growth.

CASE BASED QUESTIONS

Case Study 1:

The government of India has increased its capital expenditure by 20% in the current financial year to improve infrastructure and boost economic growth. This includes spending on roads, railways, and urban development. At the same time, subsidies on certain commodities have been reduced to manage the fiscal deficit.

Ouestions:

- 1. What is capital expenditure? Give examples from the case.
- 2. How does an increase in capital expenditure help boost economic growth? 2
- 3. Why do you think subsidies were reduced in this case? 2

Answers:

- 1. Capital expenditure refers to government spending on the creation of long-term assets such as infrastructure. Examples: roads, railways, and urban development.
- 2. Capital expenditure generates employment, improves infrastructure, and boosts investment, leading to higher economic growth.
- 3. Subsidies were reduced to manage the fiscal deficit, as they are part of revenue expenditure and increase the fiscal burden.

Case Study 2:

The government announces a budget with an allocation of ₹1,00,000 crore for the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) to provide rural employment. At the same time, it plans to increase taxes on luxury goods to generate additional revenue.

Ouestions:

- 1. Identify the two objectives of the government budget highlighted in this case.
- 2. How does MGNREGA contribute to rural development? 2
- 2 3. Explain the rationale behind increasing taxes on luxury goods.

Answers:

- 1. Objectives: (i) Employment generation and (ii) Reducing income inequality by taxing luxury goods.
- 2. MGNREGA provides guaranteed employment, improving the rural standard of living and boosting rural demand.
- 3. Taxes on luxury goods are progressive, targeting higher-income groups and reducing inequalities while increasing government revenue.

Case Study 3:

Disinvestment in Public Sector Undertakings (PSUs) refers to the process of selling or reducing the government's stake in public sector enterprises. It aims to raise revenue, improve the efficiency of these enterprises, and reduce the fiscal burden on the government. Disinvestment can take various forms, such as partial sale, strategic sale, or privatization. By allowing private sector participation, it fosters competition, enhances productivity, and attracts investment. However, it is often debated due to concerns about job security, loss of government control, and its impact on social objectives. In the current financial year, the government announced disinvestment of ₹50,000 crore by selling

stakes in public sector undertakings (PSUs) like Air India and LIC. The funds will be used to reduce the fiscal deficit.

Ouestions:

- 1. What is disinvestment, and how is it related to fiscal deficit?
- 2. What are the advantages of disinvestment?
- 3. What challenges might arise during the disinvestment process?

Answers:

- 1. **Disinvestment** involves selling government stakes in PSUs. It generates non-debt capital receipts to reduce fiscal deficit.
- 2. Advantages include generating revenue, improving efficiency, and reducing the fiscal burden.
- 3. Challenges include finding suitable buyers, resistance from employees, and undervaluation risks.

Case Study 4:

The Union Budget introduces a new healthcare scheme with an allocation of ₹50,000 crore. This aims to provide free health insurance for families below the poverty line. Simultaneously, customs duty on imported medical equipment is reduced.

Ouestions:

- How does the healthcare scheme reflect the social objectives of the government?
 Why was customs duty on medical equipment reduced?
- 3. What impact will these measures have on economic welfare?

Answers:

- 1. The scheme ensures access to healthcare for economically weaker sections, reducing health-related inequalities.
- 2. Lower customs duty makes medical equipment affordable, encouraging better healthcare facilities.
- 3. These measures improve human capital, enhance productivity, and increase overall welfare.

Case Study 5:

The Goods and Services Tax (GST) is a unified indirect tax aimed at simplifying India's tax structure and boosting revenue collection. By improving tax compliance and reducing tax evasion through a transparent system, GST has the potential to increase government revenues. This, in turn, can help reduce the fiscal deficit by bridging the gap between government expenditure and revenue. However, challenges such as delayed GST compensation to states, initial revenue shortfalls, and administrative inefficiencies may temporarily impact the fiscal deficit. Over time, a well-implemented GST system can contribute to fiscal consolidation and economic growth.

India recorded its highest-ever monthly GST collection of ₹1.87 lakh crore in April 2023. This was due to better compliance and economic recovery.

Ouestions:

What is the role of GST in government revenue?
 How can higher GST collections help in managing the fiscal deficit?
 What does improved compliance signify for the economy?

Answers:

- 1. GST is a major source of **tax revenue**, contributing to the central and state governments.
- 2. Higher GST collections reduce borrowing needs and help fund development projects.
- 3. Improved compliance indicates increased formalization of the economy and better tax administration.

Case Study 6:

A Green Budget for renewable energy prioritizes investments and policies that accelerate the transition to sustainable energy sources. It includes financial incentives such as subsidies, tax benefits, and funding for research and development of solar, wind, and other renewable energy technologies. By allocating resources toward green infrastructure and clean energy initiatives, such a budget helps reduce carbon emissions, combat climate change, and promote energy security. A Green Budget not only fosters environmental sustainability but also creates green jobs and positions the economy for long-term growth in a low-carbon future.

The government allocated ₹35,000 crore in the budget to promote renewable energy projects, including solar power and wind energy initiatives.

Ouestions:

- 1. How does investing in renewable energy contribute to sustainable development?
- 2. What are the long-term economic benefits of such investments?
- 3. Explain how this expenditure aligns with global environmental goals.

Answers:

- 1. Renewable energy reduces reliance on fossil fuels, cutting carbon emissions.
- 2. Benefits include energy security, job creation in green sectors, and cost savings in the long run.
- 3. It aligns with goals like the **Paris Agreement**, focusing on reducing global warming.

Case Study 7:

The Education Budget plays a crucial role in enhancing access to quality education and promoting skill development. By allocating funds for schools, higher education institutions, vocational training programs, and digital learning initiatives, it addresses both foundational and advanced learning needs. Skill development programs, supported through targeted schemes, aim to equip individuals with industry-relevant skills, boosting employability and economic productivity. An education-focused budget fosters human capital development, bridges skill gaps, and prepares the workforce for emerging challenges in a rapidly evolving global economy.

In the 2023 budget, the government allocated ₹1.12 lakh crore for education and skill development programs. This includes initiatives like "Digital India for Education" and vocational training for youth.

Ouestions:

- 1. Why is investment in education and skill development important for economic growth? 2
- 2. How does this expenditure contribute to long-term development?
- 2

3. Suggest one way to ensure efficient use of allocated funds.

Answers:

- 1. Education and skill development enhance human capital, productivity, and employability.
- 2. It leads to higher incomes, innovation, and sustained economic growth.
- 3. Efficient use can be ensured through **monitoring and evaluation of program outcomes**.

<u>UNIT – 5</u> BALANCE OF PAYMENT

ASSERTION- REASON QUESTIONS

Read the following statements-Assertion (A) and Reason (R), and select the correct alternative in each case:

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true but Reason (R) is not the correct explanation of Assertion (A)
- (c) Assertion (A) is true but Reason(R) is false.
- (d) Assertion (A) is false but Reason(R) is true.
- **1**. Assertion (A): Balance of Payments always balances.

Reason (R): The sum of the current account, capital account, and official reserve account is zero.

Answer: (d) A is false, but R is true.

Explanation: While the Balance of Payments always balances due to accounting practices, it doesn't necessarily equal zero. The current account, capital account, and the official reserve account should balance, but there could be deficits or surpluses in individual components.

2. Assertion (A): A rise in foreign exchange rate leads to an increase in exports.

Reason (R): When the foreign exchange rate rises, domestic goods become cheaper for foreigners.

Answer: (c) A is true, but R is false.

Explanation: A rise in the foreign exchange rate (depreciation of the domestic currency) makes domestic goods cheaper for foreigners, which should increase exports. However, the assertion about the rise in the exchange rate and exports is not always directly proportional.

3. Assertion (A): A current account deficit always leads to a capital account surplus.

Reason (R): Capital inflows are required to finance a current account deficit.

Answer: (a) Both A and R are true, and R is the correct explanation of A.

Explanation: A current account deficit is often financed by capital inflows, which are recorded as a surplus in the capital account of the BoP.

4. Assertion (A): Depreciation of the domestic currency benefits exporters.

Reason (R): Depreciation makes domestic goods more expensive in the international market.

Answer: (c) A is true, but R is false.

Explanation: Depreciation of the domestic currency makes domestic goods cheaper for foreign buyers, thus benefiting exporters. The reason given in the statement is incorrect as depreciation doesn't make goods more expensive but cheaper.

5. Assertion (A): Foreign Direct Investment (FDI) is recorded in the capital account of the Balance of Payments.

Reason (R): FDI represents inflows and outflows of capital across international borders.

Answer: (a) Both A and R are true, and R is the correct explanation of A.

Explanation: FDI represents investments made by foreign entities in a country, and it is recorded under the capital account in the Balance of Payments.

6. Assertion (A): A surplus in the current account leads to an appreciation of the domestic currency.

Reason (R): A current account surplus increases the demand for the domestic currency in the foreign exchange market.

Answer: (a) Both A and R are true, and R is the correct explanation of A.

Explanation: A surplus in the current account increases foreign demand for the domestic currency, which leads to its appreciation.

7. Assertion (A): A fixed exchange rate system allows a country to maintain a stable value of its currency.

Reason (R): In a fixed exchange rate system, the exchange rate is determined by the market forces of demand and supply.

Answer: (c) A is true, but R is false.

Explanation: In a fixed exchange rate system, the government or central bank determines the exchange rate, not market forces, to ensure stability. Therefore, the reason provided is incorrect.

8. Assertion (A): A rise in interest rates in India may attract foreign capital inflows.

Reason (R): Higher interest rates provide better returns on investments.

Answer: (a) Both A and R are true, and R is the correct explanation of A.

Explanation: Higher interest rates make India an attractive destination for foreign capital, as investors seek higher returns.

9. Assertion (A): Trade deficits are recorded in the capital account of the Balance of Payments.

Reason (R): Trade deficits arise due to a surplus of imports over exports.

Answer: (d) A is false, but R is true.

Explanation: Trade deficits are recorded in the current account, not the capital account. The reason (R) about the trade deficit is correct, but the assertion (A) is false.

10. Assertion (A): An increase in demand for foreign goods leads to depreciation of the domestic currency.

Reason (R): Increased demand for foreign goods raises the demand for foreign currency in the exchange market.

Answer: (a) Both A and R are true, and R is the correct explanation of A.

Explanation: Increased demand for foreign goods leads to a higher demand for foreign currency, which results in depreciation of the domestic currency.

STATEMENT QUESTIONS

In the following questions, Statement 1 is followed by Statement 2. Mark the correct choice

- (a) Both the statements are true.
- (b) Both the statements are false.
- (c) Statement 1 is true and statement 2 is false.
- (d) Statement 2 is true and statement 1 is false.
- **1.** Statement 1: A balance of payments deficit occurs when a country's imports exceed its exports. Statement 2: A current account deficit must always be financed by capital inflows, such as foreign direct investment (FDI).

Answer: (a) Both Statement 1 and Statement 2 are correct.

- **Explanation:** A balance of payments deficit occurs when a country's imports exceed its exports, leading to a current account deficit, which is financed by capital inflows like FDI.
- 2. Statement 1: Depreciation of the domestic currency makes domestic goods cheaper for foreigners.

Statement 2: Depreciation of the domestic currency increases the demand for imports.

Answer: (c) Statement 1 is correct, but Statement 2 is incorrect.

- **Explanation:** Depreciation makes domestic goods cheaper for foreigners, but it generally decreases demand for imports as foreign goods become more expensive for domestic consumers.
- **3**. Statement 1: A fixed exchange rate system provides stability to a country's currency.

Statement 2: Under a fixed exchange rate system, the currency value is determined by market forces.

Answer: (c) Statement 1 is correct, but Statement 2 is incorrect.

- **Explanation:** A fixed exchange rate system provides stability as the government sets the rate, not market forces. Market forces determine the value in a floating exchange rate system.
- **4.** Statement 1: A country with a current account surplus will experience an appreciation of its currency.

