अर्थशास्त्र
Economics

कक्षा / Class XII
2026-27

विद्यार्थी सहायक सामग्री
Student Support Material

केन्द्रीय विद्यालय संगठन~Kendriya Vidyalaya Sangathan

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संदेश

शिक्षा केवल पुस्तकों तक सीमित ज्ञान नहीं है; यह स्वयं को पहचानने, अपने विचारों को विस्तार देने और जीवन की चुनौतियों का आत्मविश्वास से सामना करने की सतत् यात्रा है। केन्द्रीय विद्यालय संगठन का सदैव यह प्रयास रहा है कि प्रत्येक विद्यार्थी के लिए ऐसा शिक्षण वातावरण हो, जहाँ जिज्ञासा को प्रोत्साहन मिले, सीखना आनंददायी बने और प्रत्येक बालक अपनी अंतर्निहित क्षमताओं को पहचानकर उन्हें विकसित कर सके।

राष्ट्रीय शिक्षा नीति 2020 ने शिक्षा को सिर्फ रटने से समझने, सूचना से ज्ञान और ज्ञान से जीवनोपयोगी दक्षताओं की ओर अग्रसर किया है। आज का समय कृत्रिम बुद्धिमत्ता (Artificial Intelligence – AI), डिजिटल नवाचार और निरंतर बदलती तकनीकों का है। ऐसे युग में केवल तथ्यों का ज्ञान पर्याप्त नहीं है; आवश्यक है कि विद्यार्थी मनन- चिंतन करना सीखें, प्रश्न पूछें, समस्याओं का समाधान खोजें और नए विचारों के साथ आगे बढ़ें। यही क्षमताएँ उन्हें भविष्य के लिए तैयार करेंगी।

इन्हीं उद्देश्यों को ध्यान में रखते हुए केन्द्रीय विद्यालय संगठन के पाँचों आंचलिक शिक्षा एवं प्रशिक्षण संस्थानों (ZIETs) के माध्यम से, समर्पित एवं अनुभवी शिक्षकों द्वारा कक्षा 9 से 12 के विद्यार्थियों के लिए यह विद्यार्थी सहायक सामग्री तैयार की गई है। यह केवल परीक्षा की तैयारी की संकलन सामग्री नहीं है, बल्कि विषयों को सरलता से समझने, अवधारणाओं को स्पष्ट करने, नियमित अभ्यास करने और आत्मविश्वास के साथ आगे बढ़ने का एक विश्वसनीय साथी है।

इस सामग्री में विषय-वस्तु को विद्यार्थियों की आवश्यकताओं के अनुरूप सरल, व्यवस्थित एवं दक्षता-आधारित दृष्टिकोण से प्रस्तुत किया गया है। मुझे प्रसन्नता है कि इसे हमारे शिक्षकों के अनुभव, नवाचार और विद्यार्थियों के प्रति उनकी प्रतिबद्धता ने समृद्ध बनाया है। मुझे विश्वास है कि यह सामग्री विद्यार्थियों की सीखने की यात्रा को अधिक सहज, रोचक और प्रभावी बनाएगी तथा उन्हें बोर्ड परीक्षाओं के साथ-साथ जीवन की व्यापक चुनौतियों के लिए भी तैयार करेगी।

मेरा विश्वास है कि जब एक जिज्ञासु विद्यार्थी, प्रेरित शिक्षक और सार्थक शिक्षण संसाधन एक साथ आते हैं, तब शिक्षा केवल उपलब्धि का माध्यम नहीं रहती, बल्कि व्यक्तित्व निर्माण की एक सशक्त प्रक्रिया बन जाती है। यही भावना इस विद्यार्थी सहायक सामग्री के केंद्र में है।

मेरी हार्दिक शुभकामनाएँ हैं कि आप सभी सीखने की इस यात्रा में निरंतर आगे बढ़ें, अपने सपनों को नए आयाम दें और ज्ञान, संवेदनशीलता तथा नवाचार के साथ राष्ट्र निर्माण में अपना महत्वपूर्ण योगदान दें।

शुभकामनाओं सहित।

(विकास गुप्ता)

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अनुक्रमणिका / INDEX

ECONOMICS (Subject Code 030)

Class - XII (2026-27)

Theory: 80 Marks 3 Hours **Project: 20 Marks**

Units		**Marks**
Part A	**Introductory Macroeconomics**	
1-	National Income and Related Aggregates	10
2-	Money and Banking	06
3-	Determination of Income and Employment	12
4-	Government Budget and the Economy	06
5-	Balance of Payments	06
		40
Part B	**Indian Economic Development**	
1-	Development Experience (1947-90) and Economic Reforms since 1991	12
2-	Current Challenges facing Indian Economy	20
3-	Development Experience of India – A Comparison with Neighbours	08
	Theory Paper (40+40 = 80 Marks)	**40**
Part C	**Project Work**	**20**

Part A: Introductory Macroeconomics

Unit 1: National Income and Related Aggregates

What is Macroeconomics?

Basic concepts in macroeconomics: consumption goods, capital goods, final goods, intermediate goods; stocks and flows; gross investment and depreciation.

Circular flow of income (two sector model); Methods of calculating National Income - Value Added or Product method, Expenditure method, Income method. Aggregates related to National Income:

Gross National Product (GNP), Net National Product (NNP), Gross Domestic Product (GDP) and Net Domestic Product (NDP) - at market price, at factor cost; Real and Nominal GDP

GDP Deflator, GDP and Welfare

Unit 2: Money and Banking

Money – meaning and functions, supply of money - Currency held by the public and net demand deposits held by commercial banks.

Money creation by the commercial banking system.

Central bank and its functions (example of the Reserve Bank of India): Bank of issue, Govt. Bank, Banker's Bank, Control of Credit through Bank Rate, Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR), Repo Rate and Reverse Repo Rate, Open Market Operations, Margin requirement.

Unit 3: Determination of Income and Employment

Aggregate demand and its components.

Propensity to consume and propensity to save (average and marginal). Short-run equilibrium output; investment multiplier and its mechanism. Meaning of full employment and involuntary unemployment. Problems of excess demand and deficient demand; measures to correct them - changes in government spending, taxes and money supply.

Unit 4: Government Budget and the Economy

Government budget - meaning, objectives and components.

Classification of receipts - revenue receipts and capital receipts; Classification of expenditure – revenue expenditure and capital expenditure. Balanced, Surplus and Deficit Budget – measures of government deficit.

Unit 5: Balance of Payments

Balance of payments account - meaning and components; Balance of payments – Surplus and Deficit

Foreign exchange rate - meaning of fixed and flexible rates and managed floating. Determination of exchange rate in a free market, Merits and demerits of flexible and fixed exchange rate.

Managed Floating exchange rate system

Part B: Indian Economic Development

Unit 6: Development Experience (1947-90) and Economic Reforms since 1991:

A brief introduction of the state of Indian economy on the eve of independence. Indian economic system and common goals of Five Year Plans.

Main features, problems and policies of agriculture (institutional aspects and new agricultural strategy), industry (IPR 1956; SSI – role & importance) and foreign trade.

Economic Reforms since 1991:

Features and appraisals of liberalisation, globalisation and privatisation (LPG policy); Concepts of demonetization and GST

Unit 7: Current challenges facing Indian Economy

Human Capital Formation: How people become resource; Role of human capital in economic development; Growth of Education Sector in India

Rural development: Key issues - credit and marketing - role of cooperatives; agricultural diversification; alternative farming - organic farming

Employment: Growth and changes in work force participation rate in formal and informal sectors; problems and policies

Sustainable Economic Development: Meaning, Effects of Economic Development on Resources and Environment, including global warming

Unit 8: Development Experience of India:

A comparison with neighbours India and Pakistan

India and China

Issues: economic growth, population, sectoral development and other Human Development Indicators

Part C: Project in Economics

Prescribed Books:

1. Indian Economic Development, NCERT
2. Macroeconomics, NCERT
3. Supplementary Reading Material in Economics, CBSE

Suggested Question Paper Design
Economics (Subject Code 030)
Class XII (2026-27)
March 2026 Examination

Marks: 80 Duration: 3 hrs.

SN	Typology of Questions	Marks	Percentage
1	**Remembering and Understanding**: Exhibit memory of previously learned material by recalling facts, terms, basic concepts, and answers. Demonstrate understanding of facts and ideas by organizing, comparing, translating, interpreting, giving descriptions, and stating main ideas	32	40%
2	**Applying**: Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way.	24	30%
3	**Analysing, Evaluating and Creating:** Examine and break information into parts by identifying motives or causes. Make inferences and find evidence to support generalizations. Present and defend opinions by making judgments about information, validity of ideas, or quality of work based on a set of criteria. Compile information together in a different way by combining elements in a new pattern or proposing alternative solutions.	24	30%
	Total	**80**	**100%**

NATIONAL INCOME AND RELATED AGGREGATES (10 marks)

GIST OF THE LESSON

MACRO ECONOMICS –Deals with the decision-making behaviour of the economy as a whole or aggregate economy.

Examples –National income accounting, Aggregate Demand, Government budget.

NATIONAL INCOME: National Income is the sum total of the money value of all final goods and services produced by the normal residents of the country within or outside the domestic territory during a financial year.

FINAL GOODS: Goods used for final consumption and not again subjected to the process of production or value addition (cross the production boundary) are called final goods. Final goods itself are of two types- consumption goods and Capital goods.

CONSUMER OR CONSUMPTION GOODS: Goods are not subjected to a further process of Production and used by the Consumer directly are called consumer or consumption goods. e.g. Pen, pencil.

PRODUCER GOODS OR CAPITAL GOODS: Goods once produced and which can be used again for Production is called Producer or Capital Goods. e.g. Machines, buildings.

INTERMEDIATE GOODS: Goods used as an input for producing other goods are called Intermediate goods. e.g. wood in a paper factory, leather in a shoe factory.

INVESTMENT: Investment means Capital formation. It is the addition to the existing stock of Capital. It is a flow variable.

GROSS INVESTMENT: Total durables or Capital goods produced during a year in an economy are called Gross Investment.

NET INVESTMENT: The addition to the existing stock of capital is Net Investment. It is the new capital formation.

NET INVESTMENT = GROSS INVESTMENT – DEPRECIATION

DEPRECIATION OR CONSUMPTION OF FIXED CAPITAL: The loss of value of fixed assets due to wear and tear is called Depreciation. It is also called Consumption of fixed capital.

The other names are Consumption of Fixed Capital, Current Replacement Cost, Capital Consumption Allowances etc.

STOCK VARIABLE: A variable that can be measured at a point of time is called a STOCK. It is a static concept. It has no time limit. It is measured at a particular point of time. E.g. Wealth, Capital, Inventory.

FLOW VARIABLE: A Variable that is measured in a specific period of time is called FLOW. It is a dynamic concept. It is measured over a period of time. e.g. Consumption, income, changes in inventory.

INVENTORY The quantity of output that a firm could not be sold is called Inventory. In short, it is the unsold stock. Inventory is a stock variable. It may accumulate or de-cumulate.

Change in inventory = Closing stock – Opening stock.

NET INDIRECT TAX (NIT): Indirect Tax is the tax imposed by the government on goods and services. The government sometimes gives subsidies to encourage producers. The difference between Indirect Tax and Subsidies is called Net Indirect Tax.

NET INDIRECT TAX = INDIRECT TAX – SUBSIDIES.

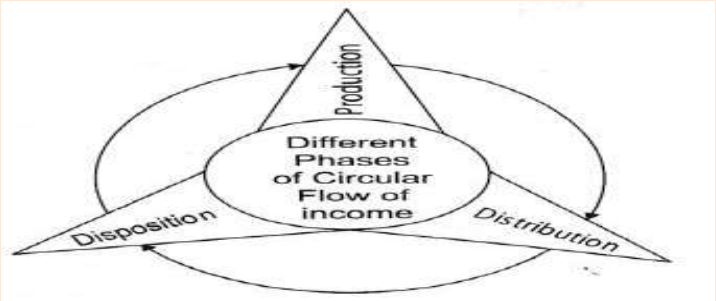
PHASES OF CIRCULAR FLOW

There are three phases of circular flow:

Generation (PRODUCTION PHASE): Production of goods and services by the firms.

Distribution (INCOME PHASE): Flow of factor income from firms to households.

Disposition (EXPENDITURE PHASE): Consumption expenditure by household on the goods and services produced by firms.



CIRCULAR FLOW OF INCOME IN A TWO SECTOR ECONOMY.

It is a flow which shows how goods and services and income of an economy circulate different sectors in an economy. The two sectors that exist in an economy are Firms and Households. Firms are the Production units, and they receive factors of production from the households and give rewards for the factors of production. The households spent the entire income received from the forms for purchase of final goods and services produced by the firm. This is shown by the flow chart.

Two Types of Circular Flow

1. Real / Product / Physical Flow: Real flow of income implies the flow of goods and services between household sectors to firms in the form of land, labour, capital and organization and goods and services.

2. Money / Monetary / Nominal Flow :Money flow of income implies the flow of factors payments between the producing sector to the household sector in the form of rent, labour, interest and profit and expenditure to goods and services.

Domestic Territory: Domestic territory or Economic territory is the geographical territory administered by a government within which persons, goods and capital circulate freely.

Domestic Territory Includes

1. Ships and aircraft owned and operated by the resident between two or more countries.
2. Fishing vessels, oil and natural gas rigs and floating platforms operated by the residents of a country in the international waters or areas where the country has exclusive rights for operation
3. Embassies, consulates and military establishments of the country located abroad.

Domestic Territory is not included.

1. Territorial enclaves (like embassies) used/ administered by foreign governments.
2. All International organizations which are physically located within geographical boundaries of a country. Their offices form a part of international territory.

Normal Resident

A normal resident is said to be a person (or an institution) who ordinarily resides in a country (at least one year) and whose centre of economic interest lies in that country.

Normal Residents Includes

1. Both nationals and non-nationals residing in a country for more than a year.
2. The staff of international bodies are treated as normal residents of the country in which the international body operates.
3. Local employees working in foreign embassies located in their country are treated as normal residents.
4. Workers from across the border who cross the border in the morning to work in the other country and return in the evening are treated as normal residents of the parent country.

Normal Residents Does Not Include

International Bodies (like World Bank, World Health Organization or International Monetary Fund) are not considered residents of the country in which these organizations operate but are treated as residents of international territory.

2. Students and medical patients staying abroad are treated as normal residents of their home country, even if their stay in the host country is for more than one year

Market Price

Market Price = Factor Cost + (Indirect Taxes – Subsidies) or Factor Cost + Net Indirect Taxes
(Net Indirect Tax = Indirect Taxes – Subsidies)

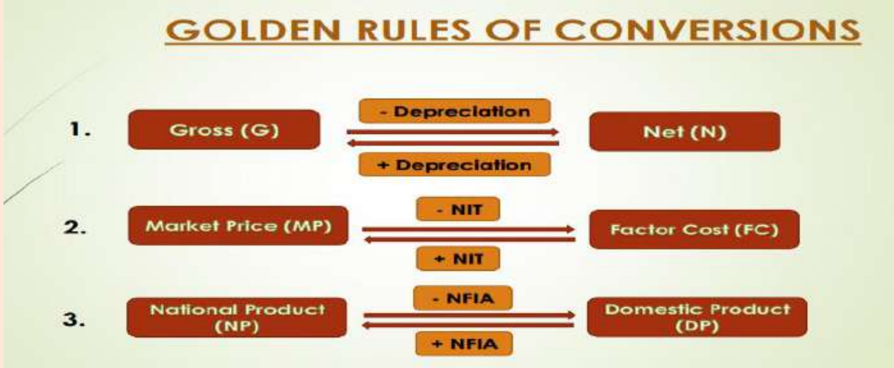
Net Factor Income from Abroad (NFIA)

NFIA = factor income earned from abroad by normal residents or country – the factor income earned by non-residents (foreigners)

Value of Output

Money value of output of an enterprise is obtained by multiplying its physical output of goods and services with its market price

GOLDEN RULES OF CONVERSIONS



1. VALUE ADDED METHOD

CONCEPT OF VALUE ADDED METHOD

Measures NI in terms of value addition by each producing enterprises in the economy during an accounting year.

Value Added = Value of Output – Intermediate Consumption.

Value of output is the market value of the goods & services produced by a firm during an accounting year.

Intermediate Consumption includes the value of intermediate products (raw materials) used in the production process.

STEPS OF VALUE ADDED METHOD

1. Value of output = Production for self-consumption + Sales + Change in stocks.

❖Sales = Domestic sales + Exports / Price X Quantity

❖Change in stocks = Closing stocks – Opening stocks.

2. Intermediate Consumption = Purchase of raw materials + Misc. charges.

❖Purchase of raw materials = Domestic purchase + Imports.

❖Misc. charges include electricity charges, water charges, etc.

3. Value added (VA) = Value of output – Intermediate consumption.
4. Gross Value Added (GVA at MP) = Sum of Value Added = Σ VA.
5. GDP at MP = Σ GVA at MP (GDP at MP = GVA at MP if there is only one commodity/sector)
6. NI = NNP at FC = GDP at MP – DEPRECIATION + NFIA – NIT

PRECAUTIONS OF VALUE ADDED METHOD

Items not included:

❖Intermediate goods are not to be included in the NI as it leads to double counting.

❖Sale and purchase of second-hand goods is not included in the NI as they were already included in the year in which they were produced.

❖Production of services for self-consumption are not included in NI since it is difficult to measure their market value.

I***tems included:***

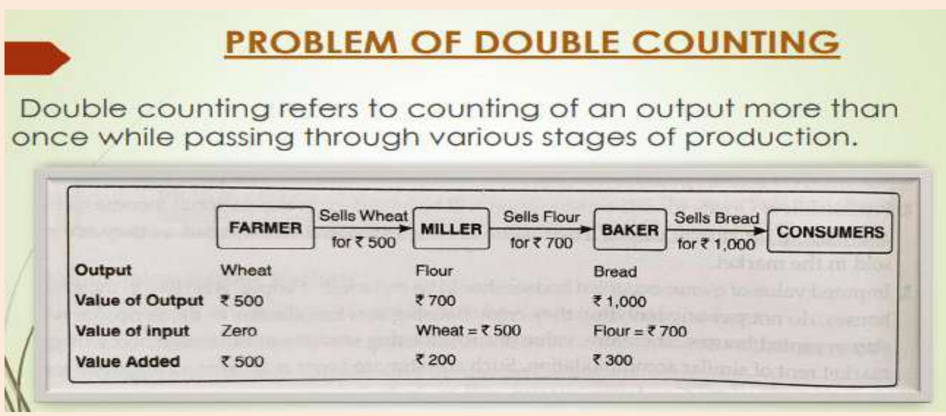
❖Production of goods for self-consumption will be included as they contribute to the current output.

❖Imputed value of owner-occupied houses should be included in NI since they enjoy housing services similar to those who stay in rented houses. This type of rent is known as imputed rent.

❖Change in stock of goods will be included in NI as it is a part of capital formation.

PROBLEM OF DOUBLE COUNTING

Double counting refers to counting of an output more than once while passing through various stages of production.



HOW TO AVOID DOUBLE COUNTING?

▪ ***Final Output Method:*** Value of only final goods should be added to determine the national income.

▪ ***Value Added Method:*** Sum total of the value added by each producing unit should be taken in the national income

2. INCOME METHOD

Compensation of Employees (COE)

COE refers to the amount paid to employees by the employer for rendering productive services. It consists of 3 elements:

a.*Wages and salaries in cash:* includes all monetary benefits, like wages, salaries, bonus, etc.

b.*Wages and salaries in kind:* includes non-monetary benefits, like rent free home, free car, etc.

c.*Employer’s contribution to social security schemes:* includes contributions made by employer for the social security of employees, like contribution to provident fund, gratuity, etc.

COE = a + b + c

OPERATING SURPLUS (OS)

It refers to the sum total of income from property (rent + royalty + interest) and income from entrepreneurship (profit).

Rent: Rent is that part of national income which arises from ownership of land and building.

Royalty: Royalty refers to income received for granting leasing rights of sub-soil assets.

Interest: Interest refers to the amount received for lending funds to a production unit.

Profit: Profit is the reward to the entrepreneur for his/her contribution to the production of goods and services. This is used for 3 purposes:

i.Corporate Tax / Business Tax / Profit Tax

ii.Dividend / Distributed Profits

iii.Retained Earnings/ Undistributed Profits/ Saving of Private Sector/ Reserves & Surplus.

Profit = i+ ii + iii

Operating Surplus = Rent + Royalty + Interest + Profit

MIXED INCOME (MI)

The income generated by own-account workers or self-employed persons (like farmers, barbers, etc.)

The income generated by unincorporated enterprises (like retail traders, small shopkeepers, etc.)

Since factors of production are not hired/ purchased from the market, separate estimation of wages, rent, interest, profit is not possible.

These incomes are a mixture of wages, rent, interest, profit. That is why it is called Mixed Income.

E.g.: income of a doctor running a clinic at his residence.

STEPS OF INCOME METHOD

1. Identify and classify the production units by Primary, Secondary and Tertiary sectors.

2. Estimate the factor income paid by each sector.

3. Calculate Domestic Income (NDP at FC).

NDP at FC =COE + OS + MI

NDP at FC = COE + [Rent & Royalty + Interest + Profit] + MI

4. Estimate Net Factor Income from Abroad (NFIA) to arrive at NI.

NNP at FC = NDP at FC + NFIA

PRECAUTIONS OF INCOME METHOD

Transfer Incomes are not included in the NI.

Income from sale of second-hand goods will not be included in NI as their original sale has already been counted.

Income from sale of shares, bonds and debentures will not be included.

Windfall gains are not included in NI.

Imputed value of services provided by owners of production units will be included in NI.

3. EXPENDITURE METHOD

PRIVATE FINAL CONSUMPTION EXPENDITURE (PFCE)

PFCE refers to expenditure incurred by households and private non-profit institutions serving households on all types of consumer goods, i.e. durable, semi-durable, non-durable goods and services.

It includes expenditure incurred by normal residents, whether in the domestic territory or abroad.

PFCE =Household Final Consumption Expenditure + Private Non-profit Institutions Serving Households Final Consumption Expenditure

GOVERNMENT FINAL CONSUMPTION EXPENDITURE (GFCE)

GFCE refers to expenditure incurred by the general government on various administrative services like defence, law and order, education etc.

It is equal to the cost of goods and services produced by the government for collective use by the public.

GROSS DOMESTIC CAPITAL FORMATION (GDCF)

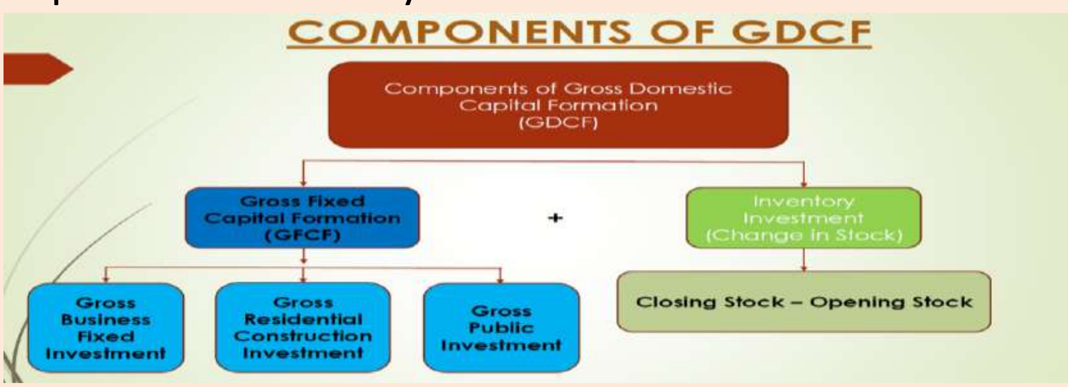
GDCF refers to the addition to the capital stock of the economy.

It is also known as Gross Investment.

It has two components

Gross Fixed Capital Formation (GFCF) and Inventory Investment / Change in Stock i.e. (Closing Stock –Opening Stock

GDCF=Gross Fixed Capital Formation + Inventory Investment.



GDCF CALCULATION FORMULAE

GDCF= Gross Fixed Capital Formation (GFCF) + Inventory Investment (II).

GDCF= Net Domestic Capital Formation (NDCF) + Depreciation.

GDCF= Net Domestic Fixed Capital Formation (NDFCF) + Depreciation + Inventory Investment (II).

STEPS OF EXPENDITURE METHOD

1. Identify the Economic Units incurring Final Expenditure by Household Sector, Government Sector, and Producing Sector & Rest of the World.

2. Classification of Final Expenditure under the following heads:

1-Private Final Consumption Expenditure (PFCE)

2- Government Final Consumption Expenditure (GFCE)

3-Gross domestic capital Formation (GDCF)

4-Net exports (NE)

3. Calculate Gross Domestic Product at Market Price (GDP_{mp}).

GDP at MP = PFCE + GFCE + GDCF + (Export-Import)

4. Calculate Domestic Income (NDP_{fc}).

NDP at FC =GDP_{mp} –Depreciation –Net Indirect Taxes

4. Estimate Net Factor Income from Abroad (NFIA) to arrive at NI.

NNP at FC = NDP_{fc} + NFIA

PRECAUTIONS OF EXPENDITURE METHOD

Expenditure on Intermediate goods will not be included in NI as it is already included in the value of final expenditure.

Transfer Payments are not included in the NI as such payments are not conducted with any productive activity and there is no value addition.

Purchase of second-hand goods will not be included in NI as such expenditure has already been included when they were originally purchased.

Purchase of financial assets (shares, bonds etc.) will not be included as such transaction do not contribute to current flow of goods & services.

CONVERSION OF NATIONAL INCOME AT CURRENT PRICE INTO CONSTANT PRICE

National Income at Constant Price = National Income at Current Price / Current Price Index X 100

Price Index is an index number which shows the change in price level between two different time periods.

NOMINAL GDP

When GDP of a given year is estimated on the basis of price of the same year, it is called **Nominal GDP.**

Nominal GDP = $\frac{\boldsymbol{Real\ GDP * Price\ Index}}{\mathbf{100}}$

REAL GDP

When GDP of a given year is estimated on the basis of price of the base year, it is called **Real GDP.**

$Real\ GDP = \frac{Nominal\ GDP}{Price\ Index} * 100$

Real GDP is affected by the change in physical output only, whereas Nominal GDP is affected by both price & output changes over the period.

Real GDP truly reflects the growth of the economy & facilitates international comparisons.

Hence Real GDP is a better measure compared to Nominal GDP.

GDP DEFLATOR

GDP deflator measures the average level of prices of all goods & services that make up the GDP.