Statement 2: A current account surplus leads to a decrease in foreign exchange demand.

Answer: (c) Statement 1 is correct, but Statement 2 is incorrect.

• **Explanation:** A current account surplus increases foreign demand for the domestic currency, leading to currency appreciation. This, in turn, increases foreign exchange demand, not decreases it.

5. Statement 1: An increase in the foreign exchange rate makes foreign goods cheaper for domestic consumers.

Statement 2: An increase in the foreign exchange rate makes domestic goods more expensive for foreign consumers.

Answer: (b) Both Statement 1 and Statement 2 are incorrect.

- **Explanation:** An increase in the foreign exchange rate means the domestic currency has depreciated, which makes foreign goods more expensive for domestic consumers and domestic goods cheaper for foreign consumers.
- **6.** Statement 1: The capital account of the Balance of Payments records inflows and outflows of investment, loans, and capital transfers.
- Statement 2: The capital account is directly related to the trading of goods and services.

Answer: (c) Statement 1 is correct, but Statement 2 is incorrect.

- **Explanation:** The capital account records capital flows like investments and loans, not goods and services (which are part of the current account).
- 7. Statement 1: A devaluation of the domestic currency makes exports more expensive.
- Statement 2: A devaluation of the domestic currency makes imports more expensive.

Answer: (d) Statement 1 is incorrect, but Statement 2 is correct.

- **Explanation:** Devaluation makes exports cheaper for foreign buyers and imports more expensive for domestic consumers.
- **8.** Statement 1: Foreign Exchange Reserves are used to settle international payments.
- Statement 2: Foreign exchange reserves are part of the capital account in the Balance of Payments.

Answer: (c) Statement 1 is correct, but Statement 2 is incorrect.

- **Explanation:** Foreign exchange reserves are used to settle international payments and are part of the official reserves in the Balance of Payments, not the capital account.
- 9. Statement 1: A higher interest rate in India can attract more foreign investment.
- Statement 2: Higher interest rates in India will lead to an outflow of foreign capital.

Answer: (c) Statement 1 is correct, but Statement 2 is incorrect.

- **Explanation:** Higher interest rates in India provide better returns, attracting more foreign investment, rather than leading to an outflow of foreign capital.
- **10.** Statement 1: A floating exchange rate system allows the exchange rate to be determined by market forces.

Statement 2: In a floating exchange rate system, the central bank plays an active role in determining the exchange rate.

Answer: (c) Statement 1 is correct, but Statement 2 is incorrect.

• **Explanation:** In a floating exchange rate system, the exchange rate is determined by market forces (demand and supply of currencies), not by the central bank.

CASE STUDY QUESTIONS

Case Study 1: India's Remittance Inflows

India consistently ranks as one of the top recipients of remittances globally, with large inflows from non-resident Indians (NRIs) working in the Gulf countries, the United States, and other nations. In 2022, India received record remittances of over \$100 billion, primarily driven by better job opportunities abroad and an increase in the global demand for skilled Indian workers. These remittances play a significant role in India's Balance of Payments (BoP), helping to bridge the current account deficit.

However, factors such as global economic slowdown, geopolitical tensions, and high transaction fees for remittances pose challenges. The government and financial institutions are working to make remittance processes more efficient to encourage further inflows.

- 1. What are remittances, and how are they recorded in the Balance of Payments?
- **2.** Explain two economic benefits of remittances for India.
- **3.** Discuss two challenges India might face in maintaining high remittance inflows.

ANSWERS:

- 1. **Remittances**: Money sent by individuals working abroad to their home country, typically to support their families.
 - In the Balance of Payments, remittances are recorded under the **current account** as a credit entry under the category of net transfers.
- 2. **Foreign Exchange Earnings**: Remittances provide a steady inflow of foreign currency, which helps improve India's foreign exchange reserves.
 - **Support for Households**: Remittances increase the disposable income of families, boosting domestic consumption and contributing to economic growth.
- 3. **Economic Slowdowns Abroad**: A global recession or reduced employment opportunities in countries where NRIs work could lower remittance inflows.
 - **High Transaction Costs**: Fees and charges for sending money reduce the net amount received by beneficiaries, discouraging remittance growth.

Case Study 2: Russia-Ukraine Conflict (2022)

The Russia-Ukraine conflict, which began in 2022, led to significant global economic disruptions. Sanctions imposed on Russia by Western nations caused a sharp decline in the Russian ruble, as international trade and financial transactions with Russia were restricted. The conflict also disrupted global supply chains, particularly in energy and food markets. Oil and gas prices surged due to Russia being a major energy supplier, while wheat and sunflower oil exports from both Russia and Ukraine were severely affected.

For oil-importing countries like India, rising crude oil prices increased the import bill, worsening the current account deficit. Additionally, uncertainty in global markets led to capital outflows from emerging economies, further impacting exchange rates and foreign exchange reserves.

- 1. Explain the impact of rising oil prices on the Balance of Payments of oil-importing countries like India.
- 2. Suggest two measures oil-importing countries can take to manage rising crude oil prices.
- 3. How can countries reduce their dependence on external energy sources to avoid such shocks in the future?

ANSWERS

- 1. Higher oil prices increase the import bill, leading to a larger current account deficit. This puts pressure on foreign exchange reserves and can result in currency depreciation.
- 2. **Diversify Energy Sources**: Invest in renewable energy and alternate fuel sources to reduce dependence on crude oil.
 - **Strategic Oil Reserves**: Utilize strategic oil reserves during periods of high prices to stabilize domestic markets.
- 3. **Promote Domestic Energy Production**: Develop domestic energy infrastructure, such as oil exploration or renewable energy production.
 - **Invest in Green Energy**: Encourage the use of solar, wind, and other renewable energy technologies to reduce reliance on fossil fuels.

Case Study 3: Depreciation of the Indian Rupee (2022)

In 2022, the Indian rupee depreciated significantly, crossing ₹80 per US dollar. The key factors behind this depreciation included a sharp increase in global crude oil prices due to geopolitical tensions (such as the Russia-Ukraine conflict), capital outflows from emerging markets, and a strong US dollar supported by rising interest rates in the United States.

The depreciation of the rupee had both positive and negative effects on the Indian economy. While it made imports like crude oil, electronics, and machinery more expensive, it benefited exporters as their goods became more competitive in global markets. The Reserve Bank of India (RBI) intervened in the foreign exchange market to stabilize the rupee by selling foreign exchange reserves.

- 1. Define currency depreciation and explain its main causes in the context of the Indian rupee in 2022.
- 2. Explain one positive and one negative effect of rupee depreciation on the Indian economy.
- 3. How did the Reserve Bank of India (RBI) attempt to stabilize the rupee, and what are the potential risks of this approach?

ANSWERS

1. Currency depreciation refers to the decline in the value of a country's currency relative to a foreign currency, often measured against the US dollar.

Main causes in 2022:

Rising global crude oil prices increased India's import bill, creating higher demand for dollars. Foreign investors withdrew capital from Indian markets, reducing the supply of dollars.

The US Federal Reserve increased interest rates, strengthening the US dollar and weakening other currencies, including the rupee.

- **2. Positive effect**: Exports become more competitive, as Indian goods and services are cheaper in foreign markets, benefiting sectors like IT and textiles.
 - **Negative effect**: Imports become more expensive, leading to higher inflation, especially for essential goods like crude oil and machinery.
- **3.** The RBI sold foreign exchange reserves to increase the supply of dollars in the market, thereby supporting the rupee.

Potential risks:

Depletion of forex reserves reduces India's ability to manage future currency volatility. Excessive intervention can disrupt natural market mechanisms.

Case Study 4: India's Trade Deficit

India has been experiencing a persistent trade deficit, primarily due to high imports of crude oil, gold, and electronic goods. In the fiscal year 2022-23, India's trade deficit widened significantly, reaching a record high of \$122 billion in the April–December period. While exports of goods like textiles, IT services, and pharmaceuticals have grown, they are not sufficient to offset the massive import bill.

Factors such as rising crude oil prices, global supply chain disruptions, and increased demand for imports have contributed to this deficit. A growing trade deficit puts pressure on India's foreign exchange reserves and can weaken the Indian rupee. The government has been exploring measures such as promoting exports, reducing non-essential imports, and encouraging domestic manufacturing under the "Make in India" initiative to address the issue.

1. What is a trade deficit, and how does it impact the Balance of Payments?	1
2. Explain how rising crude oil prices contribute to India's trade deficit.	1
3. How does a growing trade deficit affect the value of the Indian rupee?	1
4. What role does the "Make in India" initiative play in addressing the trade deficit?	1
5. Suggest two measures to reduce India's trade deficit and explain how they would help.	2

ANSWERS

- **1. Trade Deficit**: It occurs when a country's imports of goods and services exceed its exports. Impact on Balance of Payments: A trade deficit increases the current account deficit, leading to higher demand for foreign exchange and putting pressure on foreign exchange reserves.
- **2.** India is one of the largest importers of crude oil. When global oil prices rise, the cost of oil imports increases significantly, leading to a higher import bill. This widens the trade deficit as the value of imports outweighs exports.
- 3. A higher trade deficit increases the demand for foreign currencies like the US dollar to pay for imports. This demand weakens the Indian rupee, as the supply of rupees increases relative to foreign currencies.
- **4.** The "Make in India" initiative aims to boost domestic manufacturing and reduce reliance on imports by encouraging local production of goods. This not only lowers the import bill but also promotes exports of domestically produced goods, thereby helping to reduce the trade deficit.
- **5. Promote Exports**: By providing incentives to exporters and improving product quality, India can increase its export earnings, which would help balance the trade deficit.
 - **Encourage Domestic Manufacturing**: Policies like production-linked incentives (PLIs) can reduce dependence on imported goods like electronics and machinery, thereby lowering the import bill.

Case Study 5: US-China Trade War

The US-China trade war began in 2018 when the United States imposed tariffs on Chinese goods, accusing China of unfair trade practices, intellectual property theft, and a significant trade imbalance. China retaliated with tariffs on US goods, escalating the situation.

The trade war disrupted global supply chains, increased the cost of goods for consumers, and created uncertainty in financial markets. While some economies, like Vietnam and India, benefited from supply chain shifts, many others faced challenges due to rising protectionism. The conflict highlighted issues such as reliance on Chinese manufacturing and the global interdependence of economies.

1. What were the main reasons behind the US-China trade war?	1
2. How did the trade war impact global supply chains?	1
3. Discuss one positive and one negative effect of the trade war on the global economy.	1
4. How did the US-China trade war affect developing economies like India and Vietnam?	1
5. Suggest two measures countries can take to mitigate the risks of trade wars.	2

ANSWERS

- 1. The US accused China of:
 - o Unfair trade practices, including subsidies to Chinese industries.
 - o Intellectual property theft and forced technology transfers.
 - o A large trade surplus with the US, indicating a trade imbalance.
- **2.** The trade war disrupted global supply chains by increasing tariffs, making raw materials and goods more expensive. Companies shifted production to other countries to avoid tariffs, leading to significant supply chain restructuring.
- **3. Positive effect**: Countries like Vietnam, India, and Mexico benefited as companies diversified production away from China, creating new trade opportunities.
 - **Negative effect**: Increased protectionism and tariffs slowed global economic growth and led to higher costs for businesses and consumers.
- 4. India: The trade war created opportunities for India to increase exports to the US as an alternative supplier, particularly in sectors like textiles, electronics, and chemicals.

Vietnam: Vietnam became a key destination for companies relocating their supply chains,

boosting its manufacturing sector and trade volumes.

5. Diversify Trade Partners: By engaging with multiple countries and regional trade agreements, nations can reduce dependence on a single trading partner and minimize the impact of trade conflicts.

Promote Domestic Industries: Investing in local industries and infrastructure can help reduce reliance on imports and increase resilience during trade wars.

PART A- INDIAN ECONOMIC DEVELOPMENT UNIT-6 DEVELOPMENT POLICIES AND EXPERIENCE (1947-90)

This Unit comprises of the following three chapters:

Chapter 1: India on the eve of Independence

Chapter 2: Indian Economy (1950-1990)

Chapter 3: Economic Reforms Since 1991

ASSERTION-REASON QUESTIONS

Read the following statements – Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

Alternatives:

- e) Both Assertion (A) and Reason (R) are true and reason is the correct explanation of assertion.
- f) Both assertion (A) and reason (R) are true and reason is not the correct explanation of assertion.
- g) Assertion (A) is true but reason (R) is false.
- h) Assertion (A) is false but reason (R) is true.
- 1. Assertion (A): The Indian economy on the eve of independence was primarily agrarian.
 - **Reason (R):** A large proportion of the workforce was engaged in agriculture, but the sector suffered from low productivity and outdated technology.
 - **Answer:** (a) Both A and R are true, and R is the correct explanation of A.
- 2. **Assertion** (A): India had a well-developed industrial sector before independence.
 - **Reason** (R): British policies promoted industrialization by encouraging indigenous industries.
 - **Answer:** (d) Assertion (A) is false but reason(R) is false.
- 3. Assertion (A): The British introduced modern railways in India for the benefit of Indian people.
 - **Reason (R):** The railway network was primarily developed to facilitate British economic and administrative interests.
 - **Answer:** (d) A is false, but R is true.
- 4. Assertion (A): The Green Revolution led to an increase in food grain production in India.
 - **Reason (R):** The introduction of high-yielding variety (HYV) seeds, chemical fertilizers, and modern irrigation techniques contributed to higher agricultural productivity.
 - **Answer:** (a) Both A and R are true, and R is the correct explanation of A.
- **5. Assertion (A):** The license-permit raj helped in rapid industrial growth in India.
 - **Reason (R):** Excessive government control and bureaucracy led to inefficiency and slow growth in the industrial sector.
 - **Answer:** (d) A is false, but R is true.

- 6. **Assertion (A):** The Green Revolution benefited all farmers equally in India.
 - **Reason (R):** The benefits of the Green Revolution were concentrated in states with better irrigation facilities and among large farmers.

Answer: (c) A is false, but R is true.

- **7. Assertion (A):** The privatization policy led to the complete withdrawal of government control over all public sector enterprises.
 - **Reason** (**R**): Privatization involved the sale of shares of public sector enterprises to private entities, but the government retained control in some strategic sectors.

Answer: (c) A is false, but R is true.

- 8. **Assertion** (A): Globalization allowed Indian companies to expand their operations worldwide.
 - **Reason (R):** The removal of trade barriers and integration with the global economy increased foreign investments and exports.

Answer: (a) Both A and R are true, and R is the correct explanation of A.

- 9. **Assertion** (A): The 1991 reforms led to a reduction in income inequality in India.
 - **Reason (R):** While economic growth increased, the benefits were not evenly distributed, leading to rising income disparities.

Answer: (d) A is false, but R is true.

- **10. Assertion** (A): India's foreign exchange reserves increased significantly after economic reforms.
 - **Reason (R):** Higher foreign investments, increased exports, and remittances contributed to strengthening foreign exchange reserves.

Answer: (a) Both A and R are true, and R is the correct explanation of A.

STATEMENT QUESTIONS

In the following questions, Statement 1 is followed by Statement 2. Mark the correct choice

- (a) Both statements are true, and Statement 2 is the correct explanation of Statement 1.
- (b) Both statements are true, but Statement 2 is not the correct explanation of Statement 1.
- (c) Statement 1 is true, but Statement 2 is false.
- (d) Statement 1 is false, but Statement 2 is true.
- 1. **Statement 1:** The Indian economy on the eve of independence was characterized by stagnation and backwardness.

Statement 2: The British policies focused on the economic development of India by promoting industrialization and self-sufficiency.

Answer: (c) Statement 1 is true, but Statement 2 is false.

- 2. **Statement 1:** India had a flourishing handicraft industry before British rule.
 - **Statement 2:** British policies led to deindustrialization, causing a decline in traditional handicrafts and artisans' livelihoods.
 - **Answer:** (a) Both statements are true, and Statement 2 correctly explains Statement 1.
- 3. **Statement 1:** India's per capita income showed significant growth during the British rule.
 - **Statement 2:** The Indian economy was heavily exploited under British rule, leading to stagnant economic growth and widespread poverty.
 - **Answer:** (d) Statement 1 is false, but Statement 2 is true.
- 4. **Statement 1:** The British introduced modern railways in India to improve the transportation system.
 - Statement 2: The primary motive behind the introduction of railways was to facilitate British trade and

administration rather than economic development in India.

Answer: (a) Both statements are true, and Statement 2 correctly explains Statement 1.

5. **Statement 1:** India followed an import substitution policy between 1950 and 1990.

Statement 2: The government imposed high import tariffs and restrictions to protect domestic industries from foreign competition.

Answer: (a) Both statements are true, and Statement 2 correctly explains Statement 1.

6. **Statement 1:** The License-Permit Raj led to rapid industrialization in India.

Statement 2: Excessive government control and bureaucratic delays created inefficiencies and slowed down industrial growth.

Answer: (d) Statement 1 is false, but Statement 2 is true.

7. **Statement 1:** The Green Revolution led to an increase in agricultural productivity in India.

Statement 2: The use of high-yielding variety (HYV) seeds, fertilizers, and modern irrigation techniques significantly improved food grain production.

Answer: (a) Both statements are true, and Statement 2 correctly explains Statement 1.

8. **Statement 1:** Economic reforms since 1991 led to an increase in Foreign Direct Investment (FDI) in India

Statement 2: The government introduced policies to attract FDI by easing restrictions and allowing foreign companies to invest in various sectors.

Answer: (a) Both statements are true, and Statement 2 correctly explains Statement 1.

9. **Statement 1:** Liberalization led to the removal of restrictions on private sector participation in industries.

Statement 2: Before 1991, industries in India were strictly regulated under the License-Permit Raj, limiting private sector growth.

Answer: (a) Both statements are true, and Statement 2 correctly explains Statement 1.

10. **Statement 1:** The 1991 economic reforms primarily benefited the agricultural sector.

Statement 2: The reforms focused more on the industrial and service sectors, with limited direct impact on agriculture.

Answer: (d) Statement 1 is false, but Statement 2 is true.

DATA INTERPRETATION OUESTIONS:

Study the following table and answer the questions given below:

TABLE 3.1 Growth of GDP and Major Sectors (in %)

		7.					
Sector	1980-91	1992-2001	2002-07	2007-12	2012-13	2013-14	2014-15
Agriculture	3.6	3.3	2.3	3.2	1.5	4.2	- 0.2*
Industry	7.1	6.5	9.4	7.4	3.6	5	7.0*
Services	6.7	8.2	7.8	10	8.1	7.8	9.8*
Total	5.6	6.4	7.8	8.2	5.6	6.6	7.4

Source: Economic Survey for various years, Ministry of Finance, Government of India.

Note: *Data pertaining to Gross Value Added (GVA). The GVA is estimated from GDP by adding subsidies on production and subtracting indirect taxes.

(i) Analyze the trend in the growth rate of the Agriculture sector from 1980-81 to 2014-15. What observations can be made?

Answer: The Agriculture sector exhibited fluctuations in its growth rate over the years:

- It declined from 3.6% (1980-91) to 2.3% (2002-07), showing a downward trend.
- It briefly improved to 3.2% (2007-12) but again dropped to 1.5% (2012-13).
- There was a recovery in 2013-14 (4.2%), followed by a sharp decline to -0.2% (2014-15).

• The sector shows volatility, reflecting external factors like monsoons, policies, and structural challenges.

(ii) Compare the growth performance of the Industry and Services sectors in the post-liberalization period (1992-2015). Which sector performed better?

Answer: (a) The Industry sector showed varying growth, peaking at 9.4% (2002-07) but then declining to 3.6% (2012-13) before recovering to 7.0% (2014-15).

- (b) The Services sector consistently grew at a high rate, reaching a peak of 10% (2007-12) and maintaining strong growth at 9.8% (2014-15).
- (c) Overall, the Services sector performed better than the Industry sector post-liberalization, showing more stability and higher average growth.

CASE BASED OUESTIONS

1. Read the case carefully and answer the following questions:

Suez Canal is an artificial waterway running from north to south across the Isthmus of Suez in north-eastern Egypt. It connects Port Said on the Mediterranean Sea with the Gulf of Suez, an arm of the Red Sea. The canal provides a direct trade route for ships operating between European or American ports and ports located in South Asia, East Africa and Oceania by doing away with the need to sail around Africa. Strategically and economically, it is one of the most important waterways in the world. Its opening in 1869 reduced the cost of transportation and made access to the Indian market easier.

- (i) Why is the Suez Canal considered one of the most important waterways in the world? 3 The Suez Canal is strategically and economically significant because it provides a direct trade route between Europe, America, South Asia, East Africa, and Oceania. It eliminates the need to sail around Africa, reducing transportation costs and facilitating global trade.
- (ii) How did the opening of the Suez Canal in 1869 impact trade with India?

 The opening of the Suez Canal in 1869 reduced transportation costs and made access to the Indian market easier, boosting trade between India and European countries by providing a shorter and more efficient route.
- 2. Read the case carefully and answer the following questions:
 - The French traveller, Bernier, described seventeenth century Bengal in the following way: "The knowledge I have acquired of Bengal in two visits inclines me to believe that it is richer than Egypt. It exports, in abundance, cottons and silks, rice, sugar and butter. It produces amply for its own consumption wheat, vegetables, grains, fowls, ducks and geese. It has immense herds of pigs and flocks of sheep and goats. Fish of every kind it has in profusion. From rajmahal to the sea is an endless number of canals, cut in bygone ages from the Ganges by immense labour for navigation and irrigation."
- (i) According to Bernier, what made seventeenth-century Bengal one of the richest regions? 3
 Answer: Bernier described seventeenth-century Bengal as richer than Egypt due to its abundant agricultural and industrial production. The region exported cottons, silks, rice, sugar, and butter, and had sufficient production of wheat, vegetables, grains, and livestock for its own consumption. Additionally, Bengal had a vast network of canals for irrigation and navigation, contributing to its economic prosperity.
- (ii) How did Bengal's irrigation and transportation system contribute to its prosperity in the seventeenth century?

 Answer: Bengal had an extensive network of cenals that were constructed in certific times by

Answer: Bengal had an **extensive network of canals** that were constructed in earlier times by diverting water from the **Ganges River**. These canals played a crucial role in **irrigation**, ensuring high agricultural productivity, and in **transportation**, facilitating easy trade and commerce. This

well-developed infrastructure helped Bengal become a **leading exporter** of goods like **cotton**, **silk**, **rice**, **and sugar**, contributing to its immense wealth.

3. Read the case carefully and answer the following questions:

A plan spells out how the resources of a nation should be put to use. It should have some general goals as well as specific objectives which are to be achieved within a specified period of time; in India plans were of five years duration and were called five year plans (we borrowed this from the former Soviet Union, the pioneer in national planning). Our plan documents upto the year 2017 not only specify the objectives to be attained in the five years of a plan but also what is to be achieved over a period of twenty years. This long-term plan is called 'perspective plan'. The five year plans were supposed to provide the basis for the perspective plan. It will be unrealistic to expect all the goals of a plan to be given equal importance in all the plans. In fact the goals may actually be in conflict. For example, the goal of introducing modern technology may be in conflict with the goal of increasing employment if the technology reduces the need for labour. The planners have to balance the goals, a very difficult job indeed. We find different goals being emphasised in different plans in India. India's five year plans did not spell out how much of each and every good and service is to be produced. This is neither possible nor necessary (the former Soviet Union tried to do this and failed). It is enough if the plan is specific about the sectors where it plays a commanding role, for instance, power generation and irrigation, while leaving the rest to the market.