It is used to eliminate the effect of price changes and determine the real change of output in an economy**.**

GDP Deflator = $\frac{\boldsymbol{Nominal\ GDP}}{\boldsymbol{Real\ GDP}}$ ***100**

GDP & WELFARE

Non-monetary Exchanges: In rural economies, barter system of exchange still prevails to some extent Payments for farm labour are often made in kind rather than in cash. All such transactions remain unrecorded. This causes underestimation of GDP. To the extent GDP remains underestimated, it remains an inappropriate index of welfare.

Externalities:

Externalities refer to good and bad impact of an economic activity without paying the price or penalty for that. There are both positive and negative externalities.

Positive externalities occur when, for example, Mr. X maintains a beautiful garden and Mr. Y (neighbour of Mr. X) enjoys it. It adds to welfare of Mr. Y but he does not pay for it.

Negative externalities occur when, for example, smoke emitted by factories causes air pollution or industrial waste is driven into rivers causing water pollution. It causes a loss of social welfare. But, most factories do not pay the penalty. GDP fails to account for the impact of positive and negative externalities on social welfare. Hence, it is an inappropriate index of welfare.		

Q. No.	Questions	Marks
1	Which of the following is a flow concept? (a) Capital Formation (b) Change in stock (c) GDP at MP (d) All of the above.	1
2	If the money value of final goods and services produced by normal residents of a country in a year, measured at the prices of the current year, then it is called as: (a) Real GDP (b) GDP at constant Price (c) National Product (d) GDP at current price	1
3	Which of these is transfer income? (a) Rent (b) Wages (c) Gifts received from abroad (d) Profit.	1
4	The net value at Market Price of final goods and services during an accounting year within the domestic territory of a country is known as (a) GDPfc (b) NNPfc (c) NDPmp (d) GDPmp	1
5	Which of the following is intermediate product? (a) Pulses purchased by consumers (b) Machine purchased by a firm (c) Wheat used by flour mill (d) Wheat used by household.	1
6	Depreciation means: (a) Destruction of a factory due to fire (b) Loss in fixed assets due to normal wear and tear (c) Loss in fixed assets due to earthquake (d) Shut-down of a factory due to strike	1
7	GDPfc = GDPmp–………………….. (a) Indirect Tax (b) Depreciation (c) NFIA (d) NIT	1
8	Domestic income is greater than National Income if (a) NFIA is positive (b) NFIA is zero (c) NFIA is negative (d) None of these.	1
9	Which of these is not a component of operating surplus? (a) Interest (b) Rent (c) Royalty (d) Wages	1
10	While estimating national income, depreciation is measured from: (a) Durable Consumer goods (b) Capita Goods (c) Intermediate goods (d) Final Goods	1
11	Which of the following is also known as domestic factor income? (a) NDPfc (b) NNPmp (c) GDPfc (d) NNPf	1
12	Which of these is not an example of leakage? (a) Savings (b) Taxes (c) Imports (d) Intermediate goods	1

13	Which of the statement is correct? (a) GNPmp will be greater than GDPmp when NFIA will be less than zero. (b) GNPmp will be greater than GDPmp when NFIA will be zero. (c) GNPmp will be greater than GDPmp when NIT will be zero. (d) GNPmp will be greater than GDPmp when NFIA will be more than zero.	1
14	Which of the following is included in national income? (a) Sale of bonds by a company (b) Expenditure on transportation by a firm (c) Interest payment on loan by households to banks (d) None of these.	1
15	Which of these is not transfer payment/ (a) Indirect Tax (b) Subsidies (c) Scholarship (d) None of these	1
16	When the value of same output is counted more than once while measuring national income it results: (a) Less Measurement of N.I (b) More Measurement of N.I (c) Correct Measurement of N.I (d) None of the above.	1
17	Which of the following is not a component of NFIA (a) Net compensation of employees (b) Net income from property and entrepreneurship (c) Net retained earnings from abroad (d) None of these.	1
18	Which item from the following will be included in national income? (a) Employees contribution to the social security schemes (b) Expenditure on the maintenance of building (c) Expenditure on the construction of building (d) Interest payment by employees on loan given from employer.	1
19	Which of the following is not a component of gross domestic fixed capital formation? (a) Gross Government Investment (b) Inventory Investment (c) Gross Residential construction investment (d) Gross business fixed investment.	1
20	Which of the following is a leakage? (a) Export (b) Import (c) Investment (d) Both (a) and (b)	1
21	A person of an institution who normally resides in a country and whose economic interest lies in that country is known as: (a) Normal Resident of a country (b) Non-resident of a country (c) Both (a) and (b) (d) None of these.	1
22	Find out factor payment from the following: (a) Subsidies (b) Old age pension (c) Profit (d) Income tax	1
23	Corporation tax is not a component of: (a) Personal Income (b) National Income (c) Domestic Income (d) Private income	1

24	Old age pension given by Government of India comes under: (a) Factor Income (b) Capital Transfer (c) Current Transfer (d) Domestic Factor Payment.	1
25	Which of the following is not a normal resident of a country? (a) An Indian working in WHO situated in India (b) An American tourist in India (c) An Indian working in American Embassy (d) A branch of WHO in India.	1
26	A firm's value added is equal to: (a) Sales (b) Profit (c) Sales – Intermediate consumption (d) Sales + Intermediate consumption	1
27	Which of the following is not in intermediate goods for a farmer? (a) Seeds (b) Fertilizer (c) Tractor (d) All of these	1
28	Medicine supply to the Earthquake victim in India by British Government is : (a) Factor Income (b) Capital Transfer (c) Net factor Income from abroad (d) Current Transfer.	1
29	Which of the following is a final expenditure? (a) Computer purchased by a school (b) Scooter purchased by a dealer (c) Vegetables purchased by a restaurant (d) Milk purchased by a tea-maker.	1
30	Change in stock will be negative when: (a) Closing Stock > Opening Stock (b) Closing Stock < Opening Stock (c) Closing Stock = 0 (d) Opening Stock = 0	1

Ans: 1. (d)	**2.** (d)	**3.** (c)	**4.** (c)	**5.** (c)	**6.** (b)	**7.** (d)	**8.** (c)
9. (d)	**10.** (b)	**11.** (a)	**12.** (d)	**13.** (d)	**14.** (c)	**15.** (d)	**16.** (b)
17. (d)	**18.** (c)	**19.** (b)	**20.** (b)	**21.** (a)	**22.** (c)	**23.** (a)	**24.** (c)
25. (b)	**26.** (c)	**27.** (c)	**28.** (d)	**29.** (a)	**30.** (b)		

Assertion (A) and Reason(R) **BASED MCQs**

Read the following statement - Assertion (A) and Reason(R)

Choose one of the correct alternatives given below:-

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):- Exports of goods and services are included in Gross Domestic Product. Reason (R):- It will be included in national income as the sum total of expenditure of the domestically produced goods and services during an accounting year is called GDP.	1
2	Assertion (A):-To calculate the value of output, we will add sales and exports. Reason (R):- Sales are equal to the Value of output if there is no change in stock.	1
3	Assertion (A):- An American working in the World Bank in India for more than a year is considered a normal resident of India. Reason (R):- A normal resident is said to be one who ordinarily resides in the country concerned and whose centre of economic interest lies in that country.	1
4	Assertion (A):- Services of a housewife cannot be properly evaluated. Reason (R):- The services of a housewife cannot be properly evaluated as there are no appropriate data for the same.	1
5	Assertion (A):- An item that is meant for final use and will not pass through any more stages of production or transformation is called a final good.	1

<table>
<tr><td></td><td>Reason (R):- It will not undergo any further transformation at the hands of any producer, but many such final goods are transformed during their consumption.</td><td></td></tr>
<tr><td>6</td><td>Assertion (A):- Purchase of a car by a consumer is included in the calculation of National income.
Reason (R):- Gross Domestic Capital formation is a part of National Income.</td><td>1</td></tr>
<tr><td>7</td><td>Assertion (A):-GDP can be greater than GNP.
Reason (R):- NFIA can never be negative.</td><td>1</td></tr>
<tr><td>8</td><td>Assertion (A):- Factor incomes contributed to an increase in GDP.
Reason (R):- Scholarship will be added in National Income as it is a factor payment.</td><td>1</td></tr>
<tr><td colspan="3">Ans: -Assertion & Reasoning- 1. (a) 2. (d) 3. (d) 4. (a) 5. (a) 6. (b) 7. (c) 8. (c)</td></tr>
<tr><td colspan="3"><u>SHORT QUESTIONS AND ANSWERS</u></td></tr>
<tr><td>1</td><td>“Final goods include only those goods which are consumed by the households”. Defend or refute the given statement with valid reason.
Ans: The given statement is refuted, as final goods include those goods which are either consumed by the households or purchased by a producer for investment purposes. (to be marked as a whole) (No marks are to be allotted if reason is not/wrongly given)</td><td>3</td></tr>
<tr><td>2</td><td>“Circular flow principle is based on the assumption that one’s expenditure will become another's income.” Explain the given statement.
Ans: In a two sector economy, households and firms exist to run the economy. Households render factor services to the firms and earn factor incomes from them. Whereas; firms produce and sell goods and services to households and earn their income by an equal magnitude. Thus, in a circular income mode, the axiom that one’s expenditure is another's income holds true. (to be marked as a whole) (Diagram not mandatory)</td><td>3</td></tr>
<tr><td>3</td><td>What do you mean by a direct and indirect tax?
Ans: Direct tax is compulsory payment to the government whose impact and incidence falls on the same person. It is progressive in nature. Example-Income tax and Property tax. Indirect tax refers to a compulsory payment to the government whose impact and incidence falls on different persons. It is regressive in nature. Example- VAT, custom duty.</td><td>3</td></tr>
<tr><td>4</td><td>Distinguish between stock and flow variables with suitable examples.
<table>
<tr><th>Stock</th><th>Flow</th></tr>
<tr><td>(i) Stock relates to a point of time, e.g. your savings as on January 1, 2014, are Rs 10,000.</td><td>(i) Flow relates to the period of time, e.g. your pocket expenses, of ₹ 20 per day.</td></tr>
<tr><td>(ii) Stock is not time -dimensional.</td><td>(ii) Flow is time-dimensio-nal as per hour, per month, per year.</td></tr>
<tr><td>(iii) Stock influences the flow, greater the stock of capital, greater is the flow of goods and services.</td><td>(iii) Flow influences the stock. For example, a monthly increase in the supply of money leads to an increase in the quantity of money.</td></tr>
<tr><td>(iv) Example – Popula-tion of a country, Bank deposit etc.</td><td>(iv) Expenditure of money, interest on capital etc.</td></tr>
</table></td><td>4</td></tr>
<tr><td>5</td><td>What are ’externalities’? State its types with suitable examples.
Ans: Externalities refer to the benefits/harms caused by a firm/individual to the Society in general, without being penalised.
There are two types of externalities:-
(i) Positive externalities – Social benefits. E.g. saving of time/fuel with construction of better roads in a country.</td><td>4</td></tr>
</table>

	(ii) Negative externalities - Social harms for example pollution caused by stubble burning in some states of India. **(Any other suitable definition/example to be allotted marks)**	
6	In response to an economic slowdown, the government of Country X introduced a series of stimulus measures aimed at increasing national income. These measures included significant tax cuts for individuals and businesses, increased government spending on public infrastructure projects, and low-interest loans for small businesses to stimulate investment. As a result of these policies, the country's Gross Domestic Product (GDP) grew by 4% in the following year, up from 1.5% the previous year. The increase in government expenditure on infrastructure directly boosted aggregate demand, leading to job creation in construction and related sectors. At the same time, lower taxes increased household disposable income, encouraging greater consumer spending on goods and services. However, the country's net exports remained negative as imports of capital goods, such as machinery for infrastructure, exceeded exports. Despite this, the overall increase in investment and consumption led to a significant rise in national income. Economists predict that as infrastructure improves and industrial productivity increases, the country will see long-term growth in exports, further enhancing national income. A) What were the key measures implemented by the government of Country X to boost National Income? B) How did government spending on infrastructure affect national income in the short term? C) Why did net exports remain negative despite the increase in national income, and what were the main imports? **Ans:** A) Key measures implemented by Country X to boost National Income, the government introduced several stimulus measures: Significant tax cuts for both individuals and businesses. Increased government spending on public infrastructure projects. Low-interest loans provided to small businesses to encourage investment. B) Impact of infrastructure spending in the short term, expenditure on infrastructure directly boosted aggregate demand. This led to Job creation within the construction and related sectors. An increase in the country's GDP growth, which rose by 4% in the following year (up from 1.5% the previous year). C) Net exports remained negative because the imports of capital goods exceeded exports. Even though investment and consumption rose, the high demand for foreign-sourced equipment kept the balance in the negative. The main imports identified in the text were capital goods, specifically machinery for infrastructure.	4
	Long Ans Type Questions	
7	"Higher Gross Domestic Product (GDP) means greater per capita availability of goods in the economy." Do you agree with the given statement? Give valid reason in support of your answer. **Ans:** I do not agree with the statement that "Higher gross domestic product (GDP) means greater per capita availability of goods in the economy" as higher GDP does not mean high per head availability of goods and services. 1. It depends upon the population of the country. If GDP is higher but population is equally high then per head availability of goods and services will be low. 2. It also depends on the fact that whether the income is equally distributed or unequally distributed. If income is equally distributed then share of goods and services for each individual will be equal but if it is unequally distributed, the rich will take more share in comparison to a	6

	poor.	
8	(A) As per a report, India's solar power generation capacity reaches 50 GW in 2024-25. Analyze the likely impacts of this development on Gross Domestic Product (GDP) and Welfare. (B).Riya is analysing the economic performance of her country. She found that the value of all final goods and services produced within the country during the year was Rs.200 lakh crore. She also found that the value of net factor income from abroad was Rs.5 lakh crore. Using this information, answer the following: What is the Gross Domestic Product at Market Price (GDPMP) of the country? Calculate the National Income (NNP at Factor Cost). **Ans. -** The increase in solar power generation capacity is likely to have a positive impact on both GDP and welfare. GDP Impact: - Increased investment in the renewable energy sector will contribute to GDP growth. - Job creation in the solar power industry will add to economic activity. - Reduced dependence on imported fossil fuels will save foreign exchange. Welfare Impact: - Cleaner energy will reduce air pollution, improving public health and welfare. - Increased access to renewable energy can improve energy security and reduce energy poverty. - The growth of the solar power industry can also promote sustainable development and reduce greenhouse gas emissions. This development is likely to have a positive impact on both GDP and welfare, contributing to sustainable economic growth and development. Gross Domestic Product at Market Price (GDPmp) of the country = Rs.200 lakh crore National Income (NNP at Factor Cost)= Rs.205 lakh crore**.**	6
9	i-)Distinguish between GDP at MP and NDP at MP. ii-)Calculate the value of 'Change in Stock' from the following data:	6

S. No	. Items	Amount (in ₹Crores)
I	Sales	400
Ii	Net Value Added at Factor Cost (NVAFC)	200
Iii	Subsidies	10
Iv	Change in Stock	?
V	Depreciation	40
Vi	Intermediate Consumption	100

Ans: i-)

GDP at MP:

Definition: Total market value of all final goods and services produced within a country during a year at market prices.

Formula: GDP at MP = NDP at MP + Depreciation

NDP at MP:

Definition: Total market value of all final goods and services produced within a country during a year at market prices after deducting depreciation.

Formula: NDP at MP = GDP at MP − Depreciation

MONEY AND BANKING

Money is the most liquid financial asset used as a medium of exchange as well as a measure of value and store of wealth.

Barter System: Barter system of exchange refers to exchange of goods and services for goods and services.

Limitations of Barter System of exchange:

➢ **Lack of Double Coincidence of Wants:** Barter system works only when both buyers and sellers are ready to exchange each other's goods and services. For Example, Person A can exchange goods and services with Person B only when Person A has what Person B wants and Person B has what Person A wants. However, such double coincidence is very rare.

➢ **Lack of Common unit of measure of value:** In the barter system, all commodities are not of equal values and there is no common unit to measure value of goods and services. Prices of goods and services are quoted in terms of goods and services. In which a common exchange ratio cannot be expressed.

➢ **Lack of standard of deferred payment:** under this system, contracts involving future payments or credit transactions cannot take place with ease because of following reasons.

(i) The borrower may not be able to arrange goods and services of exactly the same quality at the time of repayment.

(ii) The commodity, to be repaid may lose or gain its values at the time of repayment.

➢ **Lack of store of value:** Barter system it is difficult for people to store wealth for future use because (a) most of the goods do not possess durability, their quality deteriorates with passage of time. (b) storage of goods requires space and effort.

FUNCTION OF MONEY

Medium of Exchange:

- It means that money acts as an intermediary for the goods and services in an exchange transaction.
- Use of money as a medium of exchange has removed the major difficulty of double coincidence of wants in the barter system.
- In the monetary system, the act of sale and purchase of the goods and services is separated from each other.
- If one wants to buy goods, he can do so with money. And if one wants to sell goods, he can do so for money. Accordingly, exchange has become convenient as well as simple.

➢ **Measure of value or Unit of Account:**

- Money serves as a measure of value in terms of units of account.
- Unit of account means that the value of each goods or service is measured in the monetary unit.
- We measure the price of goods and services in terms of money.
- Money is a standard unit in which prices can be quoted and value of goods can be compared.
- The introduction of money has removed the difficulty of the barter system. We can now say that the price of sugar is Rs. 50 per kg.

➢ **Standard of deferred payments:**

- Deferred payments are those payments which are made sometimes in the future, like repayment of loans.
- Money has rendered deferred payment or transactions relative to loans much easier.
- Money has made it easy for the producers, consumers and the government to take loans.
- Serving as a standard of deferred payments, money has stimulated the process of capital formation.

➢ **Store of Value**

- Money also acts as a store of value.
- It implies storing purchasing power to be used sometimes in the future.
- Savings in terms of money are much more secure than those in terms of goods because it does not require much space to store value and its quality does not deteriorate with passage of time.
- Money has relatively more stable value than goods and services.

➢ **Transfer of value:**

- Money serves as a convenient mode of the transfer of value.
- Because of its general acceptability and the merit of liquidity, money can be easily transferred from one place to the other.
- Anybody can sell his immovable property at any particular place for money and buy similar property at some other place using that money.
- This facilitates mobility of capital.

SUPPLY OF MONEY: Money supply refers to the total volume of money held by public and demand deposits with banks at a point of time in an economy. It is a stock concept.

Measures of money supply: RBI introduced four alternative measures of money supply in 1977.

according to M1 measurement, money supply includes the following components:

M1 = C + DD+OD

C: It refers to currency held by the public. It includes coins as well as paper notes.

DD: Demand deposits of the people with the commercial bank

OD : Demand deposits with RBI of public financial institutions like NABARD, deposits with RBI of foreign central banks and demand deposits of international financial institutions like world bank, IMF.

KEY TERM

* **High powered money:** the currency issued by the central bank (RBI) can be held by the public or by the commercial banks.

* **Demand deposits**: Demand deposits are the deposits which can be withdrawn on demand by the depositors from banks, e.g. current account and saving account.

BANKING

COMMERCIAL BANKS: It is a financial institution that receives deposits from the general public and gives loans when someone requires it.

MONEY CREATION OR CREDIT CREATION - Money creation (or deposit creation or credit creation) by the commercial banks is determined by

(1) The amount of the **initial fresh deposit** and

(2) The **Legal Reserve Ratio (LRR) –** It is the minimum ratio of deposit legally required to be kept as cash by the banks.

LRR includes **Cash Reserve Ratio –** It is the minimum proportion of cash reserves which is kept by commercial banks with the central bank against its total deposits; and

Statutory Liquidity Ratio – It is that proportion of the total deposits which a commercial bank has to keep with itself in the form of liquid assets (i.e. cash, gold and unencumbered approved securities). It is assumed that all the money that goes out of banks is redeposited into the banks.

PROCESS OF MONEY/CREDIT CREATION

- Let the LRR be 20% and there is a fresh deposit of Rs.1,000.

As required reserve the banks keep 20% i.e. Rs 200 as cash. Suppose the banks lend the remaining Rs 800, those who borrow use this case money for making payments as assumed those who receive payments put the money back into the banks in this way banks receive fresh deposits of Rs 800. The banks again keeps 20% i.e. Rs160 as cash and lend Rs.640 which is also 80% of the last deposit the money again comes back to the banks' lending to a fresh deposit of Rs 640. The money goes on multiplying in this way and timely total money creation is Rs 5,000. Credit creation by banks is done by the formula.

As seen in the table, banks are able to create total deposits of Rs. 5,000 with the initial deposits of just Rs. 1000. It means, total deposits become 'five times' of the initial deposit. Five times means Value of 'Money Multiplier'.

CENTRAL BANK

The central Bank is the apex institution of a country's monetary system. It controls the entire banking system of the country. It is the sole agency of issuing notes and controls money supply in the economy.

FUNCTIONS OF THE CENTRAL BANK

➢**Bank of Note Issue:** Central bank is a country that has the exclusive right (monopoly right) of issuing notes.

- RBI has the legal and sole right to issue currency.
- It is the primary and very important function of RBI.
- RBI issues currency by keeping 200 cores of reserves out of which 115 crore is gold and 85 crore is foreign securities.
- It leads to uniformity in note circulation and builds up faith in the currency system.

➢**Bankers to the Government**: - Central bank is a banker, agent and financial advisor to the government

- As a banker to the government, it manages accounts of the government.
- As an agent to the government, it buys and sells securities on behalf of the government.
- As an advisor to the government, it frames policies to regulate the money market.
- It gives loans to the government.

➢**Bankers' Bank:** As a Bankers' Bank it has almost the same relation with other banks in the country as a commercial bank has with its customers.

1. As a banker's bank:

- The central bank holds a part of the cash reserves of banks because commercial banks are supposed to deposit CRR with the central bank.
- The central bank holds excess reserves of banks to meet any clearing drains due to settlement with other banks.
- The claims of one bank against another are conveniently settled by simple transfers from and to their accounts from these cash reserves.

2. As a supervisor:

- Periodic inspection of banks.

• The central bank supervises, regulates and controls the commercial banks.

➢ **Lender of the last Resort**: Lander of last resort means that if a commercial bank fails to get financial accommodation from anywhere, it approaches the RBI as a last resort.

• The central bank advances loans to such a bank against approved securities.

• By offering loans to the commercial banks in situations of emergency.

• The Central bank ensures:

(i) The banking system of the country does not suffer any set-back.

(ii) That money market remains stable.

➢ **Custodian of Foreign Exchange Reserves**: Central bank is the custodian of a nation's foreign exchange reserves.

• Maintain Foreign Exchange Rate.

• It is also exercises 'managed floating'

• Minimize the Fluctuations in the Foreign Exchange Rate.

• The Central bank buys or sells foreign currencies in the Market.

• The central bank is the custodian of the nation's foreign exchange reserves.

➢ **Controller of credit:**

• As a credit controller, the central bank uses a number of tools to maintain the liquidity of the commercial banks and regulate money supply.

• The central bank as a credit controller increases interest rates to control money supply in the economy and decreases interest rates to raise money supply in the economy.

Control of money supply (Credit creation) by the central bank (RBI in India)

Measures	**Action taken by the Central bank to control credit creation. (Inflation)**	**Action taken by the Central bank to increase credit creation. (deflation)**
Bank Rate	It is increased to control credit creation.	It is decreased to increase credit creation.
Repo Rate	It is increased to control credit creation.	It is decreased to increase credit creation.
Reverse Repo Rate	It is increased to control credit creation.	It is decreased to increase credit creation.
CRR	It is increased to control credit creation.	It is decreased to increase credit creation.
SLR	It is increased to control credit creation.	It is decreased to increase credit creation.
Open Market Operation	Govt. Securities are sold in the Open Market to control credit creation	Govt. Securities are purchased by the RBI to increase credit creation
Margin Requirement	It is increased to control credit creation.	It is decreased to increase credit creation.
Rationing of Credit	Reduces the credit limits.	increased the credit limits.