- (i) What is a five-year plan, and how does it relate to a perspective plan in India? 3 Answer: A five-year plan is a structured plan that outlines how a nation's resources should be utilized to achieve specific economic and social objectives within a five-year period. India adopted this system from the former Soviet Union. In addition to short-term goals, India also formulated perspective plans, which were long-term strategies covering twenty years. The five-year plans served as the foundation for achieving the broader objectives of the perspective plan, ensuring a systematic approach to national development.
- (ii) Why is it challenging for planners to balance different goals in a five-year plan? 3 Answer: It is challenging to balance different goals in a five-year plan because some objectives may conflict with each other. For example, the goal of introducing modern technology might lead to higher efficiency but could also reduce employment opportunities by decreasing the need for labor. Planners must carefully prioritize and balance these conflicting goals to ensure overall economic progress while addressing social concerns like employment and equitable development.
- 4. Read the case carefully and answer the following questions:
 - As a country develops, it undergoes 'structural change'. In the case of India, the structural change is peculiar. Usually, with development, the share of agriculture declines and the share of industry becomes dominant. At higher levels of development, the service sector contributes more to the GDP than the other two sectors. In India, the share of agriculture in the GDP was more than 50 per cent—as we would expect for a poor country. But by 1990 the share of the service sector was 40.59 per cent, more than that of agriculture or industry, like what we find in developed nations. This phenomenon of growing share of the service sector was accelerated in the post 1991 period.
- (i) What is meant by 'structural change' in an economy, and how is India's structural change different from the usual pattern?

Answer: Structural change refers to the shift in the relative contribution of different sectors (**agriculture, industry, and services**) to a country's GDP as it develops. Typically, a country moves from an **agriculture-dominated economy** to an **industrial economy**, and at later stages, the **service sector becomes dominant**. However, in India, the **service sector's share in GDP grew rapidly**

even before industrial dominance, reaching 40.59% by 1990. This is unusual because, in most countries, industrial growth precedes the expansion of the service sector.

(ii) How did the service sector's contribution to India's GDP change after 1991, and why was this shift significant?

Answer: After 1991, the service sector's contribution to India's GDP increased rapidly, surpassing both agriculture and industry. This acceleration was due to economic liberalization, globalization, and advancements in information technology and outsourcing. The rapid growth of services, such as IT and finance, played a major role in India's economic expansion, making it resemble developed nations in terms of GDP composition, even though industrial growth remained relatively slower.

5. Read the case carefully and answer the following questions:

The policy of 'land to the tiller' is based on the idea that the cultivators will take more interest they will have more incentive—in increasing output if they are the owners of the land. This is because ownership of land enables the tiller to make profit from the increased output. Tenants do not have the incentive to make improvements on land since it is the landowner who would benefit more from higher output. The importance of ownership in providing incentives is well illustrated by the carelessness with which farmers in the former Soviet Union used to pack fruits for sale. It was not uncommon to see farmers packing rotten fruits along with fresh fruits in the same box. Now, every farmer knows that the rotten fruits will spoil the fresh fruits if they are packed together. This will be a loss to the farmer since the fruits cannot be sold. So why did the Soviet farmers do something which would so obviously result in loss for them? The answer lies in the incentives facing the farmers. Since farmers in the former Soviet Union did not own any land, they neither enjoyed the profits nor suffered the losses. In the absence of ownership, there was no incentive on the part of farmers to be efficient, which also explains the poor performance of the agricultural sector in the Soviet Union despite availability of vast areas of highly fertile land. Source: Thomas Sowell, Basic Economics: A Citizen's Guide to the Economy, New York: Basic Books, 2004, Second Edition.

(i) Why is the policy of 'land to the tiller' considered important for increasing agricultural output?

Answer: The policy of 'land to the tiller' is based on the idea that ownership of land provides an incentive for cultivators to increase production. When farmers own the land they cultivate, they directly benefit from higher output and profits, motivating them to invest in better farming techniques and land improvements. In contrast, tenant farmers lack such incentives since the landowner gains the benefits, leading to lower productivity.

(ii) How does the example of Soviet farmers illustrate the importance of ownership in agriculture?

Answer: In the former Soviet Union, farmers did not own land, so they had no personal incentive to maximize efficiency or maintain quality. For example, they packed rotten fruits with fresh fruits, despite knowing it would lead to spoilage and loss. Since they neither gained profits nor suffered losses, they lacked motivation to be careful. This absence of ownership contributed to low agricultural productivity, despite the availability of fertile land.

6. Read the case carefully and answer the following questions:

You would have learnt in an earlier class about how prices of goods are determined in the market. It is important to understand that prices are signals about the availability of goods. If a good becomes scarce, its price will rise and those who use this good will have the incentive to make efficient decisions about its use based on the price. If the price of water goes up because of lower supply, people will have the incentive to use it with greater care; for example, they may stop watering the garden to conserve water. We complain whenever the price of petrol increases and

blame it on the government. But the increase in petrol price reflects greater scarcity and the price rise is a signal that less petrol is available—this provides an incentive to use less petrol or look for alternate fuels. Some economists point out that subsidies do not allow prices to indicate the supply of a good. When electricity and water are provided at a subsidised rate or free, they will be used wastefully without any concern for their scarcity. Farmers will cultivate water intensive crops if water is supplied free, although the water resources in that region may be scarce and such crops will further deplete the already scarce resources. If water is priced to reflect scarcity, farmers will cultivate crops suitable to the region. Fertiliser and pesticide subsidies result in overuse of resources which can be harmful to the environment. Subsidies provide an incentive for wasteful use of resources. Think about subsidies in terms of incentives and ask yourself whether it is wise from the economic viewpoint to provide free electricity to farmers.

- (i) How do rising prices act as signals for resource allocation?

 Answer: Prices act as signals about the availability of goods in the market. When a good becomes scarce, its price increases, encouraging people to use it efficiently. For example, if water supply decreases, its price rises, prompting consumers to conserve water by reducing unnecessary usage. Similarly, when petrol prices rise, consumers may limit usage or seek alternative fuels. This price mechanism helps allocate resources efficiently and prevents waste.
- (ii) How do subsidies lead to inefficient resource use?

 Answer: Subsidies distort price signals, leading to overuse and wastage of resources. For example, when electricity and water are subsidized or free, farmers may grow water-intensive crops in regions where water is scarce, worsening resource depletion. Similarly, fertilizer and pesticide subsidies can lead to overuse, harming the environment. If prices reflected scarcity, users would make rational decisions, promoting sustainable resource use.
- 7. Read the case carefully and answer the following questions:
 - Owing to globalisation, you might find many Indian companies have expanded their wings to many other countries. For example, ONGC Videsh, a subsidiary of the Indian public sector enterprise, Oil and Natural Gas Corporation engaged in oil and gas exploration and production has projects in 16 countries. Tata Steel, a private company established in 1907, is one of the top ten global steel companies in the world which have operations in 26 countries and sell its products in 50 countries. It employs nearly 50,000 persons in other countries. HCL Technologies, one of the top five IT companies in India has offices in 31 countries and employs about 15,000 persons abroad. Dr Reddy's Laboratories, initially was a small company supplying pharmaceutical goods to big Indian companies, today has manufacturing plants and research centres across the world. Source: www.rediff.com accessed on 14.10.2014.
- (i) How has globalization contributed to the expansion of Indian companies abroad? 3 Answer: Globalization has allowed Indian companies to expand internationally by providing access to foreign markets, advanced technology, and investment opportunities. Companies like ONGC Videsh, Tata Steel, HCL Technologies, and Dr. Reddy's Laboratories have established operations in multiple countries. This expansion has helped them increase their market share, create jobs globally, and enhance India's economic influence worldwide.
- (ii) Give examples of Indian companies that have expanded internationally and explain their global presence.

Answer: Several Indian companies have **expanded globally** due to globalization:

- ONGC Videsh operates oil and gas projects in 16 countries.
- Tata Steel has operations in 26 countries and sells products in 50 countries.
- HCL Technologies has offices in 31 countries and employs 15,000 persons abroad.
- Dr. Reddy's Laboratories has manufacturing plants and research centers worldwide.

These companies represent India's growing **economic footprint** in the global market.

8. Read the case carefully and answer the following questions:

Power sector reforms in many Indian states led to do away with the supply of electricity at subsidised rates and steep rise in power tariff. This has affected workers engaged in small industries. Powerloom textile industry in Andhra Pradesh is an example. Since the wages of the powerloom workers are linked to the production of cloth, power cut means cut in wages of weavers, who were already suffering from hike in tariff. A few years ago, this led to a crisis in the livelihood of the weavers and 50 powerloom workers committed suicide in a small town called 'Siricilla' in Andhra Pradesh.

(i) How did power sector reforms impact small industries in India?

3

Answer: Power sector reforms led to the removal of electricity subsidies and a steep rise in power tariffs in many Indian states. This negatively impacted small industries that rely heavily on electricity, such as the power loom textile industry in Andhra Pradesh. Higher electricity costs increased production expenses, reducing profits and affecting workers' livelihoods, as their wages were linked to production.

(ii) What were the consequences of power sector reforms for power loom workers in Andhra Pradesh?

Answer: The increase in **power tariffs** and **frequent power cuts** severely impacted **power loom workers** in Andhra Pradesh. Since their **wages depended on cloth production**, any reduction in power supply meant **lower earnings**. The crisis became severe in **Siricilla**, where **50 power loom workers committed suicide** due to financial distress, highlighting the devastating effects of these reforms on workers' livelihoods.

UNIT-7

CURRENT CHALLENGES FACING THE INDIAN ECONOMY

This Unit comprises of the following four chapters:

Chapter 4: Human Capital Formation; Chapter 5: Rural Development

Chapter 6: Employment ; Chapter 7: Sustainable Economic Development.

ASSERTION-REASON QUESTIONS:

11. **Assertion (A):** Investment in education leads to higher income and improved standard of living. **Reason (R):** Education enhances the productivity and efficiency of individuals, making them more employable.

Answer: Both A and R are true, and R is the correct explanation of A.

12. **Assertion (A):** Human capital formation and human development are the same concepts.

Reason (R): Both focus only on increasing the income of individuals in an economy.

Answer: Both A and R are false.

Explanation: Human capital formation focuses on improving skills and productivity, whereas human development is a broader concept that includes health, education, and standard of living. Also, human development is not solely about income.

- 13. **Assertion** (A): Expenditure on health is an important source of human capital formation. **Reason** (R): A healthy workforce is more productive and contributes effectively to economic growth. **Answer:** Both A and R are true, and R is the correct explanation of A.
- 14. **Assertion (A):** On-the-job training is not considered a part of human capital formation.

Reason (R): It does not involve formal education and is primarily skill-based learning.

Answer: A is false, but R is true.

Explanation: On-the-job training is a part of human capital formation as it enhances the skills and efficiency of workers. However, it is skill-based rather than formal education.

15. **Assertion (A):** Migration of highly skilled workers from a country leads to brain drain.

Reason (R): Brain drain reduces the availability of skilled professionals, impacting economic development.

Answer: Both A and R are true, and R is the correct explanation of A.

16. **Assertion** (A): Rural development focuses only on increasing agricultural production.

Reason (**R**): Agricultural growth is the only determinant of rural prosperity.

Answer: Both A and R are false.

Explanation: Rural development includes multiple aspects like education, health, infrastructure, employment, and rural credit, not just agricultural production. Similarly, rural prosperity depends on various factors beyond agriculture.

17. **Assertion (A):** Self-Help Groups (SHGs) play a crucial role in rural credit.

Reason (R): SHGs help in mobilizing savings and providing microfinance to rural households.

Answer: Both A and R are true, and R is the correct explanation of A.

Explanation: SHGs provide easy access to credit, promote savings, and empower rural people, particularly women, by providing small loans without collateral.

18. **Assertion** (A): Rural infrastructure development helps in reducing rural-urban migration.

Reason (R): Improved roads, electricity, and irrigation create employment opportunities in rural areas.

Answer: Both A and R are true, and R is the correct explanation of A.

Explanation: Development of infrastructure boosts economic activities in villages, reducing the need for migration to cities in search of jobs.

19. **Assertion (A):** Cooperative farming is an effective way to increase productivity in rural areas.

Reason (R): In cooperative farming, small farmers pool their land and resources to benefit from economies of scale.

Answer: Both A and R are true, and R is the correct explanation of A.

Explanation: Cooperative farming allows small farmers to share resources, reduce costs, and improve agricultural output, making it an effective model for rural development.

20. **Assertion** (A): Rural non-farm activities are essential for sustainable rural development.

Reason (R): Dependence solely on agriculture makes rural income vulnerable to seasonal and climatic risks.

Answer: Both A and R are true, and R is the correct explanation of A.

21. **Assertion (A):** The informal sector in India employs a large proportion of the workforce.

Reason (R): The informal sector offers better wages and job security than the formal sector.

Answer: A is true, but R is false.

Explanation: While the informal sector employs a majority of workers, it is characterized by low wages, lack of job security, and no social benefits like pension or health insurance.

22. **Assertion** (A): The unemployment rate in rural areas is lower than in urban areas.

Reason (R): Rural areas have disguised unemployment, where more people are engaged in work than required.

Answer: Both A and R are true, and R is the correct explanation of A.

Explanation: Disguised unemployment in rural areas makes it seem like more people are employed, but in reality, many of them do not contribute effectively to productivity.

23. **Assertion** (A): Employment in India is shifting from the primary sector to the tertiary sector.

Reason (R): The services sector in India has grown rapidly due to technological advancements and globalization.

Answer: Both A and R are true, and R is the correct explanation of A.

Explanation: The Indian economy is experiencing structural transformation, with employment gradually shifting from agriculture to the services sector due to technological progress and global trade expansion.

24. **Assertion** (A): Government schemes like MGNREGA help in reducing rural unemployment.

Reason (R): MGNREGA provides guaranteed wage employment to rural households.

Answer: Both A and R are true, and R is the correct explanation of A.

Explanation: MGNREGA ensures 100 days of wage employment for rural households, helping to reduce unemployment and provide a source of income.

25. **Assertion (A):** The quality of employment in India is a bigger issue than the quantity of employment.

Reason (R): A large proportion of jobs in India are low-paying, informal, and lack social security benefits.

Answer: Both A and R are true, and R is the correct explanation of A.

Explanation: Even though India has employment opportunities, a significant number of jobs are in the informal sector, offering low wages and no social protection, making quality a major concern.

26. **Assertion (A):** Sustainable development aims to balance economic growth with environmental protection.

Reason (R): Unchecked economic growth can lead to environmental degradation, harming long-term development prospects.

Answer: Both A and R are true, and R is the correct explanation of A.

Explanation: Sustainable development ensures that economic growth does not come at the cost of environmental destruction, securing resources for future generations.

27. **Assertion** (A): Industrialization has contributed significantly to environmental pollution.

Reason (R): Industries release pollutants into air, water, and soil, causing damage to ecosystems and human health.

Answer: Both A and R are true, and R is the correct explanation of A.

Explanation: Industrial activities release harmful emissions and waste, leading to air and water pollution, deforestation, and climate change.

28. **Assertion** (A): The use of renewable energy sources is essential for sustainable development.

Reason (R): Renewable energy sources, such as solar and wind power, are non-polluting and inexhaustible.

Answer: Both A and R are true, and R is the correct explanation of A.

Explanation: Renewable energy helps reduce dependence on fossil fuels, lowering carbon emissions and ensuring long-term environmental sustainability.

29. **Assertion** (A): Deforestation leads to an increase in greenhouse gases in the atmosphere.

Reason (R): Trees absorb carbon dioxide, and their removal results in higher atmospheric CO₂ levels, contributing to global warming.

Answer: Both A and R are true, and R is the correct explanation of A.

Explanation: Trees act as carbon sinks, absorbing CO₂. Deforestation reduces this capacity, leading to increased greenhouse gas levels and climate change.

30. **Assertion** (A): Economic development and environmental conservation cannot go hand in hand.

Reason (R): Environmental protection always restricts economic activities and reduces growth.

Answer: Both A and R are false.

STATEMENT QUESTIONS

1. **Statement 1:** Investment in education leads to an increase in human capital.

Statement 2: Education enhances skills, productivity, and employability of individuals.

Answer: Both statements are true, and Statement 2 is the correct explanation of Statement 1.

2. **Statement 1:** Human capital and physical capital are equally important for economic growth.

Statement 2: Physical capital alone can drive economic growth without human capital.

Answer: Statement 1 is true, but Statement 2 is false.

3. **Statement 1:** Expenditure on health is considered an investment in human capital.

Statement 2: A healthy workforce is more productive and contributes to higher economic growth.

Answer: Both statements are true, and Statement 2 is the correct explanation of Statement 1.

4. **Statement 1:** Expenditure on education is an investment in human capital.

Statement 2: Expenditure on education only benefits individuals and does not contribute to economic growth.

Answer: Statement 1 is true, but Statement 2 is false.

5. Statement 1: Brain drain negatively affects human capital formation in a country.

Statement 2: Migration of skilled workers reduces the availability of a qualified workforce domestically.

Answer: Both statements are true, and Statement 2 is the correct explanation of Statement 1.

6. **Statement 1:** Rural development focuses on improving the quality of life and economic well-being of people living in rural areas.

Statement 2: Rural development can be achieved only through agricultural growth.

Answer: Statement 1 is true, but Statement 2 is false.

7. **Statement 1:** Credit plays a crucial role in rural development by providing funds to farmers and rural businesses.

Statement 2: Institutional sources of credit, such as banks and cooperatives, have reduced the dependence on informal moneylenders.

Answer: Both statements are true, and Statement 2 is the correct explanation of Statement 1.

8. **Statement 1:** Diversification of agriculture is necessary for reducing rural poverty and increasing farmers' income.

Statement 2: Depending only on traditional crops can make farmers vulnerable to price fluctuations and climate change.

Answer: Both statements are true, and Statement 2 is the correct explanation of Statement 1.

9. **Statement 1:** Rural infrastructure, such as roads, electricity, and irrigation, is essential for rural development.

Statement 2: Poor infrastructure in rural areas reduces productivity and limits access to markets.

Answer: Both statements are true, and Statement 2 is the correct explanation of Statement 1.

10. **Statement 1:** Self-Help Groups (SHGs) play a vital role in empowering rural women and promoting self-employment.

Statement 2: SHGs provide microfinance and encourage savings among rural communities.

Answer: Both statements are true, and Statement 2 is the correct explanation of Statement 1.

11. **Statement 1:** Unemployment refers to a situation where people who are willing and able to work do not get employment at the existing wage rate.

Statement 2: Voluntary unemployment occurs when individuals choose not to work despite having job opportunities.

Answer: Both statements are true, but Statement 2 is not the correct explanation of Statement 1.

12. **Statement 1:** Disguised unemployment is commonly found in rural areas, especially in the agricultural sector.

Statement 2: In disguised unemployment, even if a few workers are removed, total output remains unaffected.

Answer: Both statements are true, and Statement 2 is the correct explanation of Statement 1.

13. **Statement 1:** The participation of women in the workforce is an indicator of economic development.

Statement 2: A high Female Labour Force Participation Rate (FLFPR) means that more women are engaged in productive economic activities.

Answer: Both statements are true, and Statement 2 is the correct explanation of Statement 1.

14. **Statement 1:** The informal sector in India provides employment to a large proportion of the workforce.

Statement 2: The informal sector offers stable jobs with social security benefits like pensions and health insurance.

Answer: Statement 1 is true, but Statement 2 is false.

15. **Statement 1:** Government schemes like MGNREGA aim to provide employment to rural workers.

Statement 2: MGNREGA guarantees 100 days of wage employment to every rural household willing to do unskilled manual work.

16. **Statement 1:** Sustainable development ensures that the needs of the present generation are met without compromising the ability of future generations to meet their own needs.

Statement 2: Sustainable development focuses only on economic growth, ignoring environmental concerns.

Answer: Statement 1 is true, but Statement 2 is false.

17. **Statement 1:** Pollution is a negative externality that arises from economic activities.

Statement 2: Industries and households often bear the full cost of pollution they create.

Answer: Statement 1 is true, but Statement 2 is false.

18. **Statement 1:** Renewable resources, such as solar and wind energy, are key to achieving sustainable development.

Statement 2: Renewable resources get exhausted with excessive use and cannot be replenished.

Answer: Statement 1 is true, but Statement 2 is false.

19. **Statement 1:** The use of environmental taxes (like carbon tax) helps in reducing pollution.

Statement 2: Environmental taxes make polluting activities more expensive, encouraging firms to adopt cleaner technologies.

Answer: Both statements are true, and Statement 2 is the correct explanation of Statement 1.

20. **Statement 1:** Deforestation leads to loss of biodiversity and disruption of ecological balance.

Statement 2: Afforestation and sustainable forest management can help in conserving biodiversity and maintaining environmental stability.

DATA INTERPRETATION AND PICTURE BASED QUESTIONS:

1. Interpret the following data and answer the questions given:

Q.1 Compare the Worker-Population Ratio of men and women in rural and urban areas. What does this indicate about gender disparity in employment?

Answer:

- The Worker-Population Ratio for men is 51.7% in rural areas and 53.0% in urban areas, while for women, it is 17.5% in rural areas and 14.2% in urban areas.
- This indicates a significant gender disparity in employment, with men's participation being much higher than women's in both rural and urban areas.
- The rural female Worker-Population Ratio (17.5%) is slightly higher than the urban female ratio (14.2%), suggesting that women in rural areas participate more in economic activities, possibly due to agricultural and informal sector employment.

Q.2 Calculate the difference between the total Worker-Population Ratios of rural and urban areas. What could be a possible reason for this difference?

Answer:

- The total Worker-Population Ratio for rural areas is **35.0%**, while for urban areas, it is **33.9%**.
- The difference is 35.0 33.9 = 1.1%.
- A possible reason for this difference is that rural areas have a higher dependency on agriculture and informal employment, where more people, including women, engage in work. In contrast, urban employment opportunities often require specialized skills, leading to a slightly lower overall Worker-Population Ratio.

2. Interpret the following data and answer the questions given:

Worker-Population Ratio in India, 2017-2018

Sex	Worker-Population Ratio					
	Total	Rural	Urban			
Men	52.1	51.7	53.0			
Women	16.5	17.5	14.2			
Total	34.7	35.0	33.9			

	Educational Attainment in India								
Sl.No.	Particulars	1990	2000	2011	2017-18				
1.	Adult Literacy Rate (per cent of people aged 15+)								
	1.1 Male	61.9	68.4	79	82				
	1.2 Female	37.9	45.4	59	66				
2.	Primary completion rate (per cent of relevant age group)								
	2.1 Male	78	85	92	93				
	2.2 Female	61	69	94	96				
3.	Youth literacy rate (per cent of people aged 15+ to 24)								
	3.1 Male	76.6	79.7	90	93				
	3.2 Female	54.2	64.8	82	90				

Q. 1 Analyze the trend in adult literacy rates for males and females from 1990 to 2017-18. What does this indicate about gender disparity in literacy?