Q. No	**Question**	Marks

Direction for question no. 1 to 8

In the following questions, a statement of Assertions (A) is followed by a statement of Reason (R). Choose the correct alternative as:

(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): Note and Coins are the only source of money supply in the economy. Reason (R): Demand deposits with commercial banks are also a component of money supply.	1
2	Assertion (A): Inter banking deposits which a commercial bank holds with another commercial bank are regarded as a part of supply of money. Reason (R): Net Demand Deposit, i.e., deposits of the public held by the banks are to be included in money supply.	1
3	Assertion (A): An increase in the money supply can lead to inflation. Reason (R): When there is more money in circulation relative to goods and services available, it can result in increased demand, leading to upward pressure on prices.	1
4	Assertion (A): Open market operations are a primary tool used by central banks to influence the money supply. Reason (R) : When a bank issues a loan, it creates a deposit in the borrower's account, effectively increasing the money supply.	1
5	Assertion (A): Cash Reserve Ratio (CRR) is a tool used by central banks to control the money supply. Reason (R) : By increasing or decreasing the CRR, central banks can influence the amount of funds commercial banks must hold in reserve, affecting the liquidity in the banking system.	1
6	Assertion (A): Statutory Liquidity Ratio (SLR) requires banks to keep a certain percentage of their deposits in the form of specified liquid assets with RBI. Reason (R): SLR ensures that banks have a stable and liquid asset base to meet their depositors' demands while also enabling the central bank to regulate credit flow in the economy	1
7	Assertion (A): Bank Money is a Legal Tender Money. Reason (R) : Bank Money can be refused by any citizen of the country for settlement of a financial transaction.	1
8	Assertion (A): Credit creation comes to an end when total cash reserves become equal to the initial deposit. Reason (R): The value of money multiplier is determined by the Legal Reserve Ratio (LRR).	1
	Direction for question no. 9 to 15 Read the following statement and choose the correct alternative: (a) Both the statement are true (b) Both statements are false. (c) Statement 1 is true and statement 2 is false. (d) Statement 2 is true and statement 1 is false.	1
9	Statement 1: RBI keeps a certain percentage of deposits of commercial banks as reserve to avoid lending to the public. Statement 2: The reserve deposit ratio acts as a deterrence to the amount of credit created by the commercial banks.	1
10	Statement 1: All the coins are issued by the Finance Minister of India. Statement 2: All the currency notes are issued by RBI.	1
11	Statement 1: The value of money multiplier is determined by the reserve ratio prevailing in the monetary system. Statement 2: The process of credit creation directly relates to the value of reserve ratio.	1

12	Statement 1: Decrease in Repo rate and Reverse Repo Rate enhances the credit creating power of commercial banks. Statement 2: Repo Rate and Reverse Repo Rate enhances the credit creating power of commercial banks.	1
13	Statement 1: Primary Deposits are always more than Secondary Deposits. Statement 2: Sum total of primary and secondary deposit is equal to total demand deposit of commercial banks.	1
14	Statement 1: All banks are financial institutions. Statement 2: Higher legal ratio means higher credit creation capacity of commercial banks.	1
15	Statement 1: The interbank deposits, which a commercial bank holds in other commercial banks, are not to be regarded as part of money supply. Statement 2: Money supply implies money in circulation among the public, is a stock variable.	1
16	Demand deposit include ------------ and ----------- i) Saving account deposits ii) Fixed Deposit iii) current account deposits iv) Post Office Saving Alternatives: a) I and ii b) ii and iii c) i and iii d) i and iv	1
17	Suppose in an economy, the initial deposits of Rs. 400 crores lead to the creation of total deposits worth Rs. 4000 crores. Under the given situation the value of reserve requirements would be ---------- a) 0.01 b) 1 c) 0.1 d) 0.4	1
18	Which of the following is correct with reference to the Ministry of finance? a) it issues coins only b) it issues all types of currency nones c) it issues one rupee note and coins d) it issues only one rupee note	1
19	Mr. Dinesh Kumar, an economics teacher, was explaining that concept of 'minimum percentage of the total deposits which commercial banks are required to maintain with themselves.' From the following, choose the correct alternative which specifies the concept explained by him? a) Cash Reserve Ratio b) Repo Rate c) Bank Rate d) Statutory Liquidity Ratio	1
20	Which one is considered to be the principal role of money ? a) Facilitation of exchange b) Double coincidence of wants c) Unit of account d) Store of value	1
21	If the legal reserve ratio is 20%. What will be the value of the money multiplier? a) 5 b) 10 c) 20 d) 25	1
22	Calculate the legal reserve ratio, if the initial deposits of Rs. 10000 crore lead to a creation of total deposits of Rs. 50000 crore? a) 0.5 b) 0.10 c) 0.20 d) 0.25	1
	ANSWER KEY **Multiple Choice Questions: 1 to 22**	
	1.(d). 2. (d) 3. (a) 4. (b) 5. (a) 6. (d) 7. (d) 8. (b)	

	9. (a) 10. (c) 11. (c) 12. (a) 13. (d) 14. (c) 15. (c) 16. (c) 17. (c) 18. (c) 19. (d) 20. (a) 21. (a) 22. (c)	
	Short Answer Type Questions 3 Marks: 23 to 28	
23	"Apart from currency notes and coins, the balance in savings, or current account deposits, held by the public in commercial banks is also considered as money. Such deposits are called demand deposits." Are demand deposits also called legal tenders? Why? **Ans:** No, demand deposits are not legal tenders only currency notes and coins are called legal tenders as they cannot be refused by any citizen of the country for settlement of any kind of transaction. Cheques drawn on savings or current accounts, however, can be refused by anyone as a mode of payment. Hence demand deposits are not legal tenders.	3
24	The Government of India has recently launched 'Jan-Dhan Yojana' aimed at every household in the country to have at least one bank account. Explain how deposits made under the plan are likely to affect the national income of the country? **Ans:** The deposits made under 'Jan-Dhan Yojna' will affect national income of the country by the following ways: i) The idle savings of people would be mobilised and then made available for investment. ii) This will likely raise the level of output of goods and services in the country. iii) Employment and Income also increase in the economy so, national income would increase.	3
25	Currency is issued by the central bank, yet we say that commercial banks create money. Explain how this money creation by commercial banks is likely to affect the national income? Explain. **Ans:** i) Currency with the public and demand deposits with commercial banks are the two components of money supply. ii) Currency is issued by the central bank, while demand deposits are created by commercial banks by giving loans to people. Hence commercial banks also create money. iii) Commercial banks give loans largely to investors. The rise in investment in the economy leads to a rise in national income through the investment multiplier effect. Increase in income is multiple of increase in investment.	3
26	State any three functions of money? **Ans:** The main function of money are : (a) Medium of exchange (b) Unit of account (c) Store of value (d) Standard of deferred payment	3
27	Explain two primary functions of commercial banks. **Ans:** The commercial banks perform two basic functions: (A) Accept deposits: The primary function of a commercial bank is to accept deposits from the public. The banks accept mainly three types of deposits (i) Demand deposits (current deposits)	3

	(ii) Saving Account Deposits (iii) Fixed deposits or Term deposits (B) Advancing Loans: Lending money is another primary function of commercial banks. Commercial banks offer loans to firms and households and thereby earn interest.	
28	Differentiate between Demand Deposits and Time Deposits. **Ans:**	3

Demand Deposit	Time Deposits
These deposits are payable by banks on demand by their depositors. These include current account deposits.	These deposits are made for a fixed period of time which can be withdrawn only after the expiry of a certain fixed period.
They can be withdrawn by cheques.	They cannot be withdrawn by cheques.
Banks do not pay any interest on these deposits.	Banks pay interest on such deposits depending upon the period of time.

Short Answer Type Questions 4 Marks: 29 to 34

29	Elaborate the 'Banker's Bank and Supervisor' function of Reserve Bank of India. **Ans:** The Central Bank acts as a banker and supervisor to commercial banks in various ways. Some of these are: (i) It provides financial assistance to banks by discounting their bills and through loans and advances against approved securities as a lender of last resort. (ii) The commercial banks are required to maintain a certain percentage of deposits with the Central Bank. The sole aim of these reserves is to enable the Central Bank to provide financial assistance in times of financial emergency. (iii) It supervises, regulates and controls the activities of commercial banks. (iv) It provides the commercial banks with a centralized clearing and remittance facility.	4
30	Explain the process of credit creation of commercial banks. **Ans:** A commercial bank creates money on the basis of its basic function of accepting deposits and lending money. Suppose the initial deposit in banks is Rs. 100 and the LRR is 20%. Money creation by commercial banks is shown by the following table:	4

Round	Deposits	Cash Reserves	Loans
I	100	20	80
II	80	16	64
III	64	12.8	51.2
..	..	..	..
Total	500	100	400

In this way total deposit creation comes to Rs. 500, that is five times the initial deposit as proven by the following schedule.

31	Define Credit Multiplier. What role does it play in determining the credit creation power of the banking system? Use a numerical illustration to explain. OR	4

	Explain the working of money multipliers with the help of a numerical example. **Ans:** Credit multiplier measures the amount of money that the banks are able to create in the form of deposits with every initial deposit. It is calculated by the following formula: Credit Multiplier = 1/LRR. The credit creation by commercial banks depends on credit multiplier as it is inversely related to Legal Reserve Ratio (LRR). Higher the credit multiplier, higher will be the total credit created and vice-versa. For example: Suppose LRR is 20% and initial deposit is Rs. 1000 Credit Multiplier = 1/LRR Credit Multiplier = 1/0.2 = 5 Total Credit Creation = Initial Deposit × Credit Multiplier = 1000 × 5 = 5000 OR Money multiplier measures the amount of money that the banks are able to create in the form of deposits with every initial deposit. It is calculated by the following formula: Money Multiplier = 1/LRR. The credit creation by commercial banks depends on Money multiplier as it is inversely related to Legal Reserve Ratio (LRR). Higher the Money multiplier, higher will be the total credit created and vice-versa. For example: Suppose LRR is 20% and initial deposit is Rs. 1000 Money Multiplier = 1/LRR Money Multiplier = 1/0.2 = 5 Total Credit Creation = Initial Deposit × Money Multiplier = 1000 × 5 = 5000	
32	'Reserve Ratio and Credit Creation are inversely related.' Do you agree with the statement given? Justify your answer with a suitable numerical example. **Ans:** Yes, there exists an inverse relation between Reserve Ratio and credit creation in the economy. We know that: Money Multiplier = 1/Reserve Ratio Total Credit Creation = Initial Deposit × Credit Multiplier Assuming that initial deposits is Rs. 10000	4

Reserve Ratio	Money Multiplier	Initial Deposit	Credit Creation
10%	10	10,000	1,00,000
20%	5	10,000	50,000

	From the above calculation, it is proved that higher the Reserve Ratio, lesser credit will be created by commercial banks in the economy.	
33	Distinguish between cash reserve ratio and statutory liquidity ratio. **Ans:** Cash Reserve Ratio (CRR) refers to the minimum percentage of net demand and time liabilities, to be kept by commercial banks with the central bank. On the other hand, statutory	4

	liquidity ratio (SLR) refers to the minimum percentage of net demand and time liabilities in the form of designated liquid assets which commercial banks are required to maintain with themselves.	
34	(a) What are the two components of money supply? (b) What is meant by high powered money? State its components. **Ans**: (a) The two components of money supply are: (i) Currency notes and coins with public (ii) Demand deposits of commercial banks (b) High power is money produced by the RBI and the Government. It consists of (i) Currency held by the public and (ii) Cash reserves with the banks.	4
	Long Answer Type Questions 6 Marks: 35 to 38	
35	Read the following passage carefully and answer the questions given below: The Reserve Bank has imposed penalties totalling Rs 60.3 lakh on five co-operative banks for contravention of various regulatory norms. A penalty of Rs 43.30 lakh has been imposed on Rajkot Nagarik Sahakari Bank for non-compliance with RBI directions on 'ban on loans and advances to directors and their relatives, and firms/concerns in which they are interested', 'prohibition on opening of saving bank accounts in the names of certain bodies/organizations' and 'maintenance of deposit accounts'. The Economic Times (a) Which function of RBI is explained in the above news? 1 (b) Why did the RBI impose penalties on five co-operative banks? 2 (c) Explain Banker's Bank and supervisor function of RBI in light of the above text. 3 **Ans:** (a) The above statement is about Banker's Bank and Supervisor function of RBI. (b) RBI has imposed penalties on five co-operative banks for not obeying rule and direction made by RBI on 'ban on loans and advances to directors and their relatives. (c) Banker's Bank and Supervisor function of RBI: (i) Custodian of cash reserve (ii) Clearing house function (iii) Lender of last resort (iv) Supervisor function	6
36	The Monetary Policy Committee (MPC) announced on 8 June 2023 that the rate repo rate was increased by 25 basis points. This makes the current **repo rate 6.50%** (from the 6.25% that it was earlier). The Economic Times (a) Which measure is being stated in the above statement? 1 (b) Define repo rate and reverse repo rate. 2 (c) Explain likely impact of increase in repo rate on money supply in the economy. 3 **Ans:** (a) Quantitative measure of monetary policy. (b) Repo Rate: When the commercial banks are in need of funds for a short period, they can borrow from the Central bank (RBI) against approved securities. The rate of interest charged by the central bank on such lending is called Repo rate.	6

	Reverse Repo rate: When the commercial banks have surplus funds they can deposit the same with the Central bank (RBI) and earn interest. The rate of interest paid by the central bank on such deposits is called reverse repo rate. (c) (i) Increase in repo rate makes borrowings by the commercial banks costly. (ii)Banks are also forced to raise their lending rates which makes the credit costlier for the general public. (iii) As a result, borrowing for the purpose of investment and consumption is discouraged so money supply in the economy decreases.	
37	**Read the following passage carefully and answer the questions given below**: India's improving trade deficit, inflows into bonds and reduced pressure on the rupee in the offshore market has lowered the need for the Reserve Bank of India (RBI) to intervene aggressively in the foreign exchange market. The RBI's interventions eased significantly earlier this year, with the RBI buying $8.5 billion in February and not making any sales, its latest monthly bulletin showed. "Pressures (on the rupee) eased in the January-March period vis-a-vis October-December, which in turn reduced the magnitude of intervention," Vivek Kumar, an economist at Quant Eco Research said. (Hindustan times) a) Which function of RBI is stated in the above statement? 1 b) Why did the RBI used to buy dollars in the forex market? 2 c) What is the likely impact on the supply of money in the domestic economy when RBI buys or sells dollars in foreign exchange market? 3 **Ans:** a) The function of RBI stated in the above statement is likely related to managing the foreign exchange reserves. b) RBI used to buy dollars in the forex market to stabilize the value of the Indian Rupee against major international currencies. By buying dollars, RBI aims to increase the supply of rupees in the market, which can help in preventing excessive depreciation of the rupee. c) When RBI buys or sells dollars in the foreign exchange market, it directly affects the supply of money in the domestic economy. If RBI buys dollars, it releases rupees into the economy, increasing the money supply. Conversely, if RBI sells dollars, it withdraws rupees from the economy, decreasing the money supply. These actions can influence interest rates, inflation, and overall economic stability.	6
38	The Government of India launched **'Jan-Dhan Yojna'** aimed at every household in the country to have at least one bank account. Explain how deposits made under the plan are going to affect the national income of the country. **Ans:** (i) The Government of India launched 'Jan-Dhan Yojna' aimed at every household in the country to have at least one bank account. The implication of this plan will be the idle savings of people would be mobilised and then made available for investment. (ii) Due to this, initial deposits of commercials will increase by a certain amount. Let assume it will increase by Rs. 5000 crore and if LRR is 10% Total deposit creation by commercial banks will be = Initial deposit × (1 ÷ LRR) Which increases the (Total deposit creation = 5000 × 1/0.1 =	6

	50000) the total money creation 10 times the deposits. (iii) It will increase the consumption expenditure and investment expenditure in the economy. (iv) Which further increases the aggregate demand in the economy and encourages the producers to increase output which increases income and employment. (v) Due to increase in investment expenditure, national income increases multiple times the increase in investment because of the multiplier effect. (vi) This will likely raise the level of output of goods and services as well as income and employment in the country. So, national income would increase.	

DETERMINATION OF INCOME & EMPLOYMENT

GIST OF THE LESSON

Introduction:

Determination of income, output & employment is one of the core issues of Macro Economics. The level of income, output and employment is determined by the Aggregate Demand & Aggregate supply.

The equilibrium level of income output and employment is determined when Aggregate Demand (AD) is equal to Aggregate supply (AS).

1. Concepts of employment

A) Full employment: Full employment refers to a situation in which no one is unemployed i.e.…there is no involuntary unemployment**.**

B) Involuntary unemployment is a situation in which a worker is able and willing to work at the existing rate of wages but does not get work **.**

C) Under employment is a situation where all those who are able to work at existing wage rates, are not getting jobs. It refers to that situation in the economy where AS = AD or S = I, but without fuller utilisation of the labour force.

2. Aggregate Demand and its components:

a) Meaning of Aggregate demand : It refers to the sum total of demand made by all the economic units in the economy at a given point of time at full employment level . AD and levels of income are directly related to each other. AD = f(Y) Y = C+I Therefore, the Aggregate demand curve is the positively sloped curve originating from OY Axis. When there is no income, even then there can be positive aggregate demand with the help of past savings or autonomous consumption.AD can never be negative or zero.

b) COMPONENTS OF AGGREGATE DEMAND: Aggregate demand of an economy is the sum of the household consumption demand (C), government demand (G), & investment demand by firms (I) and net export demand (X-M)of the economy at a given point of time.

Hence **AD = C + I + G + (X-M)** .

In a two-sector economy

AD = C+I

As AD = f(Y)

Hence Y=C+I

AD = AS

C+I = C+S

I = S (At equilibrium Level)

3. CONSUMPTION FUNCTION/PROPENSITY TO CONSUME: Consumption function is the functional relationship between levels of consumption at different levels of income. It explains the portion of income the people are willing to spend on consumption (Propensity to consume) at different levels of disposable income (Y).

Hence C = f(Y) (OR) C= $\overline{C}$+ b Y

C= Consumption level $\overline{C}$=Autonomous consumption-(Levels of consumption at zero level of income) b = Marginal Propensity Consume (MPC) and Y= Levels of income.

Hence the consumption curve slopes positively. Since C=f(Y) when the income rises levels consumption also rises. But at zero level of income also there can be a minimum level of consumption with the help of past savings(or) dissaving, which is known as **AUTONOMOUS CONSUMPTION(a).**

Note : It is assumed that Linear consumption and Saving function operates (which means when the level of income changes consumption and savings changes in equal proportion)

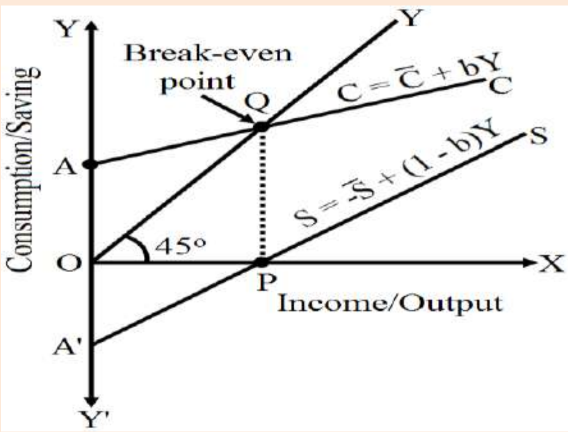
➢ Average Propensity Consume (APC) is the ratio between consumption and income APC= C/Y

➢ Marginal Propensity Consume (MPC) is the ratio between change in consumption and change in income $\Delta C/\Delta Y$

However, the levels of consumption(C) are affected by levels of savings also.

Since Y = C+I I = S Y=C+S C=Y-S & S=Y-C Hence, we need to know about savings functions…………………..

4. SAVINGS FUNCTION/PROPENSITY TO SAVE: Saving function is the functional relationship between levels of savings at different levels of income . It explains the portion of income the people are willing to spend on savings (Propensity to save) at different levels of disposable income (Y).



Hence S = f(Y) (OR) S =-S + b Y S= Level of Saving , -S=Autonomous Saving (OR) Dissaving (Levels of Savings at zero level of income),b = Marginal Propensity Save (MPS) MPC=$\Delta C/\Delta Y$

The saving curve slopes upward which depicts the direct relationship between income and saving. The savings function line SS cuts the income line which is called Break-even point because at this point consumption expenditure is equal to income (or savings are zero). To the left of break-even point, savings are negative (-) indicating consumption being more than income whereas to the right of break-even point, savings are positive (-K) indicating consumption expenditure being less than income. The shaded area reflects dissaving which is equal to the area of autonomous consumption shown as – C The Savings curve also slopes positively as (i) Saving can be negative (-) at zero or low level of income and (ii) As Income increase, savings also increase but more than the increase in income.

Average Propensity Save (APS) is the ratio between saving and income**.**

Marginal Propensity Saving (MPS) is the ratio between change in Saving and change in income MPS= $\Delta S/\Delta Y$

Relationship between APC &APS, MPC & MPS:

➢ **The Sum of APC and APS is equal to 1**

➢ **The Sum of MPC and MPS is equal to 1 i.e, MPC + MPS = 1(unity)**

Because $\Delta Y = \Delta C + \Delta S$

1= MPC +MPS MPC= 1-MPS MPS= 1- MPC

Note: 1. The value of APS can be negative when the value of consumption exceeds the value of income. At a low level of income, saving is negative.

2.Average propensity to consume can be greater than one: APC can be greater than one when the consumption exceeds the income. At that level APS will be negative. when the APS is negative APC will be greater than one.

The 45-degree line is the aggregate supply curve. At point A, consumption = income i.e (Y=C) $\bar{C}$ represents the autonomous consumption i.e consumption at zero level of income. Steps for derivation of supply curve from consumption curve as follows. (i) Corresponding to $\bar{C}$ in the consumption function we have $-\bar{C}$ in the saving function. That is, there are negative savings equal to autonomous consumption at Y=0. This is represented by the OS on the negative axis in the lower panel. (ii) At point B($Y=\bar{C}$). This implies that all the income is spent on consumption expenditure. Thus, savings equal to zero. This is shown as S=0 in the lower panel. This point is also known as the Break-even point. (iii) Beyond the break-even point, by connecting points S and Y, we derive the straight upward sloping saving curve. (iv) SS is the required saving curve.

INVESTMENT DEMAND Meaning of investment (or) Capital formation: Investment (or) Capital formation is the net addition made to the existing stock of capital during a year in an economy . Investment is the function of rate of interest.

Types of Investment:

1. Autonomous Investment: Investments made by the government for social welfare irrespective of levels of income . It remains constant at all levels of Income.

2. Induced Investment: The Investments made by the private sector with a motive of earning profits. It Increases with an increase in income.ie. Positively related to levels of income. Note: to determine equilibrium and levels of AD only Autonomous investment is considered.

3.**Ex-Ante (or) Planned (or) Desired investment** : The investment which is planned or desired to be made by the firms or entrepreneurs in the economy during a period (say, a year) in the beginning of a period is called planned (or ex-ante) investment.

4.Ex-post (or) Actual (or) Realised Investment: It refers to actual investment made by all the entrepreneurs in the economy during a given period. In short, the realised investment of a period, say, a year, is called actual investment (or ex-post investment). Ex-post investments of firms are always equal to ex-post savings by households at all levels of income .

DETERMINATION OF INCOME BY AD = AS APPROACH/CONCEPT OF EFFECTIVE DEMAND: The equilibrium level of income in an economy is determined where Aggregate Demand AD is equal to the Aggregate Supply (AS) (The point where ex ante aggregate demand is equal to ex ante aggregate supply will be equilibrium) ….. The point Where AD=AS is called effective demand which is corresponding to the equilibrium levels of income .The determination of equilibrium level of income can be better understood with the help of the following schedule and diagram:- The economy is equilibrium at point E where the AD curve intersects at 45-degree line (AS). E is the equilibrium level as per the above diagram. At this point planned expenditure equals the level of output (Ex-ante AD is equal to Ex-Ante AS. OP is the equilibrium level of Income and output corresponding to point E. As the above table, Equilibrium of Income is at 300. At this income level AD is equal to AS. E, is the point of Effective Demand.

ADJUSTMENT / CORRECTIVE MECHANISM :

IF AD > AS- It means that buyers are buying faster than sellers are expecting. In this situation, inventories start falling and come below the desired level. To bring back the inventories at the desired level producers expand production. This raises the income level which keeps on rising till the AD and the AS once again become equal. This brings the economy back to equilibrium AD=AS.

ADJUSTMENT / CORRECTIVE MECHANISM:

IF AD < AS - It means that buyers are planning to buy less than what sellers are planning to produce. As a result, inventories start rising and move above the desired level. As a result, the producers cut back on production and lay off workers. This reduces the income level, i.e. AS. The downward trend continues till AD and AS once again become equal. This brings the economy back to equilibrium.

DETERMINATION OF INCOME BY SAVINGS & INVESTMENT APPROACH According to this approach, the equilibrium level of income is determined at a level, when planned saving (S) is equal to planned investment (I). Let's understand it with the following schedule and diagram: The investment curve is parallel to the X axis as it is not affected by the level of income. The saving curve slopes upwards and shows a positive relationship with income. The economy is in equilibrium at point E, where planned autonomous investment is equal to planned savings. OY is the equilibrium level of income and output corresponding to point E.

ADJUSTMENT MECHANISM

What happens when S < I When planned saving is less than planned investment. It implies households are planning to buy more than what the producer is planning to produce. As a result, planned inventory would fall below the desired level. In order to bring the inventory back to the desired level, firms would plan to increase the production till saving and investment become equal to each other.

ADJUSTMENT MECHANISM

What happens When S > I When planned saving is more than the planned investment. It implies households are planning to buy less than what the producer is planning to produce. As a result, planned inventory would increase above the desired level. In order to bring the inventory back to the desired level, firms would plan to reduce the production till saving and investment become equal to each other.

INVESTMENT MULTIPLIER AND ITS MECHANISM MEANING OF INVESTMENT MULTIPLIER: - The investment multiplier is the ratio of change in income to change in investment. Symbolically**,**

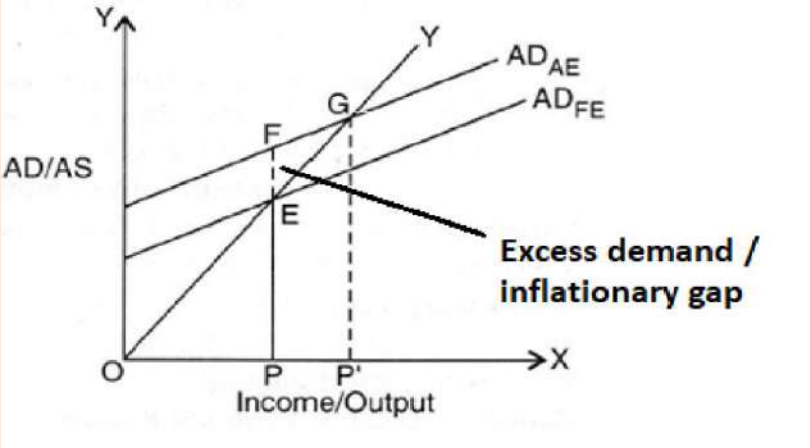
INVESTMENT MULTIPLIER & THE VALUE OF MPC, MPS : The value of the multiplier (K) depends upon the value of marginal propensity to consume(MPC). There is a direct relationship between K and MPC i.e., MPC increases K also increases and vice versa. Similarly ,there is an inverse relationship between K and MPS .

1) Working of Multiplier: Investment multiplier works on the fact that the expenditure of one person is the income of another person . The working of multipliers can be explained with the help of one numerical example. Here we assume that initially investment is increased by Rs. 100 crores and MPC is 0.5 . Multiplier tells us what will be the final change in the income, as a result of change in investment. Change in investment results in the change in income. The table shows that as additional investment increases by Rs. 100 crore there will be change in income by Rs. 100 Crore in the first round, MPC is 0.5 therefore consumption will increase by 100 X 0.5 = 50 crore, the remaining amount will be saved. This increased consumption (50 crore) will increase the income by 50 crores in the second round. This process of income generation will go on and the consumption and income will increase in every round till total income increases by Rs. 200 crores as MPC is 0.5 .

PROBLEMS OF EXCESS DEMAND & DEFICIT DEMAND:

The equilibrium output in the economy also determines the level of employment, given the quantities of other factors of production (think of a production function at aggregate level). Full employment level of income is that level of income where all the factors of production are fully employed in the production process. Recall that equilibrium attained at the point of equality of Y and AD by itself does not signify full employment of resources. Equilibrium only means that if left to itself the level of income in the economy will not change even when there is unemployment in the economy.

A) EXCESS DEMAND (OR) INFLATIONARY GAP: Excess demand is a situation when AD is more than what is required for full employment. Excess demand is defined as a situation when AD is greater than AS at full employment



In the diagram, the full employment equilibrium is attained at point E where the AS and AD for full employment (AD FE) are intersecting. AD AE shows aggregate demand in the economy which is higher than the aggregate demand for full employment AD FE. The vertical difference between AD AE and AD FE is excess demand.

Excess demand in the economy arises due to following reasons:

1. An increase in the private consumption (C)
2. An increase in the investment expenditure by firms (I)
3. An increase in the government expenditure (G)
4. Increase in exports.
5. Decrease in imports.