Answer:

- The adult literacy rate for males increased from 61.9% in 1990 to 82% in 2017-18, showing a steady rise.
- The adult literacy rate for females improved from 37.9% in 1990 to 66% in 2017-18, indicating significant progress.
- Despite this improvement, a **gender gap remains**—in 2017-18, the male literacy rate was **16 percentage points higher** than the female literacy rate (82% vs. 66%).
- This suggests that while efforts to improve female literacy have been successful, women still face barriers to education compared to men.
- **Q. 2** Compare the youth literacy rates of males and females in 1990 and 2017-18. What does this suggest about educational progress among young people?

Answer:

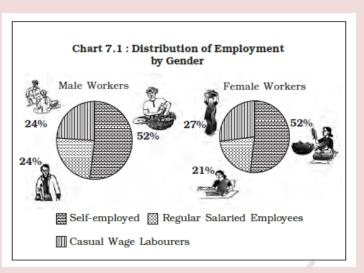
- In 1990, the youth literacy rate was 76.6% for males and 54.2% for females.
- By 2017-18, it had increased to 93% for males and 90% for females.
- The gap between male and female youth literacy narrowed significantly from 22.4 percentage points in 1990 to just 3 percentage points in 2017-18.
- This suggests **strong progress in educational attainment among young people**, with a particular improvement in female literacy, indicating better access to education for girls over time.

3. Interpret the following data and answer the questions given:

Q.1 Compare the distribution of employment among male and female workers. What does this indicate about gender differences in employment patterns?

Answer:

- Among male workers, 52% are selfemployed, 24% are regular salaried employees, and 24% are casual wage laborers.
- Among **female workers**, **52%** are selfemployed, **27%** are regular salaried



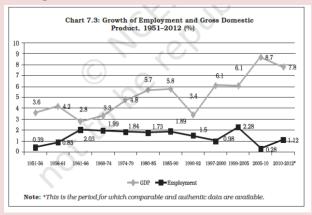
- employees, and 21% are casual wage laborers.
- The **self-employment percentage is the same** for both genders (52%), indicating that a significant portion of both men and women rely on their own enterprises or informal businesses.
- A slightly **higher percentage of women (27%)** are in regular salaried jobs compared to men (24%), but men have a slightly higher share in casual wage labor (24% vs. 21%).
- This suggests that while self-employment is common for both, women may face greater challenges in securing wage labor jobs compared to men.
- **Q. 2** Why do you think a large proportion of both male and female workers are self-employed? What could be the possible reasons behind this trend?

Answer:

- A high self-employment rate (52%) for both men and women suggests a reliance on informal or family-based businesses, agriculture, and small enterprises.
- Possible reasons include:
 - 1. **Limited availability of formal jobs** in both urban and rural areas.
 - 2. **Agriculture and allied activities** being a major source of livelihood, especially in rural India.
 - 3. Lack of skills or educational qualifications restricting access to salaried employment.
 - 4. **Preference for flexibility**, particularly for women, who may need to balance work with household responsibilities.
- This highlights the need for policies that support small businesses, skill development, and better employment opportunities in the formal sector.

4. Interpret the following data and answer the questions given:

- **Q.1:** Analyze the trend in GDP growth and employment growth from 1951 to 2012. What key observation can you make about their relationship? **Answer:**
 - **GDP growth** shows an increasing trend over time, rising from **3.6%** (**1951-56**) to a peak of **8.7%** (**2005-10**) before slightly declining to **7.8%** (**2010-12**).
 - Employment growth, however, fluctuates and remains relatively low, peaking at 2.28% (1999-2005) but dropping significantly to 0.28% (2005-10) before a slight recovery to 1.12% (2010-12).



- A key observation is that GDP growth does not necessarily translate into proportional
 employment growth, indicating jobless growth, where the economy expands but does not
 create enough jobs.
- **Q. 2:** Why do you think employment growth declined significantly after 2005, despite high GDP growth? Suggest possible reasons.

Answer:

• The sharp decline in employment growth after 2005, despite high GDP growth, can be attributed to:

- 1. **Technological advancements and automation**, reducing the need for labor in various sectors.
- 2. **Shift towards capital-intensive industries**, where production relies more on machinery than human labor.
- 3. **Growth in the service sector**, which, while contributing significantly to GDP, does not generate as many jobs as the manufacturing or agricultural sectors.
- 4. **Informalization of labor**, where jobs created may not be formal, secure, or adequately recorded in official employment data.
- This indicates the need for policies focused on **employment generation**, skill development, and labor-intensive industries.

5. Interpret the following data and answer the questions given:

Select Indicators of Development in Education and Health Sectors

Particulars	1951	1981	1991	2001	2016-17	
Real Per Capita Inc	7,651	12,174	15,748	23,095	77,659	
Crude Death Rate (Per 1,000 Population)		25.1	12.5	9.8	8.1	6.3
Infant Mortality Rate		146	110	80	63	33
Life Expectancy at Birth (in Years)	Male	37.2	54.1	59.7	63.9	67
	Female	36.2	54.7	60.9	66.9	70
Literacy Rate (%)		16.67	43.57	52.21	65.20	76

Source: Economic Survey for various years, Ministry of Finance National Statistical Office & Ministry of Statistics and Programme Implementation; Government of India.

Q. 1: How has India's literacy rate improved from 1951 to 2016-17? What does this indicate about educational development?

Answer:

- The literacy rate in India has significantly improved from 16.67% in 1951 to 76% in 2016-
- This indicates a **steady expansion of educational facilities**, increased **awareness about the importance of education**, and various **government initiatives** such as the National Literacy Mission and Sarva Shiksha Abhiyan.
- However, despite this progress, **there is still scope for improvement**, particularly in reducing the gender gap in literacy and ensuring higher enrollment and retention rates in schools.
- **Q. 2:** What changes do you observe in life expectancy at birth from 1951 to 2016-17? What factors might have contributed to this improvement?

Answer:

- Life expectancy at birth for males increased from 37.2 years in 1951 to 67 years in 2016-17, and for females, it rose from 36.2 years in 1951 to 70 years in 2016-17.
- This improvement can be attributed to several factors, including:
 - 1. **Better healthcare facilities** and expanded access to medical treatment.
 - 2. **Reduction in infant mortality rate** from 146 in 1951 to 33 in 2016-17.
 - 3. **Improved nutrition, sanitation, and hygiene**, leading to better overall health.
 - 4. **Government programs** like immunization drives and maternal healthcare services.

• The increase in life expectancy reflects **enhanced quality of life and health infrastructure** in India over the years.

6. Interpret the following data and answer the questions given:

Q.1: What does the chart indicate about the distribution of male and female workers in the formal and informal sectors?

Answer:

- (i) In the **formal sector**, there are **24 million male workers** and **6 million female workers**, indicating that **women have significantly lower representation** in formal employment.
- (ii) In the **informal sector**, there are **310 million male workers** and **133 million female workers**, showing that the majority of workers, both male and female, are employed in the informal sector.
- (iii) This suggests that **informal employment dominates the Indian labor market**, and women are **even more concentrated in informal jobs**, which often lack social security and stability.
- **Q. 2:** Why do you think the number of workers in the informal sector is much higher than in the formal sector?

Answer:

- The dominance of the informal sector can be attributed to several reasons:
 - 1. **Limited availability of formal jobs** due to slow industrial growth and rigid labor laws.
 - 2. **Easy entry into informal jobs**, which require fewer qualifications and investment.
 - 3. **Agriculture and small-scale industries** form a major part of India's economy, and these are largely informal.
 - 4. **Gender disparities**, where women often take up informal jobs due to household responsibilities, lack of education, or social norms.

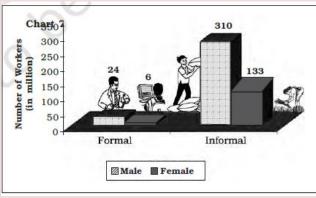
CASE BASED QUESTIONS

Case 1: Investment in Education and Economic Growth

India has seen a rapid expansion of higher education institutions over the past two decades. The government has increased public spending on education through schemes like **Sarva Shiksha Abhiyan** and **National Education Policy (NEP) 2020**. However, despite these efforts, the employability of graduates remains a concern due to skill gaps.

Answer the following questions:

- a) How does public investment in education contribute to human capital formation? (2 marks)
- **b)** Why is there still a skill gap despite an increase in educational institutions? (2 marks)
- **c)** Suggest one way to bridge this skill gap. (2 marks) Answer:
- **a**) Public investment in education improves human capital formation by increasing literacy rates, enhancing knowledge and skills, and making individuals more productive, leading to higher economic growth.
- **b**) The skill gap exists because many educational institutions focus on theoretical knowledge rather than practical skills needed in industries. Additionally, outdated curricula and lack of vocational training contribute to low employability.



c) One way to bridge this skill gap is by incorporating **industry-oriented vocational training** and **internship programs** in school and college curriculums to provide hands-on experience.

Case 2: Role of Healthcare in Human Capital Formation

Sita and Ramesh both completed the same level of education, but while Sita enjoys good health, Ramesh frequently falls ill due to malnutrition and poor access to healthcare. Over time, Sita secures a high-paying job, whereas Ramesh struggles to keep up with work demands due to his health issues. Answer the following questions:

- a) How does good health contribute to human capital formation? (2 marks)
- **b)** Why is Ramesh at a disadvantage despite having the same education as Sita? (2 marks)
- **c**) Suggest a government policy that can improve healthcare and boost human capital. (2 marks) **Answer:**
- a) Good health contributes to human capital formation by increasing a person's efficiency, productivity, and ability to work for longer periods without frequent absenteeism.
- **b**) Ramesh is at a disadvantage because poor health reduces his ability to perform well at work, leading to lower income and fewer career opportunities despite having the same education as Sita.
- c) The **Ayushman Bharat Scheme** is a government policy that provides free healthcare services to economically weaker sections, ensuring better health and improved human capital.

Case 3: Importance of Rural Credit

Rahul is a farmer in a small village in Maharashtra. He wants to buy modern farm equipment to improve his crop yield, but he does not have enough savings. He approaches a local moneylender who offers him a loan at an extremely high-interest rate. Later, he learns about **Kisan Credit Card** (**KCC**) and takes a loan from a government bank at a much lower interest rate.

Answer the following questions:

- a) Why is access to credit important for rural farmers like Rahul? (2 marks)
- **b)** What is the disadvantage of borrowing from local moneylenders? (2 marks)
- **c**) How do government schemes like Kisan Credit Card help farmers? (2marks) Answer:
- **a)** Access to credit is important for rural farmers as it helps them invest in better farming equipment, seeds, and fertilizers, leading to higher productivity and income.
- **b**) Borrowing from local moneylenders is risky because they charge high-interest rates, which can trap farmers in a cycle of debt and financial distress.
- c) The **Kisan Credit Card** (**KCC**) scheme provides farmers with low-interest loans, flexible repayment options, and financial security, enabling them to improve their agricultural productivity.

Case 4: Role of Rural Infrastructure

Meera lives in a village where roads are poorly maintained, and there is no reliable electricity supply. Due to this, she and other women in the village face difficulties in running their small handicraft business. However, after the implementation of **Pradhan Mantri Gram Sadak Yojana (PMGSY)** and rural electrification projects, they can now transport goods easily and use modern machines, increasing their income.

Answer the following questions:

- a) How does rural infrastructure development impact economic activities? (2 marks)
- **b)** Why is road connectivity important for rural businesses? (2 marks)
- c) Name one government scheme that focuses on rural electrification and explain its benefit. (2 marks)

Answer:

- **a**) Rural infrastructure development improves access to markets, increases productivity, and enhances the quality of life by providing better facilities like roads, electricity, and communication.
- **b**) Road connectivity is important for rural businesses as it allows easy transportation of goods to markets, reduces costs, and increases business opportunities.
- c) Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) is a rural electrification scheme that provides continuous power supply to villages, helping small businesses and improving living standards.