Inflationary gap and excess demand

Excess demand leads to inflationary gaps in the economy. It is the gap by which actual AD exceeds the level of required AD to establish full employment. In the diagram, inflationary gap is the vertical difference between AD AE and AD FE, i.e., FE.

Problems of excess demand

When there is excess demand in the economy, the demand for goods and services exceeds more than the production in the economy. To meet this excess demand, the producers start selling the unsold stock and inventories decrease. With excess demand, the price level in the economy starts increasing and leads to inflation.

Measures to correct Excess demand

The measures to correct excess demand are classified into:

1. Fiscal policy: Government expenditure and taxes.
2. Monetary policy: Quantitative and qualitative tools.

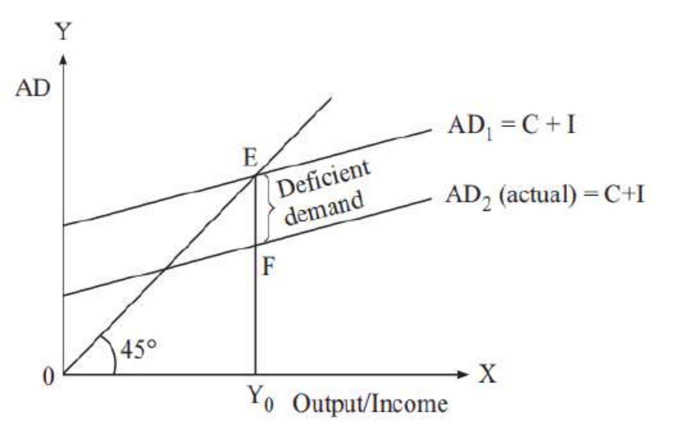
Fiscal policy measures to correct excess demand:

1. Increase in taxes.
2. Decrease government expenditure.
3. Increase in public debt.
4. Decrease deficit financing.

Monetary Policy measures to correct excess demand:

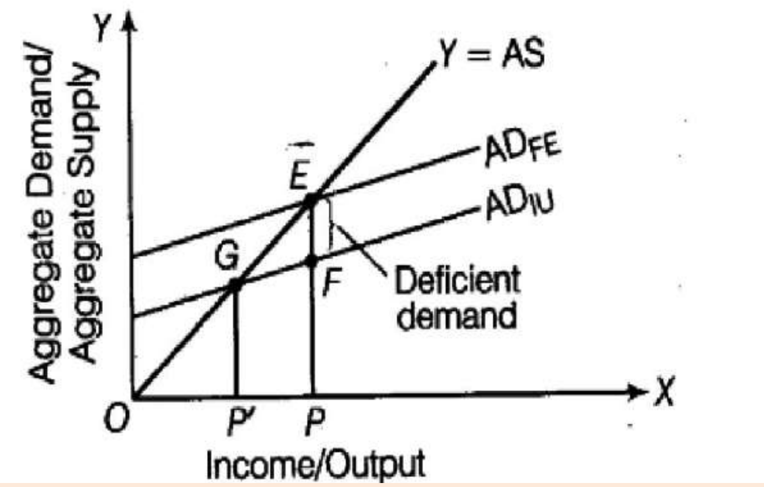
1. Increase in bank rate. 2. Sale of securities. 3. Increase in CRR.
4. Increase in SLR. 5. Increase in repo rate. 6. Increase in reverse repo rate.
7. Increase in margin requirements.

B) DEFICIENT DEMAND (OR) DEFLATIONARY GAP: Deficient demand is a situation when AD is less than what is required for full employment. Deficient demand is defined as a situation when AD is less than AS at full employment



Deficient demand

Deficient demand is a situation when AD is less than what is required for full employment. Deficient demand is defined as a situation when AD is less than AS at full employment



In the diagram, the full employment equilibrium is attained at point E where the AS and AD for full employment (AD FE) are intersecting. AD IU shows aggregate demand in the economy which is less than the aggregate demand for full employment AD FE. The vertical difference between AD FE and AD IU is deficient demand.

Deficient demand in the economy arises due to following reasons:

1. A decrease in the private consumption (C)
2. A decrease in the investment expenditure by firms (I)
3. A decrease in the government expenditure (G)
4. Decrease in exports.
5. Increase in imports.

Deflationary gap and deficient demand

Deficient demand leads to a deflationary gap in the economy. It is the gap by which actual AD is less than the level of required AD to establish full employment. Deflationary gap is measured as the difference between aggregate demand less than full employment and aggregate demand required for full employment. In the diagram, the deflationary gap is the vertical difference between AD FE and AD IU , i.e., EF.

Problems of deficient demand

When there is deficient demand in the economy, the demand for goods and services decreases than what is produced in the economy. This leads to piling up of unsold stock/inventories in the economy. To overcome this deficient demand, the producers cut the production of goods and services. As a result, the price level in the economy starts decreasing to clear the unsold stock and leads to deflation.

Measures to correct deficient demand

The measures to correct deficient demand are classified into:

1. Fiscal policy: Government expenditure and taxes.
2. Monetary policy: Quantitative and qualitative tools.

Fiscal policy measures to correct deficient demand:

1. Decrease in taxes.
2. Increase government expenditure.
3. Decrease in public debt.
4. Increase in deficit financing.

Monetary Policy measures to correct deficient demand:

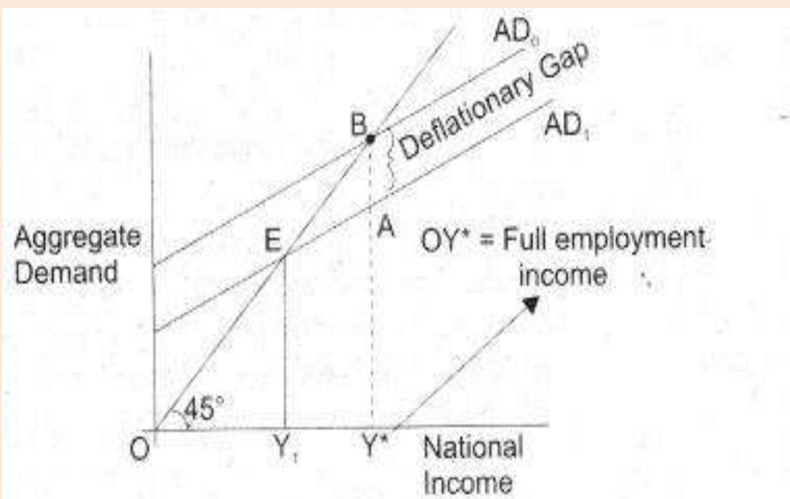
1. Decrease in bank rate.
2. Purchasing of securities.
3. Decrease in CRR.
4. Decrease in SLR.
5. Decrease in repo rate.
6. Decrease in reverse repo rate.
7. Decrease in margin requirements.

QUESTIONS

1	Value of Money Multiplier ……………..(increases/decreases/remains unchanged) with an increase in Cash Reserve Ratio. (Fill up the blank with the correct alternative).	1
2	If in an economy, the value of investment multiplier is 4 and Autonomous Consumption is Rs 30 Crore,the relevant consumption function would be : a) C=30+0.75 Y b) C=(-)30+0.25Y c) C=30-0.75Y d) C=30-0.25Y	1
3	Read the following statement -Assertion (A) and Reason (R). Choose one of the correct alternatives given below: Assertion (A): Ex-post Investments represent planned Investments; whereas ex-ante Investments represent actual level of investments. Reason (R): At equilibrium level, Ex-ante Savings and Ex-ante Investments are always equal. Alternatives: 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 and 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
4	Which of the following can never have negative value a. APC b. MPC c. MPS d. APS	1
5	Complete the flow ΔI→ΔY→ΔC→___________ a. ΔY b. ΔS c. ΔD d. ΔC	1
6	If the initial increase in the investment is Rs 1000 and MPC=0.8, the multiplier will be a. 5 b.4 c. 3 d. 6	1
7	The level of equilibrium income is also determined by : a. Planned Savings and Planned Consumption b. Planned AD and Planned national income	1

	c. Planned Savings and Planned Investment d. Planned consumption and Planned AS	
8	Which among the following is induced investment : i. The government has set up public health centres in rural areas. ii. The government has decided to invest Rs. 1,000 crores to save Sunder ban Forests. iii. Airtel has invested Rs 1,000 crore to improve its services. Alternatives : a) i & ii b) ii & iii c) iii alone d) All of these	1
9	Piling up of stocks in the warehouses is known as _____.(Fill in the blank with correct alternative) a)Accumulation of inventories b)Intended accumulation of inventories c)Unintended accumulation of inventories d)None of the above	1
10	If autonomous consumption is 50 and MPC is 0.75 and national income is 2400 crores, the level consumption will be- a) 1250 b) 1550 c) 1650 d) 1850	1
11	Which of the statements is true about the relationship between planned savings and planned investment? a. When planned investment is more than planned savings, the national income may increase b. When planned investment is more than planned savings, the national income may decrease c. When planned investment is more than planned savings, there is no effect on the national income d. None of the above	1
12	Read the following statement -Assertion (A) and Reason (R). Choose one of the correct alternatives given below: Assertion (A): Ex-post Investments represent planned Investments; whereas ex-ante Investments represent the actual level of investments. Reason (R): At the equilibrium level, Ex-ante Savings and Ex-ante Investments are always equal. Alternatives: 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 and 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
13	What are the characteristics of Deficit Demand? (a) Aggregate Demand falls short of Aggregate Demand required at full employment (b) Aggregate Demand remains short of Aggregate Supply required of full employment level (c) Both (a) and (b) (d) None of above	1
14	Monetary policy is the policy of __________ to control money supply and credit in the economy a) Central government b) Central bank c) Both (A) &(B) d) None of these	1
15	Excess demand occurs when: A. Aggregate Demand is less than Aggregate Supply B. Aggregate Demand is equal to Aggregate Supply	1

	C. Aggregate Demand exceeds Full Employment Output D. Aggregate Supply exceeds Aggregate Demand	
16	Excess demand leads to: A. Rise in general price level B. Fall in general price level C. Fall in employment D. Increase in inventories	1
17	Assertion (A): Inflationary gap is the result of excess demand. Reasoning(R): When aggregate demand is more than aggregate supply, an inflationary gap occurs. Alternatives: (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 and 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
18	Assertion (A): Due to excess demand, employment increases in the economy. Reasoning(R): Output level increases in the economy due to excess demand. Alternatives: (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 and 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
19	In the situation of the deflationary gap: (a)Output decreases (b)Prices decreases (c) Employment decreases (d) All of these	1
20	Which of the following causes the trade cycle? (a) Deflationary Conditions (b) Inflationary Conditions (c)Both (a) and (b) (d) None of these	1
	MCQ Answer (1-20)	
1	Decreases	1
2	c) C=30-0.75Y	1
3	d) Assertion (A) is false but Reason (R) is true.	1
4	a) APC	1
5	a) ΔY	1
6	a) 5	1
7	c.) Planned Savings and Planned Investment	1
8	c) iii alone	1
9	a)Accumulation of inventories	1
10	d) 1850	1
11	a. When planned investment is more than planned savings, the national income may increase	1
12	d) Assertion (A) is false but Reason (R) is true.	1

<table>
<tr><td>13</td><td>(c) Both (a) and (b)</td><td>1</td></tr>
<tr><td>14</td><td>(b) Central bank</td><td>1</td></tr>
<tr><td>15</td><td>(c) Aggregate Demand exceeds Full Employment Output</td><td>1</td></tr>
<tr><td>16</td><td>(a) Rise in general price level</td><td>1</td></tr>
<tr><td>17</td><td>(a) Both assertion and reason are true and reason is the correct explanation of the assertion.</td><td>1</td></tr>
<tr><td>18</td><td>(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)</td><td>1</td></tr>
<tr><td>19</td><td>(d) All of these</td><td>1</td></tr>
<tr><td>20</td><td>(c) both a & b</td><td>1</td></tr>
<tr><td colspan="3">Long Answer Question</td></tr>
<tr><td>1</td><td>Explain with the help of a diagram the concept of deficient demand in macroeconomics.
Ans: When at full employment level income, AD is lesser than AS, the deficiency in AD is termed as "Deficient Demand". As deficient demand leads to deflation in the economy, it is also known as 'Deflationary Gap' (shown by AB in given diagram) Point E denotes the point of Equilibrium, at this point the AD curve intersects the 45° Line. At the full employment level, AD , while It denotes situation of Deficient demand, diagrammatically Shown by 'AB', which denotes the deflationary Gap=AB.

</td><td>3</td></tr>
<tr><td>2</td><td>The Government has raised the exemption limit for the payment of Income tax from "2 lakhs to 2.5 Lakh." If the situation of deficient demand is prevailing in the economy, what will be the impact of this action taken by the Government?
Ans: Due to increase in exemption limit from 2 lakhs to 2.5 lakh, disposable income of public will be Increased. Increase in disposable income will help to generate more demand for consumption. Due to this, investment expenditure would also increase to produce more goods in response to increase in demand. Thus, Consumption expenditure and investment expenditure Both will increase. This way deficient demand in the Economy can be removed up to an extent.</td><td>3</td></tr>
<tr><td>3</td><td>"Retail inflation has remained above the comfort level for several months due to rising consumer spending and strong festive demand."
On the basis of the above information:
(a) Identify the macroeconomic problem.
(b) State two likely effects of this problem on the economy.
Ans: (a) The macroeconomic problem is Excess Demand.
(b) Effects of Excess Demand:</td><td>3</td></tr>
</table>

	Rise in General Price Level (Inflation): Since aggregate demand exceeds aggregate supply at full employment, prices tend to rise continuously. Decline in Purchasing Power: As prices increase, the purchasing power of money falls, reducing consumers' real income.	
4	"The Reserve Bank of India increased the repo rate to moderate inflationary pressures in the economy." Answer the following: (a) Which macroeconomic problem is the RBI trying to control? (b) Explain how an increase in repo rate helps in correcting the problem. **Ans:** (a) RBI is trying to control Excess Demand in the economy. (b) An increase in the repo rate raises the cost of borrowing for commercial banks. Consequently: Banks increase lending rates. Borrowing by households and firms decreases. Consumption and investment expenditure decline. Aggregate demand falls, helping control inflationary pressures.	3
5	"The Government announced a reduction in income tax rates to boost economic activity and encourage spending." (a) Identify the macroeconomic problem likely prevailing in the economy. (b) Explain how this measure will help correct the problem. **Ans:** (a) The economy is likely facing Deficient Demand. (1) (b) Reduction in income tax increases disposable income of households. As consumers have more income available for spending: Consumption expenditure increases. Aggregate demand rises. Production and employment increase. The economy moves closer to full employment equilibrium.	3
6	Suppose full employment level of income is ₹ 8,000 Crore and aggregate Demand is ₹ 8,500 Crore. (a) Calculate the demand gap. (b) Identify the problem. (c) State one likely impact on the price level. **Ans:** (a) Demand Gap = Aggregate Demand − Full Employment Income = ₹8,500 crore − ₹8,000 crore = ₹500 crore (b) Problem: Excess Demand (c) Impact: The general price level is likely to rise, creating inflationary pressure.	3
7	Economic Survey Excerpt: "Private investment expenditure has declined due to pessimistic business expectations." Identify the likely macroeconomic problem and explain two measures that can be adopted to remove it. **Ans:** The economy is likely facing Deficient Demand. Measures to remove it: Increase Government Expenditure: This directly increases aggregate demand and employment. Reduce Repo Rate: Lower interest rates encourage borrowing, investment and consumption.	3
8	"A country experiences a sharp fall in exports due to a global recession."	3

	Explain how this situation can lead to deficient demand in the economy. **Ans:** Exports are a component of aggregate demand. When exports decline: Foreign demand for domestic goods decreases. Production by firms falls. Income and employment decline. Aggregate demand becomes insufficient to purchase full employment output. This creates a situation of Deficient Demand in the economy.	
9	Explain the role of bank rate in dealing with the problem of deficient demand. **Ans:** Bank Rate is the rate at which the Central Bank of a country gives credit to the commercial banks. To control deficient demand, the Central Bank should decrease the Bank Rate. Decrease in Bank Rate reduces the market rate of interest and credit becomes cheaper. Accordingly, demand for credit expands and consequently, Aggregate demand is increased and deficient demand is Checked.	4
10	Explain briefly how changes in open market operations are helpful in correcting deficient demand. **Ans:** Open market operations. To control deficient demand, the central bank should resort to buying of Government securities. By buying government securities, the central bank injects the additional purchasing power into the system which results in the expansion of credit. As a result, aggregate demand increases and the problem of deficient demand can be solved.	4
11	At full employment income of ₹15,000 crore, aggregate demand is ₹16,200 crore. (a) Calculate excess demand. (b) Identify the gap created. (c) Explain two likely effects on the economy. **Ans:** (a) Excess Demand = ₹16,200 crore − ₹15,000 crore = ₹1,200 crore (b) Gap Created: Inflationary Gap (c) Effects: Rise in general price level. Decline in purchasing power of money.	4
12	Case Study: Employment Mission Read the following: "To address rising unemployment, the government expanded rural employment programmes and increased public investment in infrastructure." (a) Identify the economic problem. (b) Explain how these measures increase aggregate demand. **Ans:** Employment Mission Case Study (a) Economic Problem: Deficient Demand (b) The ways these measures increase aggregate demand are: Rural employment programmes create jobs. Public investment generates income and spending. Increased income raises aggregate demand, leading to higher output and employment.	4
13	Read the following passage carefully: "Following a slowdown in economic activity, demand for goods and services declined. Firms reduced production and workers faced job losses. To revive the economy, the government	4

	increased expenditure on infrastructure projects while RBI adopted an accommodative monetary policy." Answer the following: (a) Identify the macroeconomic problem discussed above. (b) Explain the impact of the problem on output and employment. (c) Explain how government expenditure helps correct the situation. **Ans:** (a) Problem: Deficient Demand (b) Impact: Demand deficiency causes firms to reduce production, leading to unemployment and lower income levels. (c) Government expenditure directly increases aggregate demand. Firms receive more orders. Production increases. Employment and income rise. Thus, the economy moves towards full employment equilibrium.	
14	"Commercial banks are parking larger amounts of funds with RBI after an increase in the Reverse Repo Rate." (a) Which macroeconomic problem is the RBI trying to tackle? (b) Explain the mechanism through which this measure affects aggregate demand. **Ans:** (a) RBI is trying to tackle Excess Demand. (b) Higher Reverse Repo Rate encourages banks to deposit more funds with RBI. Banks lend less to the public. Availability of credit decreases. Consumption and investment expenditure decline. Aggregate demand falls.	4
15	Give two reasons which led to an inflationary gap in the economy and state its two effects. (Or) Give two reasons which led to a deflationary gap in the economy and state its two effects. **Ans:** A Reasons for inflationary gap (or excess demand): • Increase in consumption due to rising propensity to consume. • Decrease in tax rates also leads to higher disposable income with people Effects of inflationary gap • It causes a continuous rise in the price of goods and producers are able to get abnormal profits due to this. • It may result in a price – wage spiral i.e. due to rise in prices, the labour unions will demand higher wages. Higher wages will increase the cost of production and it will again lead to a rise in prices. (Or) Reasons for deflationary gap (or deficient demand): Decrease in consumption due to fall in the propensity to consume. • Decrease in government expenditure or decrease in exports of the country. Effects of deflationary gap • It causes a gradual fall in income, prices, employment and overall output in the economy. • Due to falling prices, the purchasing power of the consumer increases. On the other hand, producers may suffer losses in deflationary situations.	6
16	Read the following statements carefully and identify the policy measure as indicated in each.	6

Also, state the use of this policy measure.

(i) RBI raises the cost of borrowing for the commercial banks. Consequently, the market rate of interest is raised by the commercial banks.

(ii) RBI purchases securities in the open market.

(iii) Restricting loans only for priority sectors of the economy.

(iv) The government borrows ₹ 20 crores from the public.

(v) The difference between the value of collateral and the value of loan is increased.

(vi) GST increases from 10% to 15%.

Ans: (i) Policy of Bank rate/Repo rate (Increase in bank rate or repo rate increases the cost of borrowing for the commercial banks). This monetary measure is used to correct excess demand.

(ii) Open market operations (Purchase of securities in open market). This monetary measure increases liquidity to correct deficient demand.

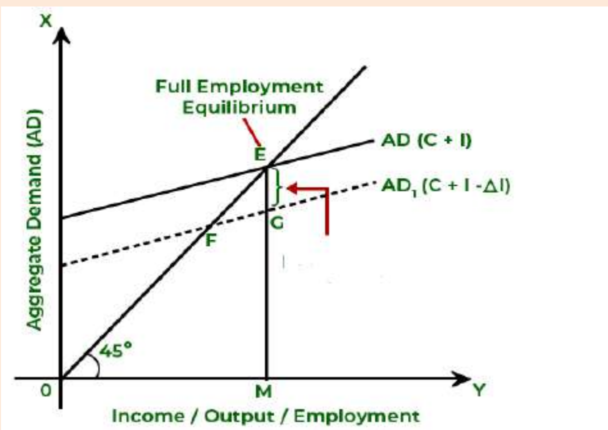
(iii) Policy of credit rationing. This monetary measure is used to correct excess demand.

(iv) Public borrowing (Borrowing from the public). This fiscal measure is used to correct excess demand by soaking liquidity.

(v) Policy of margin requirement (Increase in the margin). This monetary measure is used to correct excess demand.

(vi) Fiscal policy (Increase in taxes). This fiscal measure is used to correct excess demand.

17 Read the following diagram carefully 6



Identify and define the economic phenomenon represented by the vertical distance EF in the diagram.

Explain the impact of this economic situation on the level of output, employment, and general prices in the economy.

Propose one fiscal measure and one monetary measure that the government and the Central Bank can use to correct this situation.

Ans: Identification and Definition:

●Identification: The vertical distance EG represents the Deflationary Gap (or Deficient Demand).

●Definition: It is the deficiency by which the actual aggregate demand falls short of the aggregate demand required to establish full employment equilibrium at the full employment level of income GM

Impact on Economic Variables

●Output: Total industrial output falls as producers face unintended accumulation of inventories and slash production.

●Employment: Involuntary unemployment rises because the economy operates under a state of underemployment equilibrium.
●Price Level: General prices fall due to a lack of buyer demand, leading to deflationary pressures.
Corrective Policy Measures
●Fiscal Measure: The government can increase public expenditure on infrastructure or reduce taxes. This injects disposable income back into the hands of citizens, shifting the actual demand curve upwards.
Monetary Measure: The Central Bank can lower the Repo Rate or buy securities via Open Market Operations. This lowers borrowing costs, increases liquidity, and encourages commercial banks to extend more credit.

GOVERNMENT BUDGET AND THE ECONOMY

KEY CONCEPTS: Meaning and objectives of budget, components of budget, types of budget receipts, types of budget expenditure, budget deficit, revenue deficit, fiscal deficit and primary deficit. Implications of budget deficits on the economy.

Meaning of Government Budget

Government budget is an annual statement showing item wise estimates of receipts and expenditures of government during a fiscal year

Objectives/Functions of Budget

1**. Re-allocation function**

Through the budget, the government reallocates the resources from the production of socially harmful or undesirable goods and services to the production of socially useful goods and services. This is done with the aim of maximizing social welfare.

2. **Redistribution function**

Through the budget the government tries to reduce the gap between rich and poor. Government taxes the rich and use this money for the welfare of poor people

3. **Stabilization function**

When the economy deviates from a stable equilibrium position to either inflationary or deflationary situations, government tries to stabilize the economy through budgetary measures

4. **Management of Public Enterprises**

Through the budget, the government makes provisions for the management of public enterprises which work with the aim of public welfare.

5. **Economic Growth**

The government tries to increase the rate of growth by promoting investment .

Components of Budget.

Budget has two components: Budget Receipts and Budget Expenditure

Budget Receipts refer to the estimated money receipts of the government from all sources during a given fiscal year.

Budget receipts are further classified into Revenue Receipts and Capital Receipts

Revenue Receipts

Revenue receipts are those which neither create any liability for the government nor reduce its assets. Eg. Tax receipts, non-tax revenue like fees, fines, profit, dividend, escheats, forefeitures, special assessment etc.

Capital Receipts

Capital Receipts are those receipts which either create liability or reduce the assets of government Eg. Government borrowings, proceeds from disinvestment, recovery of loan.

Budget Expenditure

Budget expenditures refers to the estimated expenditure of the government during a given fiscal year. Budget expenditures are classified as (1) Revenue Expenditure (2) Capital Expenditure

Revenue Expenditure

Revenue expenditure refers to the expenditure which neither creates any asset nor causes reduction in any liability of the government. These are recurring in nature.

Eg: Payment of salaries and pensions to government employees, Defence expenditure, Interest payments, Subsidies, Expenditure on education and health etc.

Capital expenditure

Capital expenditure refers to the expenditure which either creates an asset or causes a reduction in the liabilities of the government. It is non-recurring in nature.

Eg. Expenditure on building assets like bridges, flyovers, ports etc. Purchase of machinery, Repayment of loan.

Types of Budget

There can be three types of budget

Balanced Budget: if the estimated government receipts are equal to estimated government expenditure

Surplus Budget: if the estimated government receipts are more than estimated government expenditure

Deficit Budget: if the estimated government receipts are less than estimated government expenditure

Measures of Budget Deficit

There are three different measures of budget deficit

1. Revenue deficit 2. Fiscal deficit 3. Primary deficit

Revenue Deficit

Revenue deficit refers to excess of Revenue Expenditure over Revenue Receipts during a given fiscal year

Revenue Deficit = Revenue Expenditure --- Revenue Receipts

Implications of Revenue Deficit

1. It indicates inability of the government to meet its regular and recurring expenditure
2. Higher borrowings by government and higher repayment burden

Fiscal Deficit

Fiscal Deficit refers to the excess of total expenditure over total receipts other than borrowings during a fiscal year. It indicates actual borrowing requirements of the government during that year.

Fiscal Deficit = (Revenue expenditure + Capital expenditure) – (Revenue receipts + Capital receipts other than borrowing)

Implications of fiscal deficit

1. Higher fiscal deficit indicates higher borrowing and higher repayment burden.
2. Financing of fiscal deficit through deficit financing leads to inflation.

Primary Deficit

Primary deficit refers to the difference between fiscal deficit and interest payments.

Primary Deficit = Fiscal Deficits --- Interest Payments

A lower primary deficit indicates fiscal discipline of the government. A higher primary deficit indicates fiscal indiscipline and need to control government expenditure.

Direct Tax and Indirect Tax

A tax is a compulsory payment made by an individual, household or firm to the government without reference to anything in return.

A direct tax is that tax, the final burden of which falls on that person on whom it is imposed.Eg. Income tax, corporate tax.

Indirect tax is that tax, the final burden of which can be shifted from the person on whom it is imposed to another person. Eg. GST,Customs Duty

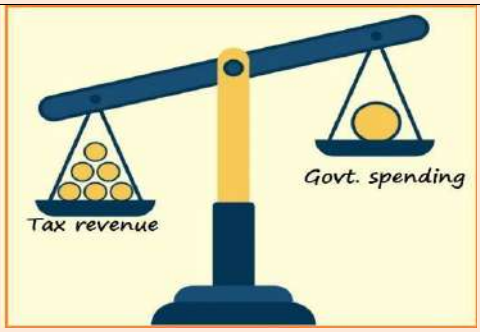
Deficit financing

Deficit financing generates funds to finance the deficit which results from excess expenditure over revenue. Generally, the government raises funds through borrowing from the public or central bank. When the government borrows from the central bank by way of printing new currency, it leads to an increase in money supply in the economy. This in turn leads to an increase in the level of aggregate demand. This leads to an increase in prices of goods and services. Thus, deficit financing leads to inflation in the economy.

Q. No.	**QUESTIONS**	Marks
1	Expenditure incurred by the Government of India on the construction of 8-lanes Delhi-Mumbai Expressway can be classified as _________ expenditure of the government, as it may lead to __________ in the value of assets. (a) revenue, increase (b) revenue, reduction (c) capital, increase (d) capital, reduction	1
2	The budget in which government's total planned spending is equal to total planned revenue is referred to as __________ budget. (a) Surplus (b) Deficit (c) Micro (d) Balanced	1
3	Disinvestment is which type of receipt for the Government? a) Capital Receipt b) Revenue Receipt c) Both a and b d) None of these	1
4	Receipts from Post Office deposits and Kisan Vikas Patras is treated as a) Capital receipt b) Revenue receipt c) Both a and b d) None of these	1
5	Which expenditure will either create an asset or reduce the liability of the Government? a) Revenue expenditure b) Capital expenditure c) Capital receipt d) Revenue receipt	1
6	Subsidies and expenditure on scholarship are examples of : a) Revenue expenditure b) Capital expenditure c) Capital receipt d) Revenue receipt	1
7	The formula for fiscal deficit is_____. a) Fiscal Deficit = Total expenditure – Total receipts excluding borrowings b) Fiscal Deficit = Total expenditure – Total receipts c) Fiscal Deficit = Total expenditure – Total receipts excluding Capital receipts d) None of these	1

8	Revenue deficit is computed as ____. a) Revenue Deficit = Revenue expenditure – Total receipts b) Revenue Deficit = Revenue expenditure – Revenue receipts c) Revenue Deficit = Revenue expenditure – Capital receipts d) None of these	1
9	Primary deficit is computed as _____. a) Primary Deficit = Revenue Deficit – Interest payment b) Primary Deficit = Fiscal Deficit – Interest received c) Primary Deficit = Fiscal Deficit – Interest payment on previous loan d) None of these	1
10	Revenue deficit can be reduced by a) Reducing Government expenditure b) Increasing source of revenue c) Reducing tax evasion d) All of these	1
11	Fiscal deficit is the sum of a) Primary deficit and Interest payment b) Borrowings and disinvestment c) Expenditure and receipts d) Capital and revenue expenditure	1
12	"The Govt of India has recently implemented various measures like cash transfer to senior citizens and widows". The Govt is trying to achieve the objective of ……… using such measures. (i) Reallocation of resources, (ii) Redistribution of income, (iii) Regional inequality, (iv) Economic instability	1
13	Read the following statement given below and choose the correct alternative Statement 1- Economic stability refers to absence of fluctuation in price of goods and services Statement 2- Economic instability discourages investment a) Both are correct b) Both are wrong c) Statement 1 is correct and statement 2 is wrong d) Statement 2 is correct and statement 1 is wrong	1
14	Read the following statement given below and choose the correct alternative Statement 1- Government imposes high rate of income tax on higher income groups Statement 2- Low income groups pay high amount of tax a) Both are correct b) Both are wrong c) Statement 1 is correct and statement 2 is wrong d) Statement 2 is correct and statement 1 is wrong	1
15	Statement -1 : Tax is legally compulsory payment Statement -2 : Direct tax are capital receipts of the government . (a)Both the statement is true (b) Both statements are false. (c) Statement 1 is true, but Statement 2 is false (d.) Statement 2 is true, but Statement 1 is false	1
16	Read the following statements – Assertion (A) and Reason (R): Choose the correct	1

	alternative among those given the below: Assertion: In the process of development, construction of dams,new schools, new plants, and repayment of loans is essential. Reason: Capital expenditure creates the assets of the government and causes reduction in the liabilities of the government. Choose the correct option from the following. (a) Both A and R are true and R is the correct explanation of A. (b) Both A and R are true but R is not the correct explanation of A. (c) A is true but R is false. (d) A is false but R is true,	
17	Read the following statements-assertion (A) and reason (R) Choose one of the correct alternatives given below. Assertion (A): Borrowing is a capital receipt. Reason (R): Capital receipts are those receipts which either increase liabilities or reduce assets. Alternatives: 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 and 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
18	Read the following statements: Assertion (A) and Reason (R). Choose one of the correct alternatives given below: Assertion (A): Government should reduce subsidies to curb the revenue deficit. Reason (R): Providing subsidies on an LPG cylinder is a part of revenue expenditure. Alternatives: 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 and 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
19	Identify the type of government expenditure/receipts shown.  a) Revenue expenditure b) Capital expenditure c) Capital receipt d) Revenue receipt	1

20	 Identify the budgetary situation in the economy. a) Deficit budget b) Surplus budget c) Balanced budget d) None of the above.	1
	ANSWER KEY MCQ (1-20)	
1	(c) capital, increase	1
2	(d) Balanced	1
3	a) Capital Receipt	1
4	a) Capital receipt	1
5	b) Capital expenditure	1
6	a) Revenue expenditure	1
7	a) Fiscal Deficit = Total expenditure – Total receipts excluding borrowings	1
8	b) Revenue Deficit = Revenue expenditure – Revenue receipts	1
9	c) Primary Deficit = Fiscal Deficit – Interest payment on previous loan	1
10	d) All of these	1
11	a) Primary deficit and Interest payment	1
12	(ii) Redistribution of income	1
13	a) Both are correct	1
14	c) Statement 1 is correct and statement 2 is wrong	1
15	(c) Statement 1 is true, but Statement 2 is false	1
16	(a) Both A and R are true and R is the correct explanation of A.	1
17	a) Both assertion (A) and reason (R) are true and reason (R) is the correct explanation of assertion (A).	1
18	a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).	1
19	b) Capital expenditure	1
20	b)Surplus budget	1
	Short answer Questions (3 marks)	
1	Giving reasons, categories the following into revenue expenditure and capital expenditure: (i) Grants given to the state government. (ii) Repayment of loans (iii) Construction of school building **Ans:** Classification of Expenditure To classify these, we look at whether the spending creates an asset or reduces a liability (Capital) or neither (Revenue). (i) Grants given to the state government: Classification: Revenue Expenditure. Reason: While	1+1+1

	these grants may be used by states to create assets, for the Central Government, they do not directly create a physical/financial asset or reduce any liability. (ii) Repayment of loans: Classification: Capital Expenditure. Reason: This expenditure leads to a direct reduction in the financial liabilities of the government. (iii) Construction of school building: Classification: Capital Expenditure. Reason: This spending leads to the creation of a physical asset for the government/economy	
2	Suppose you are a member of the "Advisory Committee to the Finance Minister of India. The finance minister is concerned about the rising Revenue Deficit in the budget. Suggest three measures to control the rising Revenue Deficit of the government. **Ans:** Measures to Control Revenue Deficit Revenue Deficit occurs when the government's "routine" spending exceeds its "routine" income. To control this, the government can: Reduce Unnecessary Subsidies: The government can rationalize or cut back on non-merit subsidies (like certain fuel or fertilizer subsidies) to lower its total revenue expenditure. Broaden the Tax Base: By bringing more people into the tax net and reducing tax evasion, the government can increase its Revenue Receipts without necessarily increasing tax rates. Disinvestment: While often a capital receipt, proceeds from selling stakes in Public Sector Undertakings (PSUs) can be used to bridge the gap and reduce the need for borrowing to cover revenue expenses.	3
3	 Question: Observe the tax-rate chart. 1.What type of taxation system is depicted? 2.Which objective of the government budget does it support? 3. Explain one advantage of such a taxation system. **Ans:** 1. It depicts a progressive taxation system, where the tax rate increases as the taxable income amount increases. 2. It supports the objective of redistribution of income and wealth (reducing inequalities 3. By taxing higher-income earners at a higher rate, the government can collect more revenue to fund social welfare programs for the poor, thereby narrowing the gap between the rich and the poor.	1+1+1
4	The government launches a free healthcare programme for low-income families. Question: Which objective of the government budget is achieved and how? **Ans:** Redistribution of income and wealth. By providing free essential services like healthcare to the poor, the government increases the "real income" and well-being of low-income families. This is funded by taxes collected from the wealthy, effectively transferring resources to reduce social inequality.	3
5	A country's fiscal deficit rises significantly due to higher public expenditure. Question: State two possible consequences.	3

	Ans: Inflationary Pressure: High government spending can increase the money supply and aggregate demand in the economy, leading to a rise in general price levels. Debt Trap: To fund the deficit, the government borrows more. High borrowing leads to higher interest payments in the future, which further increases the deficit, potentially leading to a cycle of debt.	
6	The government provides subsidies on fertilizers and free education to economically weaker sections. How do these measures help achieve the objectives of the government budget? **Ans:** These measures achieve the objective of Social Welfare and Equity. Subsidies on fertilizers help reduce production costs for farmers (supporting the objective of economic growth in agriculture), while free education builds human capital among the poor, ensuring equal opportunities and reducing long-term poverty.	3
7	Since the last few years it can be seen that India is suffering from a high fiscal deficit. It is considered undesirable for the economic health of the country ? Justify with valid three reasons. **Ans:** 1. Crowding Out: Excessive government borrowing reduces the funds available for private investment, which can stall industrial growth. 2.Financial Burden on Future Generations: Today's borrowing must be repaid with interest by future taxpayers, hindering future economic development. 3.Erosion of Foreign Exchange Reserves: If the deficit leads to high inflation, it can make domestic goods less competitive, leading to a balance of payment crisis.	3
8	The government increases expenditure during a recession even though it leads to a higher fiscal deficit. Justify this decision. **Ans:** Stimulating Demand: During a recession, private demand is low. Increased government spending (on infrastructure, etc.) creates jobs and puts money into people's hands, which boosts aggregate demand and helps the economy recover. This is a key feature of a Compensatory Fiscal Policy.	3
	Short answer Questions (4 marks)	
9	Two friends, Rohan and Vivek were discussing the impact of increase in GST rates on luxury items, as recently undertaken by the Government. Vivek was of the view that most of the luxury items (like foreign travel, imported cigarettes, etc.) should be taxed exorbitantly, while the items related to daily consumption of poor and middle class should be tax-free. Identify the objective of Govt budget Vivek is suggesting and explain it. **Ans:** **Re-allocation of Resource:** - Through the budgetary policy, the Government aims to reallocate resources in accordance with the economic (profit maximisation) and social (public welfare) priorities of the country. Government can influence allocation of resources through: **Tax concessions or subsidies:** To encourage investment, the government can give tax concessions, subsidies etc to the producers. For example -Government discourages the production of harmful consumption goods (like liquor, cigarettes etc.) through heavy taxes and	4

	encourages the use of 'Khadi products by providing subsidies. Directly produce goods and services: -There are many non-profitable economic activities, which are not undertaken by the private sector like, water supply, sanitation, law and order, national defence, etc	
10	The government of a state decides to build 50 new hospitals and recruit doctors and nurses. This increases government expenditure by ₹5,000 crore. (a) Identify the type of government expenditure. (b) Explain two economic benefits of this expenditure. **Ans:** (a) It is Revenue Expenditure (salary of doctors and nurses) and Capital Expenditure (construction of hospitals). (b) Benefits: Better healthcare facilities improve the quality of human capital. Employment opportunities are created for doctors, nurses, and construction workers. Public welfare and productivity of the workforce increase.	1+3
11	Read the following newspaper report: "The government sold a portion of its stake in a public sector bank and used the proceeds to construct rural roads." Identify the nature of the receipt and expenditure involved. **Ans:** Sale of Stake in PSU → Capital Receipt (disinvestment) Construction of Rural Roads → Capital Expenditure (asset creation)	2+2
12	A student argues that the sale of government land should be treated as a Revenue Receipt because it brings income to the government. Evaluate the statement. **Ans:** The statement is incorrect. Sale of land reduces government assets. Revenue Receipts do not reduce assets. Therefore, proceeds from the sale of land are Capital Receipts.	4
13	On the basis of the given information, calculate the value of: (i) Fiscal deficit (ii) Primary deficit.	2+2

Items	2025-26 (in crore)
Revenue receipts	20
Capital expenditure	15
Revenue deficit	10
Non debt creating capital receipts	50 % of the revenue receipts
Interest payment	4

Ans:

(i) Fiscal Deficit = (iii) + (ii) – (iv)

= 10 + 15 – (50/100 x 20)

	= ₹15 crore (ii) Primary Deficit = Fiscal Deficit – (v) = 15 – 4 = ₹11 crore	
14	GST collections increased significantly due to economic recovery. Evaluate its implications. **Ans:** Government tax revenue increases. Fiscal deficit may be reduced. More resources become available for development projects. It indicates improvement in economic activity. Thus, higher GST collection is generally a positive sign for the economy.	4
	Long answer Questions (6 marks)	
15	"The Union Budget 2025 – 26 had proposed an allocation of 23,168 crore to the Micro, Small and Medium Enterprise (MSME) Ministry." (i) Identify and explain the objective that the government is trying to achieve with the proposed expenditure. (ii) State the formulate for calculating fiscal deficit and revenue deficit. **Ans:** The government is utilizing this expenditure to achieve several actionable targets for the sector as detailed in the Union Budget 2025-26: ● Enhanced Credit Availability: Broadens access to formal credit through increased credit guarantee covers for micro/small enterprises, startups, and export-focused MSMEs. ● Formalization of Micro Enterprises: Streamlines access to working capital through the issuance of customized MSME credit cards. ● Scale and Efficiency: Supports the technological modernization, digital transformation, and general infrastructure of MSMEs. ● Inclusive Entrepreneurship: Funds dedicated, targeted schemes for first-time entrepreneurs, specifically focusing on women, Scheduled Castes (SC), and Scheduled Tribes (ST). ● Export Promotion: Aids MSMEs in overcoming cross-border barriers and expands their global market reach. Deficit Formulae: Fiscal Deficit: Total expenditure- Total receipts(excluding borrowing) Revenue Deficit: Revenue expenditure – Revenue receipts	4+2
16	To reduce the country's dependence on gold imports and improve the fiscal position, the Prime Minister appealed to citizens to avoid excessive gold purchases and invest in government securities and other financial assets. Based on the above case: a) How can excessive gold imports affect the economy? b) Explain how reduced gold imports can help the government achieve its economic objectives. **Ans:** a) Effects of excessive gold imports: Increase in import expenditure. Widening of trade deficit and current account deficit.	3+3

	Outflow of foreign exchange reserves. b) Benefits of reduced gold imports: Reduction in import bill. Better balance of payments position. More savings can be channelized into productive investments. Supports economic growth and financial stability.	
17	The government allocates funds to strengthen digital payment infrastructure and promote cashless transactions. Explain how this can improve government finances and economic efficiency. **Ans: (Explain)** 1.Digital transactions improve transparency. 2.Tax evasion is reduced. 3.Tax revenue collection increases. 4.Cost of cash management decreases. 5.Financial inclusion improves. 6.Economic transactions become more efficient and accountable	6
18	(i) “Tax revenues, an important component of revenue receipts, can be further classified into two categories.” Imagine yourself as a member of the Department of Revenue of the Government of India. Help your friend to identify and differentiate between the two categories of taxes. (ii) “A budget can be deficit, surplus or balanced.” Do you agree with the given statement ? Give valid reasons in support of your answer. **Ans:** Two Categories of Taxes The two categories of tax revenues are direct taxes and indirect taxes. ●Direct Taxes: Paid directly by individuals or corporations to the government. The burden of payment cannot be shifted to someone else. ●Indirect Taxes: Levied on goods and services. The burden of payment is passed on to the final consumer. **Key Differences** ●Liability: Direct tax is paid by the person on whom it is legally imposed. Indirect tax is collected by businesses from customers and paid to the government. ●Shifting Burden: Direct tax burden cannot be shifted. Indirect tax burden is shifted from manufacturer to wholesaler, retailer, and finally to the consumer. ●Nature: Direct taxes are progressive (rate increases with income). Indirect taxes are regressive (everyone pays the same rate regardless of income). ●Examples: Direct taxes include Income Tax and Corporate Tax. Indirect taxes include Goods and Services Tax (GST) and Customs Duty. …………………………………………Budget Types (Deficit, Surplus, or Balanced) Yes, I agree with the statement. Government budgets are classified into three types based on the relationship between estimated revenue and estimated expenditure. **1. Balanced Budget** ●Condition: Estimated government receipts equal estimated government expenditure.	3+3

	●Reason: It ensures financial stability as the government does not live beyond its means. However, it is not suitable for dealing with unemployment or economic recessions. **2. Surplus Budget** ●Condition: Estimated government receipts exceed estimated government expenditure. ●Reason: It helps control inflation by reducing public purchasing power through higher taxes or reduced government spending. It is used to cool down an overheating economy. **3. Deficit Budget** ●Condition: Estimated government expenditure exceeds estimated government receipts. ●Reason: It is a key tool during economic slowdowns. The government borrows money to spend on infrastructure and social welfare, which creates jobs, boosts public demand, and stimulates growth.	
19	(a) "Through its budgetary policy, a government allocates resources as per the requirements of the country" Do you agree with the given statement? Support your answer with a valid reason. (b). Define direct tax. Give one example of direct tax. **Ans:** (a) Yes, I agree with the given statement. The government actively allocates resources through its budgetary policy to balance profit-maximization with public welfare. It achieves this using two main approaches: ● Tax Concessions and Subsidies: The government discourages harmful goods (like liquor and cigarettes) by imposing heavy taxes. Conversely, it encourages socially useful goods (like green energy or khadi) by giving tax rebates and subsidies. ● Direct Goods Production: If private sectors avoid vital but low-profit areas (like public infrastructure, sanitation, or water supply), the government directly invests resources to produce these goods for public welfare. ____ (b) Direct Tax A direct tax is a tax levied directly on an individual's or organization's income, wealth, or property, where the financial burden cannot be shifted to someone else. Example: Income Tax (or Corporate Tax).	4+2
10	State whether the following statements are true or false, with valid reasons: (i)High tax on higher income groups aims to achieve the "reallocation of resources" objectives of the government budget. (ii)"Borrowings" are a revenue receipt of the government. "Fiscal deficit is necessarily inflationary in nature". **Ans:** (i) High tax on higher income groups aims to achieve the "reallocation of resources" objective. This statement is true. By imposing heavy taxes on higher-income earners, the government reduces their disposable income. This curtails the consumption of luxury goods, freeing up resources to be reallocated toward producing socially beneficial goods. Additionally, the revenue generated helps subsidize essential goods and services for marginalized sections of	3+3

society.

(ii) "Borrowings" are a revenue receipt of the government.

This statement is False. Borrowings are a capital receipt. A receipt is considered a revenue receipt only if it does not create a liability or reduce assets. Since borrowings create a liability (the obligation to repay the principal and interest), they fall under capital receipts. "Fiscal deficit is necessarily inflationary in nature."

This statement is False. While a high fiscal deficit can contribute to inflation—particularly when the deficit is financed by printing new currency (deficit financing)—it is not necessarily or always inflationary. If the government borrows from the open market to fund productive capital investments like infrastructure, it can boost economic growth and aggregate supply without driving up price levels

Balance of Payment and Foreign exchange Rate

Balance of Payments (BOP)

Balance of Payments (BOP) is a record of all economic transactions (receipts and payments) between a country and the **Rest of the World (ROW)** during a specific period.

Components of BOP

BOP has two main accounts:

A. Current Account

The **Current Account** includes transactions that **do not create any change in foreign assets or liabilities**.

Components of Current Account

1. Trade in Goods (Visible Items)

These are goods that can be physically seen crossing international borders.

Examples: Export and import of clothes, shoes, machinery, etc.

2. Trade in Services (Invisible Items)

These are services that cannot be physically seen crossing borders.

(a) Net Factor Income

Income earned from:

- Compensation of employees
- Investment income

(b) Net Non-Factor Income

Income from services such as:

- Banking Insurance Tourism Software services Customer care services

3. Unilateral Transfers

These are **one-sided transfers** without receiving anything in return.

Examples: Gifts, remittances, grants, and donations.

B. Capital Account

The **Capital Account** includes transactions that **cause changes in foreign assets and liabilities**.

Components of Capital Account

1. Borrowing and Lending

(a) External Borrowing

Borrowing from the Rest of the World at the market rate of interest.

(b) External Assistance

Borrowing from the Rest of the World at a concessional (lower than market) rate of interest.

2. Investment

(a) Foreign Direct Investment (FDI)

Investment with managerial control.

Example: Purchasing or establishing a company/industry in another country.

(b) Portfolio Investment

Investment without managerial control.

Examples: Purchasing shares, bonds, or mutual funds in another country.

Difference Between Balance of Trade (BOT) and Balance of Payments (BOP)

Balance of Trade (BOT)	**Balance of Payments (BOP)**
Records only trade in goods (visible items).	Records all economic transactions with the Rest of the World.
BOT = Exports of Goods − Imports of Goods	Includes current account and capital account transactions.
It is a narrow concept.	It is a wider concept.
It may be in surplus, deficit, or equilibrium.	It always balances because every transaction has a corresponding entry.

Autonomous and Accommodating Items of BOP

Autonomous Items	**Accommodating Items**
Done to earn profit or achieve economic objectives.	Done to maintain BOP equilibrium.
Examples: Exports and imports of goods and services.	Example: Borrowing from abroad.
Called **Above-the-Line Items**.	Called **Below-the-Line Items**.
Independent of BOP surplus or deficit.	Depend on BOP surplus or deficit.
Found in both Current and Capital Accounts.	Found only in the Capital Account.

BOP Equilibrium, Surplus and Deficit

BOP Equilibrium

When total receipts from the Rest of the World are equal to total payments made to the Rest of the World.

BOP Surplus

When total receipts are greater than total payments.

BOP Deficit

When total receipts are less than total payments.

Foreign Exchange

Foreign Exchange means foreign currency.

Foreign Exchange Rate

The price of one currency in terms of another currency.

Example: 1 US Dollar ($) = ₹50

Types of Exchange Rate Systems

1. Fixed Exchange Rate System

The exchange rate is determined by the government, traditionally with reference to gold.

Example:

- ₹1 = 10 grams of gold
- $1 = 50 grams of gold

Then:

$1 = ₹5

Features

- Government fixes the exchange rate.
- Exchange rates remain stable.
- Changes occur only through government action.

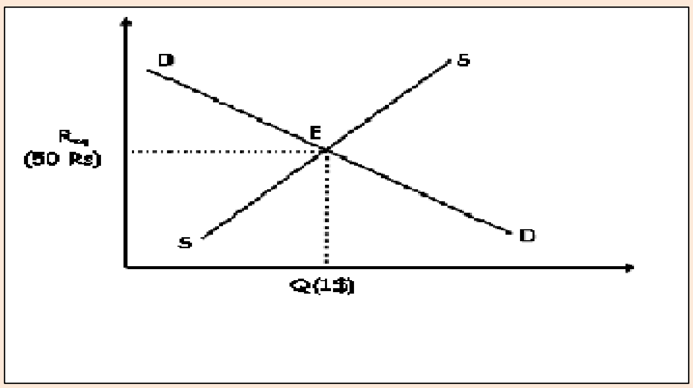
2. Flexible (Floating) Exchange Rate System

The exchange rate is determined by the **demand and supply of foreign exchange** in the market.

Equilibrium Exchange Rate

The exchange rate is determined at the point where:

Demand for Foreign Exchange = Supply of Foreign Exchange



Where DD= Demand curve for foreign exchange

SS = Supply curve for foreign exchange

Req = Equilibrium exchange rate

Sources of Demand and Supply of Foreign Exchange

Demand for Foreign Exchange	Supply of Foreign Exchange
Imports	Exports
Investment abroad	Foreign investment in the country
Tourism abroad	Foreign tourists visiting the country
Repayment of international loans	Recovery of international loans
Gifts and grants given abroad	Gifts and grants received from abroad

Automatic Stabilisation of BOP under Flexible Exchange Rate

When There is a BOP Deficit

- Domestic currency depreciates.
- Exports become cheaper for foreigners.
- Export demand increases.
- Imports become costlier.
- Import demand decreases.
- BOP deficit gets corrected automatically.

When There is a BOP Surplus

- Domestic currency appreciates.
- Exports become expensive.
- Export demand decreases.
- Imports become cheaper.

- Import demand increases. BOP surplus gets corrected automatically.

Managed Floating

In a **Managed Floating System**, exchange rates are mainly determined by demand and supply, but the government or central bank may intervene to correct major imbalances.

Dirty Floating

Dirty Floating is a form of managed floating in which government intervention is frequent and not strictly based on standard market rules.

Appreciation of Currency

Appreciation means an increase in the value of the domestic currency in a flexible exchange rate system.

Example Exchange rate changes from: **\$1 = ₹50 → \$1 = ₹40** The rupee has appreciated.

Effect on Exports

- Domestic goods become expensive for foreigners.
- Foreign demand decreases.
- Exports decrease.

Effect on Imports

- Foreign goods become cheaper.
- Demand for imports increases.
- Imports increase.

Depreciation of Currency

Depreciation means a decrease in the value of the domestic currency in a flexible exchange rate system.

Example

Exchange rate changes from:

\$1 = ₹50 → \$1 = ₹60 The rupee has depreciated.

Effect on Exports

- Domestic goods become cheaper for foreigners.
- Foreign demand increases.
- Exports increase.

Effect on Imports

- Foreign goods become expensive.
- Demand for imports decreases.
- Imports decrease.

Revaluation of Currency

Revaluation means an increase in the value of the domestic currency in a **fixed exchange rate system**. It is done by the government.

Example **\$1 = ₹50 → \$1 = ₹40**

Devaluation of Currency

Devaluation means a decrease in the value of the domestic currency in a **fixed exchange rate system**. It is done by the government.

Example **\$1 = ₹50 → \$1 = ₹60**

Note: The effects of Revaluation and Devaluation on exports and imports are the same as those of Appreciation and Depreciation respectively.