Case 5: The Rise of Gig Economy and Informal Employment

Rohit, a 26-year-old software engineer, lost his full-time job during the pandemic. To sustain himself, he started working as a freelance web developer on various online platforms. Though he earns a decent income, he does not receive any employee benefits such as job security, health insurance, or retirement savings. Many young professionals like Rohit are now part of the growing **gig economy**, working as freelancers, contract workers, or temporary employees.

Answer the following questions:

- a) What is the gig economy, and how does it impact employment patterns? (2 marks)
- **b)** What are the advantages and disadvantages of working in the gig economy? (2 marks)
- **c**) Suggest two measures the government can take to provide security to gig workers. (2 marks) Answer:
- a) The **gig economy** refers to a labor market characterized by short-term, freelance, or contract-based jobs instead of traditional full-time employment. It impacts employment patterns by increasing flexible work opportunities but also reducing job security and social benefits for workers.

b)

Advantages:

- Provides flexible working hours and location independence.
- Allows workers to take on multiple jobs and earn more.

Disadvantages:

- No job security, paid leave, or retirement benefits.
- Workers lack legal protection and often face unstable incomes.
- c) Two measures to provide security to gig workers:
 - **Implementing social security schemes** that offer health insurance, pension, and financial support to gig workers.
 - Creating labor laws for the gig sector that ensure fair wages, protection against exploitation, and job stability.

Case 6: Educated Unemployment and Skill Gap

Megha, a postgraduate in Economics, has been struggling to find a job for over a year. Despite her qualifications, she is unable to get employment in her field. Many of her classmates have taken jobs that do not match their educational qualifications, working in sectors unrelated to their studies. At the same time, companies complain about the lack of skilled workers in the market. Answer the following questions:

- a) What type of unemployment is Megha facing? Explain its causes. (2 marks)
- **b)** How does a skill gap contribute to unemployment despite job opportunities? (2 marks)
- **c**) Suggest two policies the government can implement to reduce educated unemployment. (2 marks) Answer:
- **a)** Megha is facing **educated unemployment**, where individuals with higher education degrees are unable to find jobs that match their qualifications. Causes include:
 - Mismatch between education and job market requirements.
 - Overcrowding in certain professions while other sectors lack skilled workers.

- Lack of practical and vocational training in the education system.
- **b**) A **skill gap** occurs when job seekers do not have the skills required by employers. Even though jobs are available, companies struggle to find candidates with relevant training, technical knowledge, or hands-on experience. This leads to unemployment despite the presence of vacancies.
- c) Two policies to reduce educated unemployment:
 - Enhancing vocational education and skill development programs like Skill India Mission to align education with industry needs.
 - Encouraging entrepreneurship and self-employment through financial assistance, training, and startup-friendly policies.

Case 7: Deforestation and Its Impact on Sustainability

The Sundarbans, a large mangrove forest in India, has been facing deforestation due to human encroachments, agricultural expansion, and climate change. Over the years, the loss of trees has led to increased soil erosion, frequent floods, and a decline in biodiversity. Many local communities, who depend on the forest for their livelihood, have been severely affected. Answer the following questions:

- a) How does deforestation impact sustainable development? (2 marks)
- **b)** What could be the long-term consequences of deforestation in the Sundarbans? (2 marks)
- c) Suggest two measures that can be taken to prevent deforestation and promote sustainable development. (2 marks)

Answer:

- a) Deforestation negatively impacts sustainable development by reducing forest cover, increasing carbon emissions, disrupting ecosystems, and endangering species. It also affects local communities by reducing natural resources needed for their livelihood.
- **b**) The long-term consequences of deforestation in the Sundarbans include:
 - Increased risk of coastal flooding and cyclones due to the loss of natural barriers.
 - Soil erosion leading to reduced agricultural productivity.
 - Loss of biodiversity, affecting the ecological balance.
 - Displacement of communities dependent on forests.
- c) Two measures to prevent deforestation and promote sustainable development are:
 - Afforestation and reforestation programs to restore lost tree cover and maintain ecological balance.
 - Strict implementation of environmental laws to regulate land use and prevent illegal deforestation.

Case 8: Air Pollution and Urban Sustainability

Delhi has been facing severe air pollution due to vehicular emissions, industrial activities, and stubble burning in neighboring states. Every winter, the Air Quality Index (AQI) reaches hazardous levels, causing health issues like respiratory diseases, reduced visibility, and disruptions in daily life. The government has introduced measures like the **Odd-Even scheme**, promotion of electric vehicles, and the **National Clean Air Programme** (NCAP) to address the crisis.

Answer the following questions:

- a) How does air pollution affect sustainable development in urban areas? (2 marks)
- **b**) Why is controlling vehicular emissions important in cities like Delhi? (2 marks)
- **c**) Suggest two policies that can help reduce air pollution in cities. (2 marks) Answer:
- a) Air pollution affects sustainable development by reducing air quality, increasing health problems, lowering productivity, and damaging infrastructure. It also leads to environmental degradation, impacting future generations.
- **b**) Controlling vehicular emissions is important because transport is one of the largest contributors to air pollution in cities. High emissions lead to smog, respiratory diseases, and environmental damage, affecting both human health and economic growth.

- c) Two policies to reduce air pollution in cities are:
 - **Promoting public transportation and electric vehicles** to reduce dependency on fossil fuel-based transport.
 - Enforcing strict emission norms for industries and vehicles to limit the release of harmful pollutants.

UNIT-8

<u>DEVELOPMENT EXPERIENCES OF INDIA: A COMPARISON WITH NEIGHBOURS</u>

This Unit comprises of the following chapter:

Chapter 10: Comparative Development Experiences of India And Its Neighbours

ASSERTION-REASON QUESTIONS:

Q1.Assertion (A): India, China, and Pakistan started their development process around the same time.

Reason (**R**): All three countries gained independence in the same year and had similar economic conditions.

Answer: (C) Assertion is true, but Reason is false.

India gained independence in 1947, Pakistan was formed in the same year, while China became a communist nation in 1949. Though they had similar economic challenges, their political systems and development strategies were different.

Q2.Assertion (A): China has a higher GDP growth rate than India and Pakistan.

Reason (R): China adopted economic reforms in 1978, earlier than India and Pakistan.

Answer: (A) Both Assertion and Reason are true, and Reason is the correct explanation of Assertion. China's early market-oriented reforms under Deng Xiaoping led to rapid industrialization and economic growth.

Q3.Assertion (A): India has a higher Human Development Index (HDI) ranking than Pakistan. **Reason** (R): India has made more progress in health, education, and income indicators compared to Pakistan.

Answer: (A) Both Assertion and Reason are true, and Reason is the correct explanation of Assertion. India has invested more in education and health, leading to better HDI performance than Pakistan.

Q4.Assertion (A): China has the highest share of the industrial sector in GDP among India, China, and Pakistan.

Reason (R): China follows a socialist economic model with complete government control over industries.

Answer: (C) Assertion is true, but Reason is false.

China follows a mixed economy where both state-owned and private enterprises contribute to industrial growth.

Q5.Assertion (A): Pakistan has the lowest literacy rate among the three countries.

Reason (R): Political instability and low investment in education have slowed down Pakistan's literacy growth.

Answer: (A) Both Assertion and Reason are true, and Reason is the correct explanation of Assertion. Pakistan has struggled with political instability, leading to inadequate spending on education.

Q6.Assertion (A): India's service sector contributes more to GDP than its agricultural sector.

Reason (R): Economic reforms in 1991 led to rapid growth in India's IT and financial services.

Answer: (A) Both Assertion and Reason are true, and Reason is the correct explanation of Assertion. Post-liberalization, India experienced a boom in the service sector, particularly in IT and finance.

Q7.Assertion (A): The one-child policy in China helped control its population growth.

Reason (R): The policy led to an increase in the working-age population and reduced dependency ratios.

Answer: (B) Both Assertion and Reason are true, but Reason is not the correct explanation of Assertion.

The one-child policy reduced population growth, but it also led to an aging population and gender imbalance.

Q8.Assertion (A): China has the highest per capita income among the three nations.

Reason (**R**): China's high industrial and export-oriented growth has increased its national income significantly.

Answer: (A) Both Assertion and Reason are true, and Reason is the correct explanation of Assertion. China's industrialization and export-driven policies have led to higher per capita income.

Q9.Assertion (A): India has a lower life expectancy than China.

Reason (**R**): China has better healthcare infrastructure and government initiatives in public health.

Answer: (A) Both Assertion and Reason are true, and Reason is the correct explanation of Assertion. China's investment in healthcare and social services has resulted in higher life expectancy.

Q10.Assertion (A): Pakistan's economic growth rate has been volatile compared to India and China. **Reason (R):** Frequent political instability and security issues have impacted Pakistan's economic policies.

STATEMENT QUESTIONS

Q1.Statement 1: China's economic growth rate has been higher than that of India and Pakistan.

Statement 2: China adopted economic reforms in 1978, earlier than India and Pakistan.

Answer: (A) Both Statement 1 and Statement 2 are true, and Statement 2 is the correct explanation of Statement 1.

China's early market-oriented reforms led to rapid industrialization and economic growth.

Q2.Statement 1: India's service sector contributes the highest to its GDP.

Statement 2: India focused on the industrial sector more than the service sector after independence. **Answer:** (B) Statement 1 is true, but Statement 2 is false.

India's economic growth post-1991 was driven by the service sector, while initially, it focused more on industrialization and agriculture.

Q3.Statement 1: Pakistan's economic growth has been inconsistent over the years.

Statement 2: Political instability and security concerns have affected Pakistan's economic policies.

Answer: (A) Both Statement 1 and Statement 2 are true, and Statement 2 is the correct explanation of Statement 1.

Pakistan has faced frequent policy changes due to political and security issues, leading to an unstable economy.

Q4.Statement 1: China has a higher share of manufacturing in its GDP than India and Pakistan.

Statement 2: The Chinese government followed a planned approach to promote industrial growth.

Answer: (A) Both Statement 1 and Statement 2 are true, and Statement 2 is the correct explanation of Statement 1.

China's government played a major role in boosting industrial production through state-led policies.

Q5.Statement 1: The literacy rate in India is higher than in Pakistan.

Statement 2: India has invested more in education and skill development than Pakistan.

Answer: (A) Both Statement 1 and Statement 2 are true, and Statement 2 is the correct explanation of Statement 1.

India's consistent efforts in education policies have resulted in a higher literacy rate.

Q6.Statement 1: The life expectancy of people in China is higher than that of India and Pakistan.

Statement 2: China has a well-developed public healthcare system and higher government spending on health.

Answer: (A) Both Statement 1 and Statement 2 are true, and Statement 2 is the correct explanation of Statement 1.

China's investment in healthcare services has resulted in higher life expectancy.

Q7.Statement 1: India has a lower per capita income than China.

Statement 2: China has achieved rapid industrialization and higher productivity in various sectors.

Answer: (A) Both Statement 1 and Statement 2 are true, and Statement 2 is the correct explanation of Statement 1.

China's large-scale industrialization and export-driven policies have led to higher per capita income.

Q8.Statement 1: India's economic reforms started in 1991.

Statement 2: India followed a closed economy before 1991, with heavy government control over industries.

Answer: (A) Both Statement 1 and Statement 2 are true, and Statement 2 is the correct explanation of Statement 1.

India had a socialist-style economy before liberalization in 1991.

Q9.Statement 1: China has the largest foreign exchange reserves among the three countries.

Statement 2: China is the largest exporter of manufactured goods in the world.

Answer: (A) Both Statement 1 and Statement 2 are true, and Statement 2 is the correct explanation of Statement 1.

China's export-oriented policies have helped it accumulate huge foreign exchange reserves.

Q10.Statement 1: Pakistan's agricultural sector contributes more to GDP compared to its industrial sector.

Statement 2: Pakistan's economy still relies heavily on agriculture and has a smaller industrial base.

Answer: (A) Both Statement 1 and Statement 2 are true, and Statement 2 is the correct explanation of Statement 1.