Merits and Demerits of Fixed Exchange Rate System

Merits (Advantages)	Demerits (Disadvantages)

1. Market Stability: Reduces day-to-day fluctuations in exchange rates.	**1. Large Reserve Requirement:** Requires large reserves of gold or foreign exchange.
2. Helpful for Long-Term Planning: Makes import-export planning easier.	**2. Discourages Forex Trading:** Limits profit opportunities from exchange rate fluctuations.
3. Promotes International Trade and Investment: Reduces uncertainty in international transactions.	**3. No Automatic BOP Adjustment:** BOP imbalances require government intervention through devaluation or revaluation.
4. Facilitates Long-Term Trade Agreements: Makes bilateral and multilateral agreements easier.	**4. May Not Reflect True Currency Value:** Exchange rate is fixed by the government and may not show the actual strength of the currency.

Merits and Demerits of Flexible Exchange Rate System

Merits (Advantages)	**Demerits (Disadvantages)**
1. No Need for Large Gold Reserves: Exchange rates are not linked to gold.	**1. Market Instability:** Exchange rates fluctuate frequently.
2. Encourages Forex Market Activity: Creates opportunities for investment and trading in foreign exchange.	**2. Difficult for Long-Term Planning:** Makes import-export planning uncertain.
3. Automatic Stabilisation of BOP: BOP imbalances are corrected automatically through exchange rate changes.	**3. Reduces Trade and Investment Confidence:** Increases risk and uncertainty in international transactions.
4. Reflects Actual Currency Value: Exchange rate is determined by demand and supply.	**4. Difficult to Make Long-Term Trade Agreements:** Frequent fluctuations create uncertainty.

Memory Trick:

- ☻ **Imports → Demand for Forex**
- ☻ **Exports → Supply for Forex**
- ☻ **Appreciation → Exports ↓, Imports ↑**

Depreciation → Exports ↑, Imports ↓

No.	Question	Marks
1	Two friends Gopal and Tejas were discussing the exchange rate systems. ***'Under this system, the exchange rates are determined by the market forces of demand and supply. However, deliberate efforts are made by the competent authority to keep the exchange rates within a specific range.'*** The above-mentioned statement was given by Tejas, identifying the type of exchange rate system he was talking about.	1
2	**Other things remain the same, when in a country the market price of foreign currency falls, national income is likely:** (a) to rise (b) to fall (c) to rise or to fall (d) to remain unaffected	1
3	**Other things remain unchanged when in a country the price of foreign currency rises national income is:** (a) Likely to rise (b) Likely to fall (c) Likely to rise and fall both (d) Not affected	1

4	**An Indian company located in India invests in a company located abroad. This transaction is entered in India's BOP account on:** (A) credit side of current account (B) debit side of current account (C) credit side of capital account (D) debit side of capital account	1
5	State whether the following statement is true or false: "Under a managed floating exchange rate system, the Government directly controls the exchange rate."	1
6	**Assertion (A):** Devaluation and depreciation are different. **Reason (R):** Depreciation is done by market forces, whereas devaluation is done by government. Choose one of the correct alternatives given below: **(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, and Reason (R) is not the correct explanation of Assertion (A). **(c)** Assertion (A) is true, but Reason (R) is false. Assertion (A) is false, but Reason (R) is true.	1
7	**How can Reserve Bank of India help in bringing down the foreign exchange rate which is very high?**	1
8	**State whether the following statement is true or false:** "The official reserve transactions are taken as the accommodating item in BOP."	1
9	**Equilibrium in Balance of Payments is achieved when the net value of all the receipts and payments is ___(zero/positive).**	1
10	**State whether the following statement is true or false:** 'Devaluation of currency is said to occur when the exchange rate is increased under the fixed exchange rate system.'	1
11	**State the meaning of 'Current Account Surplus'.**	1
12	**An Indian company acquires a British car company. This transaction would be recorded on ________side of ________account.** A. debit, capital B. credit, capital C. debit, current D. credit, current	1
13	**If \$1 = ₹80.50 then \$_________(approximately) would we need it to exchange ₹ 2,00,000.** A. 2,484 B. 2,844 C. 2,448 D. 2,882	1
14	**Read the following statements carefully:** **Statement 1:** Borrowings by a nation from the World Bank to finance BOP deficit will be recorded in the capital account. **Statement 2:** Autonomous transactions are independent of the condition of Balance of Payment (BOP) account. Considering the statements given, choose the correct alternative from the following: **(a)** Statement 1 is true, and Statement 2 is false. **(b)** Statement 1 is false, and Statement 2 is true. **(c)** Both Statements 1 and 2 are true. **(d)** Both Statements 1 and 2 are false.	1

15	**Suppose that the BOT of a nation exhibits a deficit of ₹ 50,000 crore. The imports of visible items are five times the exports of visible items. The value of exports of visible items would be ₹________crore.** **(a)** 20,000 (b) 10,000 (c) 12,500 (d) 20,300	1
16	**Gifts and remittances sent abroad are recorded on the ____________side of the ____________account in Balance of Payment.** (a) credit, capital (b) debit, capital (c) credit, current (d) debit, current	1
17	**Read the following statements –** **Assertion (A):** The Balance of Payments is in surplus, if autonomous receipts are greater than autonomous payments. **Reason (R):** Autonomous transactions are determined by the difference in the Balance of Payments. Choose one of the correct alternatives given below: **(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, and 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
18	**Recent RBI-related reports for FY 2025–26 mention net FPI outflows of about US$16.5 billion for the year, largely driven by equity outflows.** The above transaction will be recorded in the _______account on ____________side of Balance of payments account of India. **(a)** current, credit (b) current, debit (c) capital, credit (d) capital, debit	1
19	**Assuming that, the following data is given for an imaginary economy:** <table><tr><th>Year / Items</th><th>2020 (₹ in Cr.)</th><th>2021 (₹ in Cr.)</th></tr><tr><td>Exports of visibles</td><td>1,000</td><td>1,100</td></tr><tr><td>Imports of visibles</td><td>800</td><td>850</td></tr></table>The balance of trade from 2020 to 2021_____________by ₹_________crore. (a) increased, 200 (b) decreased, 200 (c) increased, 50 (d) decreased, 50	1
20	**Keeping other factors constant, if the price of crude oil falls in the international market, it may lead to________________.** **(a)** increase in trade deficit **(b)** decrease in trade deficit **(c)** no change in trade deficit no change in the foreign exchange reserves	1
21	**Read the following statements carefully:** ***Statement 1:*** Import of gold from Dubai will be recorded on the debit side of the current account in Balance of Payments of India.	1

	Statement 2: Outflow of Foreign Institutional Investment (FII) from Indian stock markets will be recorded on the credit side of the capital account. Considering the statements given, choose the correct alternative from the following: **(a)** Statement 1 is true, and Statement 2 is false. **(b)** Statement 1 is false, and Statement 2 is true. **(c)** Both Statements 1 and 2 are true. Both Statements 1 and 2 are false.	
22	**Identify, which of the following is not a source of supply of foreign exchange for India.** **(a)** Exports of goods and services abroad **(b)** Remittances by Indian workers working abroad **(c)** Imports of goods and services from abroad **(d)** Foreign Direct Investment by a German automobile manufacturer	
23	**An Indian company receives a loan from a company located abroad. This transaction would be recorded on the__________________side of _________ account in India's Balance of Payment.** (a) Credit, Current (b) Debit, Current (c) Credit, Capital (d) Debit, Capital	
24	**Read the following statements carefully:** **Statement 1:** BOP account is always balanced in accounting sense. **Statement 2:** Autonomous transactions, restore balance in BOP. Considering the statements given, choose the correct alternative from the following: **(a)** Statement 1 is true, and Statement 2 is false. **(b)** Statement 1 is false, and Statement 2 is true. **(c)** Both Statements 1 and 2 are true. Both Statements 1 and 2 are false.	1
25	**Read the following statements carefully:** **Statement 1:** Depreciation of domestic currency may lead to a rise in exports. **Statement 2:** Due to the depreciation of Indian National Rupee (₹), purchasing power of US Dollar ($) may increase. Considering the statements given, choose the correct alternative from the following: **(a)** Statement 1 is true, and Statement 2 is false. **(b)** Statement 1 is false, and Statement 2 is true. **(c)** Both Statements 1 and 2 are true. Both Statements 1 and 2 are false.	1
26	**"Considering the depreciation of Indian Currency (₹) in the international market, the Reserve Bank of India (RBI) has decided to purchase Indian currency (₹) in the open market."** This represents ____________exchange rate system. (a) fixed (b) flexible (c) managed floating (d) manipulated	1
27	**'Deficit' in Balance of Payment (BOP) refers to the excess of ______.**	1
28	**Identify, which one of the following is an intangible item in BOP.** **(a)** Export of food grains	1

	(b) Imports of crude oil **(c)** Export of Information Technology (IT) services to U.S.A. Import of coal by steel company in India	
29	**Suppose the price of one UK Pound (£) has increased from ₹70 to ₹80, owing to market forces. This means that value of Indian Currency (₹) has ______________.** (a) appreciated (b) depreciated (c) revalued (d) devalued	1
30	**As per the RBI press report, dated 29th December 2022:** **"Net external commercial borrowings to India recorded an outflow of US$ 0.4 billion in the second quarter (2022-23)"** The above transaction will be recorded in the__________account on _____________ side of Balance of payments account of India. a) current, credit b) current, debit c) capital, credit d) capital, debit	1
31	**Identify the correct reason(s) that may affect the demand for foreign exchange in an economy.** **I.** Imports of visible items **II.** Exports of invisible items **III.** Remittances received from residents working abroad **IV.** Purchase of assets abroad **Alternatives:** a) I and II b) II and III c) III and IV d) I and IV	1
32	**Suppose, Country X, has more inflation than Country Y. Which of the following is most likely situation to happen in such a case, assuming other factors being constant?** **(a)** A surplus trade balance in Country X **(b)** A deficit trade balance for Country X **(c)** A rise in exports from Country X to Country Y **(d)** A deficit trade balance for Country Y	1
	Marking Scheme (MCQs)	
1	Managed Floating Exchange Rate.	1
2	(b) to fall (Because export decreases)	1
3	(a) Likely to rise (Because export increases)	1
4	(d) Debit side of capital account	1
5	False, because the govt. may indirectly intervene by buying or selling foreign currency in international market.	1
6	(a) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).	1
7	By selling foreign exchange from its reserves & increase the supply of foreign exchange.	1
8	True, because it is undertaken to balance BOP.	1
9	Zero	1
10	True, because it happens under fixed exchange rate regime.	1
11	Current Account Surplus refers to the excess of total receipts on the Current Account (from exports of goods & services and unilateral inflows) over total payments on the Current Account (for imports of goods & services and unilateral outflows).	1
12	(A) debit, capital	1
13	(A) 2,484	1

14	(c) Both Statements 1 and 2 are true.	1
15	(c) 12,500	1
16	(d) debit, current	1
17	(c) Assertion (A) is true, but Reason (R) is false.	1
18	(d) capital, debit	1
19	(c) increased, 50	1
20	(b) decrease in trade deficit	1
21	(a) Statement 1 is true, and Statement 2 is false.	1
22	(c) Imports of goods and services from abroad	1
23	(c) Credit, Capital	1
24	(a) Statement 1 is true, and Statement 2 is false.	1
25	(c) Both statements 1 and 2 are true.	1
26	(c) managed floating	1
27	Autonomous payments over autonomous receipts	1
28	(c) Exports of Information Technology to U.S.A.	1
29	(b) depreciated	1
30	d) capital, debit	1
31	d) I and IV	1
32	(b) A deficit trade balance for Country X	1
	SHORT ANSWERS (SA-3 Marks)	
1	**Explain the effect of depreciation of domestic currency on imports.** **Ans**: Depreciation of the domestic currency makes foreign goods more expensive for domestic consumers. As a result, imports decrease.	3
2	**Foreign exchange rate in India is on the rise recently. What impact is it likely to have on exports and how?** Ans: A rise in the foreign exchange rate leads to the depreciation of the Indian Rupee (₹). As a result, Indian goods become cheaper for foreigners, which increases the demand for exports. Therefore, exports increase.	3
3	**Where is 'borrowings from abroad' recorded in the Balance of Payments Accounts? Give reasons.** **Ans**: Borrowings from abroad are recorded in the **Capital Account** of the Balance of Payments. They are recorded on the **Credit Side** because they increase the international liabilities of the country and lead to an inflow of foreign exchange.	3
4	**Where will sales of machinery to abroad be recorded in the Balance of Payments Accounts? Give reasons.** Ans: Sale of machinery to abroad is an export of goods. Therefore, it is recorded in the **Current Account** on the **Credit Side** of the Balance of Payments because it results in an inflow of foreign exchange.	3
5	**"A country with trade deficit cannot have current account surplus." Do you agree with the given statement? Discuss with reason.** **Ans**: No, I do not agree. Trade deficit occurs when imports of goods exceed exports of goods (visible items only). However, a country can still have a **Current Account Surplus** if the surplus from invisible items and unilateral transfers is greater than the deficit from visible items.	3

6	**"US dollar has recorded a jump of 0.75 paise per dollar in the last one month; this situation might bring smiles and sorrows to different types of traders (exporters & importers)." Justify the given statement.** **Ans** - The given situation indicates the depreciation of the Indian Rupee (₹) against the US Dollar ($). This means that more Indian Rupees are required to purchase one US Dollar. This may bring sorrow to importers because imports become more expensive. However, it may bring smiles to exporters because they receive higher earnings in rupee terms from their exports.	3
7	**"A country deliberately keeps the value of its currency low under the managed floating system.' Discuss briefly how it will affect the exports of the country.** **Ans**: If a country deliberately keeps the value of its currency low under a managed floating system, its goods and services become cheaper for foreigners. This increases the international competitiveness of domestic goods and services, leading to an increase in exports.	3
8	**On which side and in which sub-account of BOP, will 'foreign investment in India' be recorded? State valid reasons for your answer.** **Ans**: Foreign investment in India is recorded on the **Credit Side of the Capital Account** in the Balance of Payments. It is recorded in the Capital Account because it is a capital transaction and on the Credit Side because it results in an inflow of foreign exchange into the country.	3
9	**"Trade deficit must exist if a country is facing a situation of current account deficit." Justify the given statement.** **Ans**: - The given statement is **not correct.** Trade deficit arises when imports of visible items exceed exports of visible items. On the other hand, a Current Account Deficit (CAD) occurs when total payments on account of visible items, invisible items, and current transfers exceed total receipts from these sources. Therefore, a country may face a Current Account Deficit even if it has a trade surplus, provided there are large deficits in invisible items and unilateral transfers.	3
10	**"There exists a positive relation between foreign exchange rate and supply of foreign exchange." Do you agree with the given statement? Justify your answer with valid arguments.** **Ans**. Yes, I agree. When the foreign exchange rate rises, domestic goods become relatively cheaper for foreigners. This increases exports, leading to a higher inflow of foreign exchange. As a result, the supply of foreign exchange increases. Similarly, when the foreign exchange rate falls, the supply of foreign exchange decreases.	3
11	**"The central bank needs to intervene under the managed floating system." Do you agree with the given statement? Support your answer with valid reasons.** **Ans**. Yes, I agree. Under the managed floating exchange rate system, the exchange rate is mainly determined by market forces of demand and supply. However, the central bank may intervene by buying or selling foreign exchange to reduce excessive fluctuations and maintain the exchange rate within a desired range.	3
13	**Differentiate between Surplus in Balance of Trade and Current Account Surplus.** **Ans**. Surplus in the Balance of Trade arises when the value of exports of visible items	3

	exceeds the value of imports of visible items. Whereas Current Account Surplus arises when receipts from exports of visible items, invisible items, and unilateral transfers exceed payments for imports of visible items, invisible items, and unilateral transfers.	
	SHORT ANSWERS (SA-4 MARKS)	
1	**In recent times the Indian Rupee depreciated to an all-time low against the US dollar. Discuss its impact on India's imports.** **Ans**: Depreciation of the Indian Rupee means appreciation of the US Dollar. As a result, foreign goods become more expensive for Indians than before. Therefore, India's imports tend to decrease.	4
2	**Giving valid reasons, state whether the following statements are true or false:** **(i) Dividend received from investment abroad is recorded on the credit side of the capital account.** **Ans.** False. Dividend received from investment abroad is recorded on the **credit side of the current account**, as it is a factor income receipt and does not affect the assets or liabilities of the country. **(ii) Depreciation of the Indian Currency will lead to promotion of Indian exports.** **Ans.** True. Depreciation of the Indian currency makes Indian goods relatively cheaper for foreigners, thereby increasing the international competitiveness of Indian exports and promoting exports.	4
3	**'Current account deficit in an economy must be financed by a corresponding capital account surplus'.** Do you agree with the given statement? Give valid reason(s) in support of your answer. **Ans:** Yes, I agree with the statement. The Balance of Payments always balances in the accounting sense. Therefore, if an economy faces a Current Account Deficit (CAD), it must be financed through a surplus in the Capital Account. The CAD may be financed through net capital inflows such as foreign investment, borrowing from abroad, or the sale of domestic assets to foreigners. These transactions help in balancing the Balance of Payments.	3
4	**"Capital account transactions lead to future claims." Defend or refute the given statement with valid arguments.** **Ans:** The given statement is defended. The Capital Account records international transactions involving assets and liabilities such as foreign investments, loans, bonds, stocks, government securities, and external borrowings. These transactions create future payment obligations or claims. Therefore, capital account transactions lead to future claims.	4
5	**Explain the impact of home currency depreciation on the exports of a nation.** **Ans:** Depreciation of the home currency refers to a fall in its value in terms of a foreign currency. Depreciation makes domestic goods relatively cheaper for foreigners. As a result, the demand for exports increases, improving the international competitiveness of domestic goods and leading to an increase in exports.	5
6	**"Devaluation and Depreciation of currency are the same thing." Defend or refute the statement with valid reasons.**	6

	Ans: The statement is refuted. Devaluation and depreciation are not the same. Both result in a fall in the value of a currency, but they differ in their causes. **Devaluation** is a deliberate action taken by the government or central bank under a **fixed exchange rate system**, whereas **depreciation** occurs automatically due to market forces of demand and supply under a **flexible exchange rate system**.	
7	**Case-Based Question** **Read the following passage and answer the questions that follow:** *The Israel–Iran conflict has led to instability in the Middle East. Crude oil prices have surged globally, and many investors are pulling money out of emerging markets like India due to geopolitical uncertainty. As a result, India's import bill is rising, while foreign capital inflows are declining.* **Questions:** **1. Identify the component of Balance of Payments that is directly affected by rising crude oil prices.** **2. How does increased import expenditure impact India's trade balance?** **3. Which component of Balance of Payments is affected when foreign investors withdraw funds?** **4. Explain one overall impact of the Israel–Iran conflict on India's Balance of Payments.** **Ans (1):** Current Account (specifically, imports of goods). **Ans (2):** It worsens the trade balance, leading to a larger trade deficit and a higher current account deficit. **Ans (3):** The Capital Account is affected because foreign investment inflows decrease. **Ans (4):** The conflict adversely affects India's Balance of Payments by increasing the current account deficit due to higher oil imports and reducing capital inflows because of foreign investor withdrawals. This may also put pressure on foreign exchange reserves.	4
8	**Differentiate between Autonomous items and Accommodating items.**	

Autonomous Items	Accommodating Items
1. Motive: Profit maximisation or economic considerations.	**1. Motive:** To maintain BOP equilibrium.
2. Example: Exports and imports of goods and services.	**2. Example:** Borrowing from abroad and official reserve transactions.
3. Also Known As: Above-the-Line Items in BOP.	**3. Also Known As:** Below-the-Line Items in BOP.
4. Nature: Independent of the surplus or deficit position of BOP.	**4. Nature:** Dependent on the surplus or deficit position of BOP.
5. Occurrence: Found in both the Current Account and the Capital Account.	**5. Occurrence:** Found only in the Capital Account.
6. Purpose: Undertaken for normal business and economic activities.	**6. Purpose:** Undertaken to finance or offset BOP deficits or surpluses.

	LONG ANSERS (LA-6 MARKS)	
1	**The following table shows the impact of the Israel–Iran war on India's foreign exchange rate:**	6

Date	*Crude Oil Price (USD/barrel)*	*Exchange Rate (₹ per USD)*
Before War	80	82
During War	110	86
After 3 Months	120	89

Questions:

1. What trend is observed in crude oil prices due to the Israel–Iran war?
2. How did the exchange rate of the Indian rupee against the US dollar change during the war?
3. Explain the relationship between rising crude oil prices and the rupee's depreciation.
4. What is the overall impact of the Israel–Iran war on India's foreign exchange market?

Ans:

1. Crude oil prices increased sharply from USD 80 to USD 120 per barrel.

2. The rupee depreciated from ₹82/USD to ₹89/USD.

3. Rising crude oil prices increased India's import bill, leading to a higher demand for US Dollars. This increased demand for dollars caused the Indian Rupee to depreciate.

4. The Israel–Iran war worsened India's foreign exchange situation by increasing oil import costs, raising the demand for US Dollars, and weakening the Indian Rupee against the US Dollar.

2

(a) Explain the impact of rise in exchange rate on national income. 6

Ans: A rise in the foreign exchange rate means an appreciation of the foreign currency relative to the domestic currency. Consequently, one unit of foreign currency can purchase more goods and services from India. This makes Indian exports cheaper for foreigners and imports more expensive for Indians. As a result, exports increase and imports decrease, leading to a rise in net exports. An increase in net exports may lead to an increase in national income.

(b) Explain the concept of 'deficit' in Balance of Payments. How does this emerge? How does this get settled?

Ans: In the Balance of Payments (BOP), a deficit occurs when a country's total autonomous receipts (inflows of foreign exchange) are less than its total autonomous payments (outflows of foreign exchange) during a given financial year.

This imbalance may emerge due to a Current Account Deficit and/or net Capital Account outflows.

The deficit is settled through accommodating transactions such as borrowing from abroad or drawing down official foreign exchange reserves.

3	 **A. Identify the specific component of the Capital Account of the Balance of Payments depicted in this picture. State whether it will be recorded as a Credit or a Debit item, and justify your answer.** **Ans:** The transaction depicted represents **Foreign Direct Investment (FDI)**, which is a component of the **Capital Account** of the Balance of Payments. Since it represents an inflow of foreign capital into India, it will be recorded as a **Credit Item (+)** in the Capital Account because it leads to an inflow of foreign exchange. **B. Under a Flexible Exchange Rate System, explain how this massive investment flow will impact the value of the Indian Rupee (₹) relative to the Japanese Yen (¥). Use the terms Appreciation or Depreciation correctly.** **Answer:** The inflow of Japanese investment into India increases the supply of Japanese Yen (¥) in the foreign exchange market. As a result, the value of the Yen tends to fall relative to the Indian Rupee. Consequently, the **Indian Rupee (₹) appreciates**, while the **Japanese Yen (¥) depreciates**.	6
4	**Case-Based Question** **Read the following passage carefully and answer the questions that follow:** The Israel–Iran war has created instability in the Middle East. Global crude oil prices have surged from USD 80 per barrel to USD 120 per barrel within three months. India, being a major importer of petroleum, faces a rising import bill. This has widened the current account deficit and increased demand for foreign currency. At the same time, foreign investors are withdrawing funds from emerging markets like India due to geopolitical uncertainty, leading to capital outflows. As a result, the Indian Rupee has depreciated from ₹82 per USD to ₹89 per USD. The Reserve Bank of India has had to intervene by selling dollars from its foreign exchange reserves to stabilize the rupee. These developments highlight the interconnectedness of Balance of Payments and Foreign Exchange Rate in times of global conflict. **Questions:** **1. Identify the component of Balance of Payments directly affected by rising crude oil prices.**	6

	Ans: Current Account (specifically, imports of goods). **2. How does an increase in the import bill impact India's trade balance?** **Ans:** It worsens the trade balance, leading to a larger trade deficit and a higher Current Account Deficit. **3. Which component of Balance of Payments is affected when foreign investors withdraw funds?** **Ans:** The Capital Account is affected because foreign investment inflows decrease. **4. What trend is observed in the exchange rate of the Indian Rupee during the war?** **Ans:** The Indian Rupee depreciated from ₹82 per USD to ₹89 per USD. **5. Explain the relationship between rising crude oil prices and rupee depreciation.** **Ans:** Rising crude oil prices increased India's import bill, leading to greater demand for US Dollars. This higher demand for dollars caused the Indian Rupee to depreciate. **6. How does RBI intervention in the foreign exchange market help stabilize the rupee?** **Ans:** The RBI sells US Dollars from its foreign exchange reserves, increasing the supply of dollars in the market. This reduces pressure on the Indian Rupee and helps stabilize its value.	
5	**(a) Distinguish between a 'Current Account Deficit' and a 'Trade Deficit'.** **Ans:** Current Account Deficit (CAD) refers to the excess of payments for imports of visible items, invisible items, and unilateral transfers over receipts from exports of visible items, invisible items, and unilateral transfers. Whereas Trade Deficit refers to the excess of payments for imports of visible items over receipts from exports of visible items. **(b) "Balance of Payments (BOP) is always balanced in the accounting sense." Defend or refute the given statement with valid reasons.** **Ans:** The given statement is defended. The Balance of Payments is based on the principle of the double-entry bookkeeping system. Any deficit or surplus arising from autonomous transactions is offset by an equal and opposite surplus or deficit in accommodating transactions undertaken by the monetary authority. Therefore, the BOP always balances in the accounting sense.	6
6	**State, giving reasons, whether the following statements are true or false:** **(i) Trade deficit is always a great cause of worry for an economy.** **Answer:** False. A trade deficit may not always be a cause of concern if it results from increased imports of capital goods and machinery that help build productive capacity and increase future output. **(ii) Depreciation of currency has the same effect on exports as devaluation of currency.** **Answer:** True. Both depreciation and devaluation make domestic goods cheaper for foreigners, thereby promoting exports. However, depreciation occurs under a flexible exchange rate system, whereas devaluation occurs under a fixed exchange rate system. **(iii) 'Indians investing in assets abroad' will be recorded under the debit side of the**	6

	Capital Account in the Balance of Payments. **Answer:** True. Investment by Indians in assets abroad leads to an outflow of foreign exchange and is therefore recorded on the **Debit Side of the Capital Account** of the Balance of Payments.	
7	**(a) Explain what the likely impact of depreciation of the home currency on imports to the country can be.** **Answer:** Depreciation of the home currency results in a fall in the value of the domestic currency relative to foreign currencies. Consequently, foreign goods become more expensive for domestic consumers. As a result, imports tend to decrease. **(b) Distinguish between Current Account Deficit and Current Account Surplus.** **Ans: Current Account Deficit (CAD)** refers to the excess of payments for imports of visible items, invisible items, and unilateral transfers over receipts from exports of visible items, invisible items, and unilateral transfers. **Current Account Surplus (CAS)** refers to the excess of receipts from exports of visible items, invisible items, and unilateral transfers over payments for imports of visible items, invisible items, and unilateral transfers.	6

Indian Economy on the Eve of Independence

This chapter provides a comprehensive overview of the **Indian economy in 1947**, detailing the factors that led to its stagnation and underdevelopment following nearly two centuries of British colonial rule.

1. The Core Objective of Colonial Rule

- The primary motive of the British administration was to serve the economic interests of Great Britain, rather than developing the Indian economy.
- India was systematically transformed into a **supplier of raw materials** for Britain's modern industrial base and a **market for its finished industrial products**.
- This exploitative relationship reshaped the entire structure of the Indian economy.

2. Low Level of Economic Development

- Before British rule, India had a prosperous independent economy known for its **handicraft industries**, such as cotton and silk textiles (notably Daccai Muslin), metalwork, and precious stone works.
- Under colonial rule, no sincere effort was made by the government to estimate India's national or per capita income.
- Notable individual estimates, such as those by **V.K.R.V. Rao**, indicated that the country's aggregate real output grew at less than 2 per cent per year, with per capita output growth at a meagre 0.5 per cent.

3. Agricultural Sector Stagnation

Despite roughly **85 per cent of the population** deriving their livelihood from agriculture, the sector faced persistent stagnation. Key causes included:

- **Land Settlement Systems:** The **zamindari system** in the Bengal Presidency allowed zamindars to collect rent regardless of the cultivators' economic condition, leading to immense misery.
- **Commercialisation of Agriculture:** Farmers were pressured to produce **cash crops** (like indigo) for British industries instead of food crops, which did not improve their financial status.
- **Lack of Investment:** Agriculture suffered from low technology, negligible fertiliser use, and a lack of irrigation and flood control.

4. Industrial Decline and Slow Growth

The colonial government followed a policy of **systematic de-industrialisation**, which led to the collapse of India's world-famous handicrafts without replacing them with a modern industrial base.

- **Decline of Handicrafts:** This created massive unemployment and forced Indians to buy cheap manufactured imports from Britain.
- **Modern Industry:** Progress was slow and confined initially to cotton (Indian-dominated in Maharashtra and Gujarat) and jute (foreign-dominated in Bengal) mills.
- **Capital Goods:** There was a significant lack of capital goods industries to promote further industrialisation.
- **Public Sector:** The public sector remained restricted to narrow areas like railways, power, and ports.

5. Foreign Trade and the Drain of Wealth

Britain maintained **monopoly control** over India’s trade, particularly after the opening of the **Suez Canal in 1869**.

- **Composition:** India became an exporter of primary products (raw silk, cotton, wool, indigo) and an importer of finished consumer and capital goods.
- **Export Surplus:** While India generated a large export surplus, it came at the cost of domestic scarcity of essential goods.
- **Wealth Drain:** The surplus was used to pay for British administrative expenses and war costs, leading to a massive **drain of Indian wealth**.

6. Demographic and Occupational Profile

- **Demographic Transition:** 1921 is considered ***The year of Great Divide*** marking the transition from the first to the second stage of demographic growth.
- **Social Indicators:** Literacy was less than 16% (female literacy was a negligible 7%), and **infant mortality** was alarmingly high at 218 per thousand. **Life expectancy** was only 32 years.
- **Occupational Structure:** About **70–75 per cent** of the workforce was in agriculture, while manufacturing and services accounted for only **10%** and **15–20%** respectively.

7. Infrastructure and Conclusion

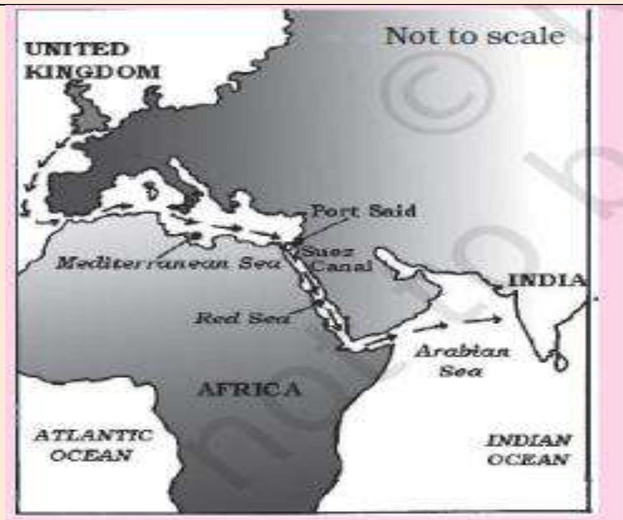
The British developed **railways (introduced in 1850)**, ports, and telegraphs, but the motive was to mobilize the army and transport raw materials rather than serve the public. While the railways broke geographical barriers, they also fostered the commercialisation of agriculture to India's detriment.

By 1947, India inherited an economy burdened by **low productivity, rampant poverty, and unemployment**, presenting enormous social and economic challenges for the new independent government.

Very Short Answer (VSA) Questions (1 Mark Each)		
1	**What was the primary objective of the British colonial rule in India?** A. Industrial development of India B. Welfare of Indian people	1

	C. Reduction of poverty and unemployment D. Protection and promotion of British economic interests	
2	**Which year is regarded as the defining year to mark the demographic transition from the first to the second stage?** A. 1881 B. 1921 C. 1947 D. 1951	1
3	**Name the finest variety of muslin that had its origin in Bengal and was often referred to as 'malmal khas'.** A. Jamdani B. Chintz C. Dacca Muslin D. Khasa Cotton	1
4	**Who made the most significant estimate of India's national and per capita income during the colonial period?** A. Dadabhai Naoroji B. R.C. Dutt C. Mahalanobis D. V.K.R.V. Rao	1
5	**What was the infant mortality rate in India during the colonial period?** A. 98 per thousand B. 150 per thousand C. 218 per thousand D. 75 per thousand	1
6	**In which year was the Tata Iron and Steel Company (TISCO) incorporated?** A. 1905 B. 1907 C. 1911 D. 1919	1
7	**Which artificial waterway, opened in 1869, reduced the cost of transportation between Britain and India?** A. Panama Canal B. Corinth Canal C. Kiel Canal D. Suez Canal	1
8	**What percentage of the workforce was engaged in the agricultural sector during the colonial period?** A. 50% B. 65% C. 85% D. 95%	1
9	**In which year were the railways introduced in India by the British and when did the first passenger train run in India?** A. 1848, 1853 B. 1850, 1853 C. 1853, 1850 D. 1861, 1863	1
10	**What is meant by 'capital goods industry'?** A. Industry producing consumer goods B. Industry producing agricultural goods C. Industry producing luxury goods D. Industry producing machines and equipment used for further production	1
11	**Imagine a farmer in the Bengal Presidency during the 19th century failing to pay rent on a fixed date. What was the likely consequence for the Zamindar under the revenue settlement terms?** A. He received government assistance B. He was exempted from payment C. His land could be auctioned by the government D. He could postpone payment indefinitely	1
12	**If the aggregate real output growth was less than 2% and per capita growth was 0.5%, what can you conclude about the rate of population growth during that period?** A. Less than 0.5% B. Around 3% C. No population growth D. Around 1.5%	1
13	**Why did the British prioritize the construction of roads that led to railway stations or ports?** A. To improve village connectivity B. To encourage tourism	1

	C. To facilitate export of raw materials and movement of imported goods D. To provide employment to rural people	
14	**Why did the generation of a large export surplus not lead to an inflow of gold and silver into India?** A. India banned precious metals B. Exports were very low C. Gold reserves were exhausted D. The surplus was used to pay for administrative and war expenses of Britain	1
15	**A weaver in 19th-century India finds himself unemployed because he cannot compete with cheap British imports. What economic process is this an example of?** A. Industrialisation B. Globalisation C. Urbanisation D. De-industrialisation	1
16	**Assertion (A):** India became an importer of finished consumer goods from Britain. **Reason (R):** The colonial government followed a policy of systematic de-industrialisation in India. A. Both A and R are true and R is the correct explanation of A. B. Both A and R are true, but R is not the correct explanation of A. C. A is true, but R is false. D. A is false, but R is true.	1
17	**Assertion (A):** The introduction of railways in India is considered one of the most important British contributions. **Reason (R):** Railways were primarily built to ensure the welfare of the Indian rural population. A. Both A and R are true and R is the correct explanation of A. B. A is true but R is false. C. A is false but R is true. D. Both A and R are false.	1
18	**Assertion (A):** Agriculture in India was starved of investment in terracing and flood control. **Reason (R):** The Zamindars' main interest was only to collect rent regardless of the cultivators' condition. A. Both A and R are true and R is the correct explanation of A. B. Both A and R are true but R is not the correct explanation of A. C. A is true but R is false. D. A is false but R is true.	1
19	**Female literacy in India during the colonial period was about 16 per cent.** A. True B. False C. Cannot be determined D. Partially true	1
20	**The _______ system of land settlement was implemented in the Bengal Presidency.** A. Ryotwari B. Mahalwari C. Jagirdari D. Zamindari	1
21	**What strategic advantage did the Suez Canal provide to the British Empire regarding India?**	1

	 **Fig.1.2** *Suez Canal: Used as highway between India and Britain* A. Increased military expenditure B. Reduced agricultural output C. Shortened the sea route and reduced transportation costs between Britain and India D. Improved inland navigation in India	
22	**A village in a remote area suffers during the rainy season due to a lack of all-weather roads. How did this impact the population during famines?** A. Increased industrial growth B. Improved food distribution C. Encouraged migration D. People could not be transported quickly to famine-stricken areas, increasing suffering and mortality	1
23	**Why did the development of inland waterways, like the Coast Canal on the Orissa coast, prove uneconomical?** A. Lack of labour B. Excessive rainfall C. Government restrictions D. Railways provided a faster and more economical alternative	1
24	**What does the extremely low life expectancy of 32 years indicate about the health facilities of that time?** A. Excellent healthcare system B. Advanced medical technology C. Universal health coverage D. Poor public health facilities and widespread disease	1
25	**Which sector of the economy remained confined only to railways, power, and ports under British rule?** A. Agricultural sector B. Manufacturing sector C. Service sector D. Public sector	1
	Marking Scheme (MCQs)	
1	D. Protection and promotion of British economic interests	1
2	B. 1921	1
3	C. Dacca Muslin	1

4	D. V.K.R.V. Rao	1
5	C. 218 per thousand	1
6	B. 1907	1
7	D. Suez Canal	1
8	C. 85%	1
9	C. 1850, 1853	1
10	D. Industry producing machines and equipment used for further production	1
11	C. His land could be auctioned by the government	1
12	D. Around 1.5%	1
13	C. To facilitate export of raw materials and movement of imported goods	1
14	D. The surplus was used to pay for administrative and war expenses of Britain	1
15	D. De-industrialisation	1
16	A. Both A and R are true, and R is the correct explanation of A.	1
17	B. A is true but R is false.	1
18	A. Both A and R are true and R is the correct explanation of A.	1
19	B. False (Explanation: The overall literacy rate was less than 16%, while the female literacy rate was even lower, at a miserable 7%.)	1
20	D. Zamindari	1
21	C. Shortened the sea route and reduced transportation costs between Britain and India	1
22	D. People could not be transported quickly to famine-stricken areas, increasing suffering and mortality	1
23	D. Railways provided a faster and more economical alternative	1
24	D. Poor public health facilities and widespread disease	1
25	D. Public sector	1
	Short Answer (SA) Questions (3 Marks Each)	
1	**Describe the two-fold motive behind the systematic de-industrialisation effected by the British in India.** **Ans**: The British followed a policy of systematic de-industrialisation in India with a two-fold motive: • To reduce India to the status of an exporter of raw materials required by British industries. • To transform India into a large market for British manufactured goods. • This policy ensured the continued expansion and economic advantage of Britain.	3
2	**Explain how the "Drain of Indian Wealth" took place during the colonial period.** **Ans**: The "Drain of Indian Wealth" refers to the transfer of India's resources to Britain without adequate economic returns. It occurred through: • Payments for the expenses of British administrative offices in India and England. • Financing wars fought by the British government. • Payments for invisible imports such as shipping, banking, and insurance services. • As a result, India's wealth continuously flowed to Britain.	3
3	**Highlight the salient features of India's occupational structure on the eve of independence**. **Ans**: The occupational structure of India at the time of independence was characterized by:	3

	• About 70–75% of the workforce engaged in agriculture. • Around 10% employed in the manufacturing sector. • Approximately 15–20% working in the service sector. • The economy remained predominantly agrarian with limited industrial development.	
4	**"The agricultural sector in India experienced stagnation under British rule." Support this statement with three reasons.** **Ans**: Agricultural stagnation during British rule can be attributed to: • Exploitative land settlement systems such as the Zamindari system. • Lack of investment in modern technology, irrigation facilities, and fertilizers. • Commercialisation of agriculture, which encouraged cash crop cultivation at the expense of food crops.	3
5	**What was the impact of the opening of the Suez Canal on India's foreign trade?** **Ans**: The opening of the Suez Canal in 1869 had a significant impact on India's foreign trade: • It reduced transportation costs between Britain and India. • It provided a shorter and more direct sea route between Europe and South Asia. • It strengthened Britain's monopoly and control over Indian trade.	3
6	**Critically appraise the state of the industrial sector in India at the time of independence**. **Ans**: The industrial sector at independence was underdeveloped because: • Industrial growth had been slow and limited. • Development was mainly confined to the cotton and jute industries. • Capital goods industries were largely absent. • The public sector operated only in a few areas such as railways, power, and ports.	3
7	**How did the introduction of railways affect the Indian economy in two contradictory ways?** **Ans**: Railways had both positive and negative impacts: • **Positive:** They enabled long-distance travel, improved connectivity, and helped break cultural and geographical barriers. • **Negative:** They promoted the commercialisation of agriculture and weakened the self-sufficient village economy, benefiting British economic interests.	3
8	**Briefly describe the demographic profile of India during the colonial period based on the 1881 census and subsequent data.** **Ans**: India's demographic profile during the colonial period showed: • A high mortality rate. • An alarming infant mortality rate of about 218 per thousand. • A very low life expectancy of around 32 years. • A low literacy rate of approximately 16%, reflecting poor social development.	3
9	**Mention any three notable economists who estimated India's national and per capita income during the colonial era.** **Ans**: Three notable economists who estimated India's national and per capita income were: • Dadabhai Naoroji	3

	• William Digby • V.K.R.V. Rao *(Other acceptable names: Findlay Shirras and R.C. Desai.)*	
10	**Why were the social benefits of the railways outweighed by the country's economic loss?** **Ans**: Although railways facilitated travel, communication, and national integration, their economic impact was largely unfavorable because: • They were primarily developed to transport raw materials to ports and distribute British manufactured goods. • They encouraged the commercialisation of agriculture for British interests. • They contributed to the economic drain of India's resources, resulting in substantial economic losses for the country.	3
Short Answer (SA) Questions (4 Marks Each)		
1	**Case-Based Question:** **Extract:** "The cotton textile mills, mainly dominated by Indians, were located in the western parts of the country... while the jute mills dominated by the foreigners were mainly concentrated in Bengal." **Question: Analyze the regional and ownership patterns of modern industries in India during the late 19th century.** **Ans:** The modern industrial sector in India exhibited distinct regional and ownership patterns: • Cotton textile mills were mainly concentrated in the western regions, particularly Maharashtra and Gujarat. • These cotton mills were largely owned and managed by Indian entrepreneurs. Jute mills were concentrated in Bengal due to the availability of raw jute and proximity to ports. The jute industry was predominantly controlled by foreign, especially British, capitalists.	4
2	**Discuss the impact of British trade and tariff policies on the structure and composition of India's foreign trade.** **Ans**: British trade and tariff policies significantly altered India's foreign trade: • India was encouraged to export primary products such as raw silk, cotton, indigo, tea, and jute. • The country increasingly imported finished manufactured goods from Britain. • Indigenous industries suffered due to the influx of cheap British products. • Britain maintained monopoly control over India's foreign trade, accounting for more than half of India's total trade.	4
3	**Explain the regional variations in the occupational structure observed in India during the colonial period.** **Ans**: The occupational structure varied considerably across different regions:	4

7	• Madras, Bombay, and Bengal experienced a gradual shift of workers from agriculture to manufacturing and service sectors. • Industrial and commercial activities expanded in these regions. • In Punjab, Rajasthan, and Orissa, a larger proportion of the workforce remained dependent on agriculture. • These regions witnessed an increase in the agricultural workforce due to limited industrial development.	
4	**How did the terms of the revenue settlement system influence the attitude of the Zamindars toward the cultivators?** **Ans**: The revenue settlement system greatly influenced the behaviour of Zamindars: • Land revenue had to be paid to the government on fixed dates. • Failure to pay could result in the loss of Zamindari rights through auction of land. • Consequently, Zamindars focused primarily on collecting rent from cultivators. They paid little attention to the economic welfare of farmers and invested very little in land improvement.	4
5	**Analyze the state of public health facilities and their impact on the mortality rate in colonial India.** **Ans**: Public health conditions during the colonial period were extremely poor: • Medical and health facilities were either inadequate or completely unavailable in many areas. • Air-borne and water-borne diseases such as cholera, malaria, and plague were widespread. • Poor sanitation and lack of preventive healthcare aggravated health problems. As a result, mortality rates remained high and life expectancy was only about 32 years.	4
6	**British infrastructure development in India was spiced with selfish motives." Justify this statement with examples of roads and telegraphs**. **Ans**: British infrastructure development primarily served colonial interests: • Roads were constructed mainly to facilitate the movement of British troops and transport raw materials to ports. • They helped in exporting raw materials and distributing British manufactured goods within India. • Telegraph services were introduced mainly to maintain administrative control and law and order. Due to their high cost, telegraphs were largely inaccessible to ordinary Indians and mainly benefited the colonial administration.	4
7	**What were the primary reasons for the low level of agricultural productivity during British rule?** **Ans**: Agricultural productivity remained low due to several factors:	4

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Exploitative land settlement systems such as the Zamindari system discouraged investment in agriculture.
Traditional methods of cultivation continued because of low technological advancement.
Irrigation facilities, fertilizers, and other modern agricultural inputs were largely absent.

Small farmers and tenants lacked both incentives and financial resources to improve productivity.
</td><td></td></tr>
<tr><td>8</td><td>
Examine the limitations of the public sector in the industrial development of colonial India.
Ans:
The role of the public sector in industrial development was extremely limited:

Public sector activities were confined mainly to railways, power generation, communications, and ports.
There was very little government investment in modern industries.
Large-scale industrial development was not encouraged by the colonial administration.

As a result, the public sector made only a limited contribution to India's industrial growth during the colonial period.
</td><td>4</td></tr>
<tr><td colspan="3">Long Answer (LA) Questions (6 Marks Each)</td></tr>
<tr><td>1</td><td>
(a) "Despite being the primary source of livelihood for the majority of the population, the agricultural sector failed to ensure prosperity for Indian farmers during the colonial period."
In the light of the above statement, examine the condition of Indian agriculture on the eve of independence. (3 Marks)
Ans:

Agriculture was the main source of livelihood for about 70–75% of the population.
Productivity was extremely low due to outdated technology and inadequate irrigation facilities.
Exploitative land settlement systems, especially the Zamindari System, discouraged agricultural development.
Frequent famines and food shortages reflected the poor condition of the sector.

(b) "The colonial economy left India industrially backward and commercially dependent."
Analyse the above statement with reference to the industrial and foreign trade sectors on the eve of independence. (3 Marks)
Ans:

Traditional handicraft industries declined due to systematic de-industrialisation.
Modern industries developed slowly and were mainly confined to cotton and jute textiles.
India exported raw materials and imported finished manufactured goods.

British monopoly dominated foreign trade and contributed to the drain of wealth.
</td><td>6</td></tr>
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2	**(a) "British industrial policies transformed India from a producer of finished goods into a supplier of raw materials."** Substantiate the statement by explaining the major reasons behind the decline of Indian handicraft industries. **(3 Marks)** **Ans:** • Britain wanted India to supply cheap raw materials for its industries. • India was converted into a market for British manufactured products. • Discriminatory tariff and trade policies favoured British goods. • Indigenous industries received little protection from the colonial government. **(b) "The decline of handicraft industries had far-reaching economic consequences for India."** Discuss the consequences of this decline. **(3 Marks)** **Ans:** • Traditional handicraft industries suffered severe decline. • Millions of artisans and craftsmen lost their livelihoods. • Dependence on imported British goods increased. • Growth of modern industries remained slow and inadequate. Capital goods industries failed to develop.	6
3	**(a) "The demographic profile of colonial India reflected the poor socio-economic conditions prevailing in the country."** Examine the validity of the above statement. **(3 Marks)** **Ans:** • Mortality rate remained very high. • Infant mortality was about 218 per thousand live births. • Life expectancy at birth was only around 32 years. • Literacy rate was merely about 16%. • Frequent epidemics and famines affected population growth. **(b) "The year 1921 occupies a unique place in India's demographic history."** Justify the statement. **(3 Marks)** **Ans:** • Before 1921, both birth and death rates were high. • After 1921, death rates started declining while birth rates remained high. • Population growth accelerated significantly. Hence, 1921 is known as the "Year of Great Divide."	6
4	**(a) "Infrastructure development during British rule served both developmental and colonial objectives."** Evaluate the above statement. **(3 Marks)** **Ans:** **Positive Contributions** • Railways improved transportation and communication. • Roads, ports, and postal services improved connectivity. • Infrastructure laid the foundation for future economic development. **Negative Contributions**	6

	• Railways primarily served British commercial interests. • Roads and telegraphs were mainly developed for administrative and military purposes. **(b) "The benefits of colonial infrastructure development did not adequately reach the Indian masses."** Do you agree? Give reasons in support of your answer. **(3 Marks)** **Ans:** • Benefits reached the masses only to a limited extent. • Most projects were not designed for public welfare. • Economic gains largely accrued to Britain. Infrastructure primarily facilitated colonial exploitation.	
5	**(a) "The agrarian policies of the British government became a major obstacle to agricultural development in India."** Discuss the statement with reference to land revenue and land settlement systems. **Ans:** **(3 Marks)** • The Zamindari System was highly exploitative. • Zamindars focused on rent collection rather than productivity. • Revenue had to be paid irrespective of crop conditions. • Farmers lacked incentives to invest in land improvement. **(b) "Lack of institutional support and technological backwardness kept Indian agriculture stagnant."** Examine the above statement. **(3 Marks)** **Ans:** • Very little investment was made in irrigation and flood control. • Agricultural infrastructure remained poorly developed. • Traditional farming methods continued to dominate. Modern seeds, fertilisers, and machinery were rarely used.	6
6	**(a) "Colonial trade policies systematically weakened India's manufacturing base."** Analyse the statement. **(3 Marks)** **Ans:** • Restrictive tariff policies favoured British manufacturers. • Indian goods faced barriers in British markets. • Cheap machine-made British products flooded Indian markets. • Traditional handicraft industries suffered a severe decline. **(b) "By the end of colonial rule, India had become a supplier of raw materials and a market for British goods."** Explain the statement with suitable arguments. **(3 Marks)** **Ans:** • India exported raw silk, cotton, jute, tea, wool, and indigo. • These raw materials supported British industries. • India imported finished manufactured goods from Britain. Trade surpluses financed British administrative and military expenses, leading to the drain of wealth.	6

Indian Economy 1950–1990

Following independence in 1947, India's leaders faced the challenge of choosing an economic system that would promote the welfare of all citizens. They settled on a **mixed economy** model, which combined the best features of socialism (central planning and a strong public sector) and capitalism (private property and market forces). The **Planning Commission** was established in 1950, with the Prime Minister as Chairperson, marking the beginning of the era of **Five-Year Plans**.

1. Goals of Five Year Plans

Every plan was designed with four overarching goals, though their relative importance varied over time:

- **Growth:** Increasing the country's capacity to produce goods and services, measured by steady increases in **Gross Domestic Product (GDP)**.
- **Modernisation:** The adoption of new technology by producers and a change in social outlook, such as recognizing equal rights for women.
- **Self-reliance:** Reducing dependence on foreign imports, particularly for food and technology, to safeguard national sovereignty.
- **Equity:** Ensuring that the benefits of economic growth reached the poor and reducing inequalities in wealth distribution.

2. Agricultural Sector: Reforms and the Green Revolution

The government addressed agricultural stagnation through two primary strategies:

- **Land Reforms:** These included the **abolition of intermediaries** (like Zamindars) to make "land to the tiller" a reality and the imposition of a **land ceiling** to prevent the concentration of land in a few hands. While successful in states like Kerala and West Bengal, legal loopholes allowed many big landlords to retain their holdings elsewhere.
- **The Green Revolution:** Starting in the mid-1960s, the use of **High Yielding Variety (HYV) seeds**, fertilisers, and improved irrigation led to a massive increase in food grain production. This enabled India to achieve self-sufficiency in food and created a **marketed surplus**, which lowered food prices for low-income groups.
- **The Subsidy Debate:** The government provided subsidies to encourage small farmers to adopt new technologies. While some argue these are now a fiscal burden that benefits the rich, others maintain they are essential for the survival of poor farmers.

3. Industrial Sector: Public Sector and Regulation

Because private industrialists lacked sufficient capital, the government took a leading role in industrial development.

- **Industrial Policy Resolution (IPR) 1956:** This formed the basis of the Second Five Year Plan and classified industries into three categories, with the government controlling the "commanding heights" of the economy.
- **Licensing (Permit License Raj):** Private industries were strictly regulated through a system of licenses required for starting, expanding, or diversifying production. This was intended to promote regional equality by encouraging industries in backward areas.
- **Small-Scale Industry (SSI):** Based on the Karve Committee's recommendations, SSIs were promoted because they were more **labour-intensive** and generated more employment.

4. Trade Policy: Import Substitution

India adopted an "inward-looking" trade strategy known as **import substitution**. The goal was to replace imports with domestic production by protecting local industries through **tariffs** (taxes on imports) and

quotas (quantity restrictions). This protection was intended to allow indigenous industries to grow without facing competition from more developed nations.

5. Critical Appraisal (1950–1990)

By 1990, the Indian economy showed significant progress but also faced critical failures:

- **Achievements:** Industrial production became far more diversified, and the share of the industrial sector in GDP rose from 13% to nearly 25%. The Green Revolution ended the country's reliance on foreign food aid.
- **Failures of the Public Sector:** Many **Public Sector Undertakings (PSUs)** incurred huge losses and became a drain on national resources. Monopolies in sectors like telecommunications led to inefficiency due to a lack of competition.
- **Regulatory Red Tape:** The licensing system was often misused by big industrial houses to block competitors rather than improve efficiency.
- **Structural Issues:** Although agriculture's contribution to GDP declined, the proportion of the population dependent on it did not fall significantly (remaining at about 65% by 1990), as industry and services failed to absorb the surplus labour.