Pakistan has been unable to diversify its economy as effectively as India and China.

DATE A INTERDIDETTATION AND DICTUDE DAGED QUESTIONS

DATA INTERPRETATION AND PICTURE BASED QUESTIONS:

1. Study the table, interpret the data and answer the questions given below:

Select Demographic Indicators, 2017-18

Country	Estimated Population (in million)	Annual Growth of Population	Denstty (per sq. km)	Sex Ratto	Fertility Rate	Urbantsatton
Indta	1352	1.03	455	924	2.2	34
Chtna	1393	0.46	148	949	1.7	59
Pakistan	212	2.05	275	943	3.6	37

Source: World Development Indicators 2019, www.worldbank.org

Q1. Compare the population density and annual population growth rate of India, China, and

Pakistan. What does this indicate about the population trends in these countries? Answer:

- **Population Density (per sq. km):** India (455), China (148), Pakistan (275).
- Annual Growth Rate of Population: India (1.03%), China (0.46%), Pakistan (2.05%).

This indicates that:

- India has the highest population density, meaning it has more people per unit of land than China and Pakistan.
- Pakistan has the highest population growth rate (2.05%), which suggests rapid population expansion.
- China has the lowest growth rate (0.46%), likely due to its past population control policies like the One-Child Policy.

Q2. Which country has the highest fertility rate? How does it relate to urbanization levels in these countries?

Answer:

- **Fertility Rate:** Pakistan (3.6), India (2.2), China (1.7).
- **Urbanization (% of population living in urban areas):** China (59%), Pakistan (37%), India (34%).

This shows that:

- Pakistan has the highest fertility rate (3.6), which correlates with lower urbanization (37%), meaning more people live in rural areas where birth rates tend to be higher.
- China has the lowest fertility rate (1.7) but the highest urbanization (59%), indicating that higher urbanization is associated with lower birth rates due to better education, career opportunities, and access to healthcare.
- **India falls in between**, with moderate fertility and urbanization levels.
- 2. Study the figure, interpret the data and answer the questions given below:
- Q1. Identify two major agricultural activities in each of the three countries—India, China, and Pakistan—based on the given map.

Answer:

- **India:** Rice and Tea cultivation are prominent.
- **China:** Rice and Fishing are major agricultural activities.
- **Pakistan:** Cotton and Goat rearing are significant.

This distribution highlights how different climatic conditions and geographical factors influence agricultural patterns in these countries.

Q2. Why is rice cultivation common in both India and China, while cotton cultivation is more prominent in Pakistan?



Fig. 10.2 Land use and agriculture in India, China and Pakistan

Answer:

• Rice cultivation is prevalent in India and China because both countries have fertile plains, high rainfall, and favorable temperatures, especially in regions like the Indo-Gangetic Plain in India and the Yangtze River Basin in China.

Cotton cultivation is more prominent in Pakistan because its climate is drier with less rainfall, and cotton requires warm temperatures and moderate irrigation, which is available in regions like Punjab and Sindh.

This shows how climate and topography influence agricultural patterns in these three countries.

3. Study the figure, interpret the data and answer the questions given below:

O1. Which industries are commonly found in all three countries—India, China, and Pakistan according to the map?

Answer:

The industries that are common in India, China, and **Pakistan** are:

- 1. **Textiles** Found in all three countries, as they have a strong tradition of textile production.
- 2. **Iron & Steel** Present in major industrial regions, indicating the importance of heavy industries.
- 3. **Cement** Essential for infrastructure and construction in all three nations.

This similarity suggests that these countries focus on industries that support manufacturing, infrastructure, and exports.

Q2. Why does China have more electronics and car/vehicle manufacturing industries compared to India and Pakistan?

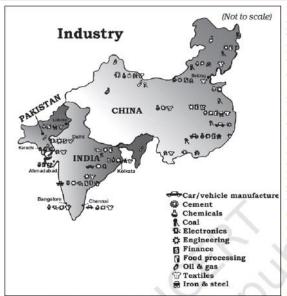


Fig. 10.3 Industry in India, China and Pakistan

Answer:

- China is a global manufacturing hub with mass production capabilities, better infrastructure, and significant foreign investments in electronics and automobiles.
- Government policies, like **Special Economic Zones** (**SEZs**) and export incentives, have encouraged foreign companies to set up production units in China.
- In contrast, **India and Pakistan** have growing but **smaller** electronics and automobile industries due to comparatively less infrastructure and investment in high-tech industries.

Thus, China's dominance in these industries is due to better infrastructure, investment policies, and export-oriented manufacturing.

4. Study the table, interpret the data and answer the questions given below:

Sectoral Share of Employment and GVA (%) in 2018-2019

Sector	Contribution to GVA			Distribution of Workforce		
	India China Pakistan		India	China	Pakistan	
Agriculture	16	7	24	43	26	41
Industry	30	41	19	25	28	24
Services	54	52	57	32	46	35
Total	100	100	100	100	100	100

Source: Human Development Report 2019; Key Indicators of Asia and Pacific 2019.

Q1. Compare the contribution of the agriculture sector to GVA and workforce distribution in India, China, and Pakistan. What does this indicate about their economies? Answer:

- **Agriculture Contribution to GVA:** India (16%), China (7%), Pakistan (24%).
- Workforce in Agriculture: India (43%), China (26%), Pakistan (41%).

This indicates that:

- China has the lowest dependence on agriculture, as it contributes only 7% to GVA, and only 26% of its workforce is engaged in agriculture. This suggests a shift to industrial and service-based growth.
- India and Pakistan still have a high percentage of their workforce in agriculture (43% and 41%), but agriculture contributes only 16% and 24% to GVA, respectively.
- **This shows disguised unemployment** in India and Pakistan, where too many people depend on agriculture despite its lower economic contribution.

Q2. Why does China have a higher contribution of Industry to GVA (41%) compared to India (30%) and Pakistan (19%)?

Answer:

- China has focused on **industrialization and manufacturing**, attracting **foreign direct investment (FDI)** and becoming the **world's factory**.
- India's industry contribution (30%) is lower due to slow industrial growth, regulatory hurdles, and a focus on the services sector.
- Pakistan's industry sector (19%) is the smallest, reflecting lower industrialization, weak infrastructure, and economic instability.

Thus, China's strong industrial base contributes significantly to its GDP, while India and Pakistan still rely more on agriculture and services.

5. Study the table, interpret the data and answer the questions given below:

80-2015
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Country	1980-90			2014–18		
	Agriculture	Industry	Service	Agriculture	Industry	Service
India	3.1	7.4	6.9	3.1	6.9	7.6
China	5.9	10.8	13.5	3.1	5.3	7.1
Pakistan	4	7.7	6.8	1.7	4.8	5.0

Q1. Compare the growth rates of the agriculture sector in India, China, and Pakistan between 1980–90 and 2014–18. What trend can be observed? Answer:

- India's agriculture growth remained the same at 3.1% in both periods.
- China's agriculture growth declined from 5.9% (1980–90) to 3.1% (2014–18), indicating a shift away from agriculture to industry and services.
- Pakistan's agriculture growth dropped significantly from 4% to 1.7%, showing stagnation and challenges in the agricultural sector.

Trend Observed:

• Agriculture growth has slowed in all three countries, with the biggest decline in Pakistan.

• China and India have focused more on industrial and service sector growth, while Pakistan struggles with agricultural productivity.

Q2. Why did China's service sector grow at 13.5% in 1980–90 but slow down to 7.1% in 2014–18, while India's service sector maintained steady growth? Answer:

- China's service sector growth (13.5% to 7.1%) slowed because:
 - o **Industrial expansion** took priority in recent years.
 - o **Economic restructuring** focused on manufacturing and exports.
 - o A shift towards a balanced economy, reducing dependence on services.
- India's service sector (6.9% to 7.6%) remained strong because:
 - o IT and software exports increased.
 - o Service-based startups and outsourcing industries flourished.
 - o **Higher domestic consumption of services** supported growth.

Thus, China's shift towards industry reduced its service sector growth, while India's service sector continued to expand due to IT and outsourcing.

CASE BASED QUESTIONS

Case 1: Economic Growth and Human Development in India and China

China has experienced rapid economic growth, with an annual GDP growth rate exceeding 10% in the 1980s and 1990s. However, India's growth picked up pace in the 1990s, and by 2015–2017, India's GDP growth (7.3%) surpassed China's (6.8%). Despite this, China has a higher Human Development Index (HDI) of **0.761**, while India's is **0.645**.

Q1. Why does China have a higher HDI than India despite India's recent higher GDP growth? **Answer:**

- China has better healthcare, education, and infrastructure than India.
- **Higher per capita income (US\$ 16,057 vs. India's US\$ 6,681)** allows more spending on public services.
- Lower poverty rate (1.7% in China vs. 21.9% in India) improves living standards.

Q2. What lesson can India learn from China's development strategy?

Answer:

- Focus on **human capital development** (education and healthcare).
- Improve infrastructure and ease of doing business.
- Strengthen manufacturing and exports to sustain growth.

Case 2: Population Growth and Challenges in Pakistan

Pakistan has the **highest population growth rate** (2.05%) among the three countries, leading to increased pressure on resources. Its **fertility rate** (3.6) is higher than India's 2.2 and China's 1.7. The country also faces economic instability and limited job opportunities.

Q1. How does high population growth impact Pakistan's development?

Answer:

- Increased demand for jobs, education, and healthcare, straining public resources.
- Higher dependency ratio, meaning fewer working individuals per dependent.
- Limited investment in human capital, reducing productivity.

Q2. How has China successfully controlled its population growth?

Answer:

- One-child policy (1979–2015) significantly reduced birth rates.
- Government incentives for smaller families (education and healthcare benefits).
- Improved women's education and employment opportunities, reducing fertility rates.

Case 3: Industrialization and Employment in India and China

China's industrial sector contributes **41% to GDP**, while India's industry contributes **30%**. However, a larger percentage of India's workforce (43%) is still dependent on agriculture, compared to **26% in China**.

Q1. Why has China's industrial sector grown faster than India's?

Answer:

- Government policies supporting manufacturing and exports (Special Economic Zones, subsidies).
- Better infrastructure (roads, ports, power supply) attracts investment.
- Higher labor productivity due to automation and skill training.

Q2. What challenges does India face in industrialization?

Answer:

- Bureaucratic hurdles and complex regulations slow industrial growth.
- Inadequate infrastructure (electricity, transport).
- · Lower labor productivity and skill gaps.

Case 4: Agricultural Productivity in India and Pakistan

Pakistan has a higher **agricultural GDP contribution** (24%) than India (16%), but **India's agricultural growth rate** (3.1%) **is higher than Pakistan's** (1.7%). India has made progress in food security, while Pakistan faces issues like water shortages and low mechanization.

Q1. Why does Pakistan depend more on agriculture than India?

Answer:

- Slow industrialization and fewer job opportunities in other sectors.
- High rural population, leading to reliance on farming.
- Limited investment in service and manufacturing industries.

Q2. What steps has India taken to improve agricultural productivity?

Answer:

- Green Revolution introduced HYV seeds, irrigation, and fertilizers.
- Government subsidies and MSP (Minimum Support Price) support farmers.
- Expansion of agricultural credit and insurance schemes.

Case 5: Poverty and Basic Amenities in South Asia

China has 1.7% of its population below the poverty line, while India has 21.9% and Pakistan 24.3%. Additionally, only 60% of India's population has access to proper sanitation, compared to 75% in China.

Q1. What are the key reasons for higher poverty in India and Pakistan compared to China?

Answer:

- Lower industrialization and fewer high-paying jobs.
- Weaker social welfare programs and public services.
- Higher population growth rates, reducing per capita resources.

Q2. How can India and Pakistan reduce poverty levels?

Answer:

- Improve access to quality education and vocational training.
- Expand social welfare programs and employment guarantees.
- Encourage small-scale industries and self-employment.