These mounting inefficiencies and the changing global economic scenario necessitated the introduction of a **New Economic Policy in 1991**.

Very Short Answer (VSA) Questions (1 Mark Each)

Q. No.	Question	Marks
1	**Define the term 'Plan' as used in the context of the Indian economy.** A. A system of private ownership of resources B. A method of determining market prices C. A plan spells out how the resources of a nation should be put to use, with general goals and specific objectives for a specified period D. A strategy for increasing exports only	1
2	**Who is considered the 'architect of Indian planning'?** A. Dadabhai Naoroji B. Jawaharlal Nehru C. V.K.R.V. Rao D. Prasanta Chandra Mahalanobis	1
3	**What is the term for the market value of all final goods and services produced in a country during a year?** A. National Income B. Gross Domestic Product (GDP) C. Net National Product D. Per Capita Income	1
4	**In which economic system are goods distributed based on 'Purchasing Power' rather than need?** A. Socialist Economy B. Mixed Economy C. Command Economy D. Capitalist Economy (Market Economy)	1
5	**Which committee in 1955 noted the possibility of using small-scale industries for promoting rural development?** A. Planning Commission Committee B. Industrial Policy Committee C. Village and Small-Scale Industries Committee (Karve Committee) D. National Development Council	1
6	**Statement 1:** One of the major drawbacks of India's economic policies during 1950-1990	1

	was the failure of the industrial and service sectors to absorb the large population dependent on agriculture. **Statement 2:** Despite significant growth in agricultural output due to the Green Revolution, the proportion of the population engaged in agriculture declined substantially between 1950 and 1990. (a) Both Statement 1 and Statement 2 are true. (b) Both Statement 1 and Statement 2 are false. (c) Statement 1 is true, but Statement 2 is false. (d) Statement 1 is false, but Statement 2 is true.	
7	**Trade Policy: Name the strategy that aims at replacing or substituting imports with domestic production.** A. Export Promotion B. Free Trade C. Import Substitution D. Trade Liberalisation	1
8	**Under the IPR 1956, which category of industries was exclusively owned by the government?** A. Second category B. Third category C. Joint sector category D. The first category	1
9	**Besides technology, what other change does 'modernisation' refer to in a society?** A. Increase in exports B. Changes in social outlook, such as the recognition that women should have the same rights as men C. Increase in population growth D. Expansion of public sector industries	1
10	**Statement 1:** The Industrial Policy Resolution of 1956 (IPR 1956) classified industries into three categories, with the first category exclusively owned by the government. **Statement 2:** Under IPR 1956, the private sector was completely prohibited from participating in any industrial activity. (a) Both Statement 1 and Statement 2 are true. (b) Both Statement 1 and Statement 2 are false. (c) Statement 1 is true, but Statement 2 is false. (d) Statement 1 is false, but Statement 2 is true.	1
11	**A farmer in the former Soviet Union packs rotten fruit with fresh fruit because they do not own the land and will not suffer the loss. What economic concept does this illustrate?** A. Market Competition B. Lack of ownership and incentives; farmers do not enjoy profits or suffer losses C. Import Substitution D. Labour Intensive Production	1
12	**If a government wants to restrict the quantity of a specific good being imported, which trade barrier should it use?** A. Subsidy B. Tariff C. Embargo D. Quota	1
13	**An industrialist spends more time lobbying in government offices to prevent a competitor from entering the market than improving their product. This is a characteristic of which regulatory system?** A. Free Market Economy B. Mixed Economy	1

	C. Permit License Raj D. Cooperative Economy	
14	**Why did India give importance to 'self-reliance' regarding food supplies after independence?** A. To increase imports of food grains B. To promote foreign investment C. To reduce agricultural production D. To reduce dependence on foreign countries and prevent vulnerability to foreign interference in national policies	1
15	**Why are small-scale industries considered more 'labour intensive'?** A. They use more machinery than labour B. They produce only agricultural goods C. They use more labour per unit of output than large-scale industries and thus generate more employment D. They require larger capital investment	1
16	**Assertion (A):** The Green Revolution enabled India to achieve self-sufficiency in food grains. **Reason (R):** Marketed surplus allowed the government to build stocks for food shortages. Choose: A. Both A and R are true and R is the correct explanation of A. B. Both A and R are true but R is not the correct explanation of A. C. A is true but R is false. D. A is false but R is true.	1
17	**Assertion (A):** Public sector enterprises often monopolised goods and services that the private sector could provide. **Reason (R):** The goal was to promote the welfare of the nation rather than just earning profits. Choose: A. A is true but R is false. B. Both A and R are true and R is the correct explanation of A. C. Both A and R are true but R is not the correct explanation of A. D. A is false but R is true.	1
18	**Assertion (A):** Land reforms were highly successful throughout all states of India. **Reason (R):** Loopholes in legislation allowed big landlords to retain their land in many regions Choose: A. Both A and R are true and R is the correct explanation of A. B. A is true but R is false. C. Both A and R are false. D. A is false but R is true.	1
19	**The cartoon depicts a farmer saying "After Green Revolution who is interested in your offer?" to a foreigner with sacks of grain. What does this signify?**	1

	 A. Increase in food imports B. Dependence on foreign food aid C. Expansion of export subsidies D. India's transition to self-sufficiency in food grains, ending reliance on foreign food aid	
20	**How do tariffs protect domestic firms from foreign competition?** A. By increasing exports directly B. By reducing domestic production C. They are a tax on imports that make imported goods more expensive, discouraging their use D. By banning all foreign goods	1
21	**Why was the Second Five Year Plan considered a landmark in Indian planning?** A. It introduced economic liberalization B. It focused entirely on agriculture C. It laid down the basic ideas regarding the goals of Indian planning and moved towards a socialist pattern of society D. It abolished the public sector	1
22	**Usually, as a country develops, the share of which sector becomes dominant in the GDP?** A. Agricultural sector B. Industrial sector C. Mining sector D. Service sector	1
23	**The __________ refers to the portion of agricultural produce which is sold in the market by farmers.** A. Buffer stock B. Procurement stock C. Marketed surplus D. Food reserve	1
24	**In a mixed economy, who answers the three basic economic questions of what, how, and for whom to produce?** A. Only the government B. Only private enterprises C. Foreign investors and businesses D. The government and the market together	1
25	**What was the investment limit for a small-scale industry unit in 1950?** A. Five lakh rupees B. Ten lakh rupees C. Twenty lakh rupees D. One crore rupees	1
	Marking Scheme (MCQs)	
1	C. A plan spells out how the resources of a nation should be put to use, with general goals	1

	and specific objectives for a specified period	
2	D. Prasanta Chandra Mahalanobis	1
3	B. Gross Domestic Product (GDP)	1
4	D. Capitalist Economy (Market Economy)	1
5	C. Village and Small-Scale Industries Committee (Karve Committee)	1
6	C. Statement 1 is true, but Statement 2 is false.	1
7	C. Import Substitution	1
8	D. The first category	1
9	B. Changes in social outlook, such as the recognition that women should have the same rights as men	1
10	C. Statement 1 is true, but Statement 2 is false.	1
11	B. Lack of ownership and incentives; farmers do not enjoy profits or suffer losses	1
12	D. Quota	1
13	C. Permit License Raj	1
14	D. To reduce dependence on foreign countries and prevent vulnerability to foreign interference in national policies	1
15	C. They use more labour per unit of output than large-scale industries and thus generate more employment	1
16	A. Both A and R are true and R is the correct explanation of A.	1
17	B. Both A and R are true and R is the correct explanation of A.	1
18	D. A is false but R is true.	1
19	D. India's transition to self-sufficiency in food grains, ending reliance on foreign food aid.	1
20	C. They are a tax on imports that make imported goods more expensive, discouraging their use	1
21	C. It laid down the basic ideas regarding the goals of Indian planning and moved towards a socialist pattern of society	1
22	D. Service sector	1
23	C. Marketed surplus	1
24	D. The government and the market together	1
25	A. Five lakh rupees	1
	Short Answer (SA) Questions (3 Marks Each)	
1	**Explain the three basic questions that every society must answer to solve the economic problem.** **Ans**: Every society must answer the following three basic economic questions: • What to produce? – Deciding which goods and services should be produced and in what quantities. • How to produce? – Choosing the methods and techniques of production. • How to distribute? – Determining how the produced goods and services will be distributed among the people.	3
2	**"A plan should have some clearly specified goals." Briefly discuss the four main goals**	

of India's five-year plans.

Ans:

The four main goals of India's Five-Year Plans were:

- Growth: Increasing the country's Gross Domestic Product (GDP).
- Modernisation: Adoption of new technology and progressive social changes.
- Self-Reliance: Reducing dependence on foreign countries and imports.
- Equity: Reducing inequalities and ensuring a fair distribution of income and opportunities.

3 **Why did Indian planners settle for a 'mixed economy' rather than a purely capitalist or socialist one?** 3

Ans:

Indian planners adopted a mixed economy because:

- It combined the advantages of both capitalism and socialism.
- The public sector controlled key industries and worked for social welfare.
- The private sector was allowed to operate and encourage entrepreneurship.
- It aimed to achieve economic growth along with social justice and democratic values.

4 **How did the policy of 'land to the tiller' act as an incentive for agricultural growth?** 3

Ans:

The policy of "land to the tiller" promoted agricultural growth because:

- It transferred ownership rights to the actual cultivators.
- Farmers became more motivated to increase production since they could retain the profits.
- Ownership encouraged investment in irrigation, fertilizers, and land improvement.
- As a result, agricultural productivity increased.

5 **What were the two main risks associated with the Green Revolution technology, and how did the government mitigate them?** 3

Ans:

The Green Revolution involved two major risks:

- Risk of increasing inequality between large and small farmers because large farmers could afford modern inputs more easily.
- Risk of crop failure due to pests and diseases affecting HYV seeds.

Government Measures:

- Provided low-interest agricultural loans.
- Supplied subsidised fertilizers and other inputs.
- Strengthened agricultural research institutions and extension services to assist farmers.

6 **Distinguish between 'tariffs' and 'quotas' as tools of import substitution**. 3

Ans:

Tariffs	Quotas
Tariffs are taxes imposed on imported goods.	Quotas place a limit on the quantity of goods that can be imported.
They increase the price of imported products.	They directly restrict the volume of imports.
They discourage imports by making them more expensive.	They discourage imports by limiting their availability.

7	**Why was it necessary for the public sector to take a leading role in industrial development at the time of independence?** **Ans**: The public sector played a leading role because: • Private industrialists lacked sufficient capital to undertake large investments. • The domestic market was too small to attract large-scale private investment. • The government wanted control over the "commanding heights" of the economy. • Public sector enterprises were expected to promote national development and social welfare.	3
8	**Briefly describe the 'structural change' observed in the Indian economy between 1950 and 1990.** **Ans**: The Indian economy experienced significant structural changes: • The contribution of agriculture to GDP declined from about 59% to 34.9%. • The industrial sector's share increased to about 24.6%. • The service sector expanded rapidly and contributed around 40.5% of GDP. • These changes reflected economic development, although a large population still depended on agriculture.	3
9	**What were the main reasons for the success of land reforms in Kerala and West Bengal compared to other states?** **Ans**: Land reforms were more successful in Kerala and West Bengal because: • State governments were strongly committed to the policy of "land to the tiller." • They implemented land reform laws effectively. • Legislative loopholes were identified and closed. • Tenant farmers received greater security and ownership rights.	3
10	**How does modernization as a goal impact the social status of women in a society?** **Ans**: Modernization improves the social status of women by: • Promoting the idea of equal rights and opportunities for men and women. • Encouraging women's participation in education and employment. • Enabling women to contribute their talents in sectors such as banking, industry, administration, and services. • Leading to greater social progress and economic prosperity.	3
	Short Answer (SA) Questions (4 Marks Each)	
1	**Case-Based Question:** Extract: *"The need to obtain a license... was misused by industrial houses; a big industrialist would get a license not for starting a new firm but to prevent competitors from starting new firms."* **(a) What was the system of licensing popularly called?** **(b) How did this system lead to inefficiency in the industrial sector?** **Ans**: (a) The system of industrial licensing was popularly known as the Permit License Raj. (b) This system led to inefficiency because: • Industrialists spent more time obtaining licenses and influencing government decisions than improving production and quality.	4

	• Large firms often acquired licenses merely to block potential competitors. • New entrepreneurs found it difficult to enter the market. As a result, competition and innovation were discouraged, reducing industrial efficiency.	
2	**Analyse the debate over agricultural subsidies. Provide two arguments in favour and two against their continuation.** **Ans**: Arguments in Favour: • Subsidies encourage farmers to adopt modern technologies such as HYV seeds, fertilizers, and irrigation. • Poor and small farmers may not be able to afford costly inputs without government support. Arguments Against: • Subsidies impose a heavy financial burden on the government budget. • They often benefit large farmers more than small farmers. • Subsidies can lead to excessive and wasteful use of resources such as water and electricity. They may contribute to environmental degradation and resource depletion.	4
3	**Describe the three-fold classification of industries as per the Industrial Policy Resolution (IPR) 1956.** **Ans**: The Industrial Policy Resolution (IPR) 1956 classified industries into three categories: Category I: Exclusively State-Owned Industries • Industries were fully owned and managed by the government. Category II: State-Led Industries • The government would establish new enterprises, while private firms could supplement government efforts. Category III: Private Sector Industries • Industries were left to the private sector but remained subject to government regulation and licensing. This classification reflected India's commitment to a mixed economy with a dominant public sector.	4
4	**Explain the importance of small-scale industries in achieving the goal of equity and employment.** **Ans**: Small-scale industries play an important role in promoting equity and employment because: • They are labour-intensive and generate more employment opportunities per unit of investment. • They enable individuals with limited capital to start businesses. • Income and economic opportunities become more widely distributed among the population. • Certain products were reserved exclusively for small-scale industries to protect them from competition by large firms. • Thus, they contribute significantly to both employment generation and equitable development.	4
5	**"Prices are signals about the availability of goods." Explain this statement in the context of subsidized water and electricity for farmers.** **Ans**: Prices indicate the scarcity or abundance of resources.	4

	• When water and electricity are heavily subsidized, farmers pay less than the actual cost. • Low prices hide the true scarcity of these resources. • As a result, farmers may overuse water and electricity. • This often encourages the cultivation of water-intensive crops even in water-scarce regions. • Consequently, groundwater depletion and resource wastage become serious concerns. • Therefore, subsidies can distort price signals and lead to inefficient resource use.	
6	**Critically examine why the proportion of the population dependent on agriculture did not decline significantly between 1950 and 1990.** **Ans**: Although the contribution of agriculture to GDP declined significantly during this period, dependence on agriculture remained high. • The share of agriculture in GDP fell from about 59% to 34.9%. • However, the proportion of the population dependent on agriculture declined only marginally from 67.5% to 64.9%. • The industrial and service sectors did not generate enough employment opportunities to absorb surplus rural labour. • Population growth further increased pressure on agricultural land and employment. • Thus, while structural transformation occurred in terms of GDP contribution, it was not accompanied by a comparable shift of workers from agriculture to non-agricultural sectors.	4
	Long Answer (LA) Questions (6 Marks Each)	
1	**(a)** ***"The industrial policies adopted after Independence succeeded in creating a diversified industrial structure in India."*** Examine the validity of the above statement with suitable arguments. **(3 Marks)** **Ans:** • The contribution of industry to GDP increased significantly, reaching about 24.6% by 1990. • India developed a diversified industrial base including engineering, electronics, chemicals, automobiles, and machine tools. • Dependence on imported manufactured goods gradually declined. • Small-Scale Industries (SSIs) generated employment and promoted a more equitable distribution of income. **(b)** ***"Excessive state control became a major limitation of India's industrial strategy during the planning era."*** Analyse the statement by highlighting the major shortcomings of industrial policies between 1950 and 1990. **(3 Marks)** **Ans:** • Many public sector enterprises suffered from low productivity, overstaffing, and financial losses. • The Permit-License Raj created bureaucratic delays and discouraged entrepreneurship. • Protection from foreign competition reduced incentives for innovation and quality improvement.	6

	Indian industries often failed to become globally competitive	
2	**(a)** ***"The Green Revolution transformed India from a food-deficit nation into a food self-sufficient economy."*** Substantiate the statement with suitable arguments. **(3 Marks)** **Ans:** • Production of wheat and rice increased significantly due to HYV seeds and modern farming techniques. • Higher production created substantial marketed surplus and strengthened food security. • India reduced its dependence on food imports and foreign aid. • Increased food availability helped stabilize food prices and benefited consumers. **(b)** ***"Despite its remarkable achievements, the Green Revolution failed to benefit all regions and sections of farmers equally."*** Examine the limitations of the Green Revolution. **(3 Marks)** **Ans:** • Benefits were concentrated mainly in Punjab, Haryana, and Andhra Pradesh. • The revolution primarily benefited wheat and, to some extent, rice. • It required costly inputs such as irrigation, fertilizers, and machinery. Small and marginal farmers often found it difficult to adopt the new technology.	6
3	**(a)** ***"Growth, Modernisation, Self-reliance and Equity were not independent goals but mutually reinforcing objectives of India's planning process."*** Explain the statement. **(3 Marks)** **Ans:** • Economic growth increases national income and generates resources for development. • Modernisation improves productivity through advanced technology and progressive social attitudes. • Self-reliance reduces dependence on foreign countries and strengthens economic sovereignty. • Equity ensures fair distribution of the benefits of development among all sections of society. **(b)** ***"Development goals often complement each other, yet they may also create policy dilemmas."*** Discuss any three possible conflicts among the goals of planning. **(3 Marks)** **Ans:** • Modernisation may reduce employment opportunities in the short run, creating tension with equity. • Rapid economic growth may increase income inequalities if benefits are unevenly distributed. • Excessive self-reliance may restrict access to foreign technology and investment. Balancing these goals requires careful policy planning.	6
4	**(a)** ***"Land reforms were introduced after Independence to transform the agrarian structure and reduce rural inequalities."*** Discuss the major land reform measures undertaken in India. **(3 Marks)** **Ans:**	6

	• Zamindars and other intermediaries were abolished. • Land ceiling laws imposed limits on landholdings. • Surplus land was intended to be redistributed among landless farmers. • Ownership rights were granted to tenants under the 'Land to the Tiller' programme. **(b)** ***"Although land reforms achieved some success, their implementation remained uneven across states."*** Evaluate the success of land reforms in achieving equity in agriculture. **(3 Marks)** **Ans:** • Around 200 lakh tenants benefited from tenancy reforms. • Exploitation by intermediaries was reduced in several regions. • States like Kerala and West Bengal achieved relatively better outcomes. However, legal loopholes, prolonged litigation, and eviction of tenants limited the effectiveness of reforms.	
5	**(a)** ***"Protection of domestic industries was considered essential for achieving self-reliance during the early years of planning."*** Explain the rationale and major features of India's Inward Looking Trade Strategy. **(3 Marks)** **Ans:** • Import substitution was encouraged to replace imported goods with domestic production. • High tariffs increased the cost of imported goods. • Import quotas restricted the quantity of imports. • Infant industries were protected from foreign competition until they became competitive. **(b)** ***"The same policy that initially protected Indian industries later became a source of inefficiency."*** Analyse why the Inward Looking Trade Strategy was criticised by economists in the late 1980s. **(3 Marks)** **Ans:** • Protected industries faced little competitive pressure to improve efficiency. • Consumers often had limited choices and paid for lower-quality products. • Domestic industries focused mainly on the home market. India failed to develop a strong export-oriented industrial sector compared to many East Asian economies.	6

LIBERALISATION, PRIVATISATION AND GLOBALISATION: AN APPRAISAL

After Independence, India adopted a **Mixed Economy**, combining the advantages of both the **Capitalist** and **Socialist** economic systems.

Economic Crisis of 1991

The roots of the 1991 economic crisis can be traced to the inefficient management of the Indian economy during the 1980s.

- Government expenditure exceeded its income, leading to large fiscal deficits.
- To finance these deficits, the government borrowed heavily from banks, the public, and international financial institutions.

- Income from Public Sector Undertakings (PSUs) was insufficient to meet rising expenditure.
- Prices of essential commodities increased sharply.
- Imports grew rapidly without a corresponding increase in exports.

As a result, India faced a severe **Balance of Payments (BoP) crisis** and approached the **World Bank (IBRD)** and the **International Monetary Fund (IMF)** for assistance. India received a loan of approximately **US $7 billion** to manage the crisis.

LIBERALISATION

Liberalisation refers to the removal of unnecessary government restrictions and controls on economic activities to promote private sector participation and improve efficiency.

Although some liberalisation measures were introduced during the 1980s, the reforms launched in **1991** were much broader and more comprehensive.

Features of Liberalisation

Reform Area	Major Changes
1. Deregulation of Industrial Sector	Industrial licensing was abolished for most industries except alcohol, cigarettes, hazardous chemicals, industrial explosives, aerospace, drugs, and pharmaceuticals. Only atomic energy and certain railway activities remain reserved for the public sector.
2. Financial Sector Reforms	RBI's role shifted from a regulator to a facilitator. Private sector and foreign banks were allowed greater participation. Foreign investment in banks was increased up to about 74%.
3. Tax Reforms	Income tax and corporate tax rates were gradually reduced. GST was introduced following the Constitutional Amendment in 2016.
4. Foreign Exchange Reforms	The Indian Rupee was devalued in 1991 to address the Balance of Payments crisis and increase foreign exchange inflows.
5. Trade and Investment Policy Reforms	The government reduced trade barriers by removing import-export restrictions, **lowering tariff rates**, and abolishing most import licensing requirements. Import licensing continued only for hazardous and environmentally sensitive products. **Quantitative restrictions** on consumer goods and agricultural imports were completely removed in 2001, and export duties were abolished to make Indian goods more competitive in international markets.

PRIVATISATION

Privatisation refers to increasing the role of the private sector and reducing government ownership and control over economic activities.

Methods of Privatisation

1. Withdrawal of government ownership and management from public sector enterprises.
2. Complete or partial sale of public sector enterprises to private investors.

Disinvestment

The sale of a part of the government's equity in Public Sector Enterprises (PSEs) is known as **Disinvestment**.

Categories of Public Sector Enterprises

Category	Examples
Maharatna	Indian Oil Corporation Limited (IOCL), Steel Authority of India Limited (SAIL)
Navratna	Hindustan Aeronautics Limited (HAL), Mahanagar Telephone Nigam Limited (MTNL), Indian Railway Catering and Tourism Corporation Limited (IRCTC)

Miniratna	Bharat Sanchar Nigam Limited (BSNL), Airports Authority of India (AAI)

GLOBALISATION

Globalisation refers to the integration of national economies with the global economy through trade, investment, and technological exchange.

Features of Globalisation

1. Outsourcing

Outsourcing refers to hiring services from external sources, often located in other countries, instead of performing them within the company.

India has become a major outsourcing destination for services such as:

- BPO and Call Centres
- Banking Services
- Accounting
- Record Keeping
- Film Editing
- Music Recording
- Book Transcription
- Clinical Advice
- Teaching Services

2. World Trade Organisation (WTO)

- The WTO was established in **1995**.
- It succeeded the **General Agreement on Tariffs and Trade (GATT)**.
- GATT was established in **1948** by 23 countries.
- WTO promotes free and fair international trade by providing equal opportunities to member nations.

IMPACT OF LPG REFORMS

Positive Impacts	Explanation
Economic Growth	Higher GDP growth, industrial modernization, and improved productivity.
Global Integration	Greater participation in international trade and increased foreign investment.
Employment Generation	Expansion of private sector industries and services created job opportunities.
Technological Advancement	Access to modern technology improved efficiency and competitiveness.

Challenges of LPG Reforms

- Rising income inequalities.
- Regional disparities in development.
- Environmental concerns.
- Need for further policy interventions to ensure inclusive growth.

APPRAISAL OF LPG REFORMS (1991)

Positive Aspects

Aspect	Outcome
Economic Growth	India emerged as a dynamic global economy with higher GDP growth rates.

Foreign Direct Investment (FDI)	Increased inflow of foreign capital, technology, and expertise.
Employment Opportunities	Growth of private and service sectors generated new jobs.
Technological Development	Improved productivity and international competitiveness through access to modern technology.

Questions (MCQ Based 1 Marks)

Q. No.	**Question**	Marks
1	**In which year were the New Economic Reforms introduced in India?** A. 1985 B. 1991 C. 2000 D. 2014	1
2	**Which of the following is a feature of Liberalisation?** A. Increase in trade restrictions B. Reduction in government controls and restrictions C. Nationalisation of industries D. Increase in import duties	1
3	**Privatisation refers to:** A. Transfer of ownership from private sector to government B. Expansion of public sector enterprises C. Transfer of ownership from public sector to private sector D. Closing down industries	1
4	**Which international organization was established in 1995 to promote international trade?** A. IMF B. World Bank C. WTO D. UNDP	1
5	**Which of the following is a Maharatna company?** A. HMT B. BHEL C. Air India D. MTNL	1
6	**Assertion (A):** Liberalisation reduced industrial licensing requirements in India. **Reason (R):** The objective was to encourage competition and efficiency. A. Both A and R are true and R is the correct explanation of A. B. Both A and R are true but R is not the correct explanation of A. C. A is true but R is false. D. A is false but R is true.	1
7	**Assertion (A):** Globalisation increases integration among economies of the world. **Reason (R):** It restricts the movement of goods and services across countries. A. Both A and R are true and R is the correct explanation of A. B. Both A and R are true but R is not the correct explanation of A. C. A is true but R is false. D. A is false but R is true.	1
8	**Assertion (A):** WTO promotes free trade among nations. **Reason (R):** WTO discourages tariff and non-tariff barriers. A. Both A and R are true and R is the correct explanation of A. B. Both A and R are true but R is not the correct explanation of A. C. A is true but R is false. D. A is false but R is true.	1

9	**Assertion (A):** Privatisation may improve efficiency of enterprises. **Reason (R):** Private firms generally operate with a profit motive. A. Both A and R are true and R is the correct explanation of A. B. Both A and R are true but R is not the correct explanation of A. C. A is true but R is false. D. A is false but R is true.	1
10	**Assertion (A):** Economic reforms benefited all sections of society equally. **Reason (R):** Income inequalities continued after reforms. A. Both A and R are true and R is the correct explanation of A. B. Both A and R are true but R is not the correct explanation of A. C. A is true but R is false. D. A is false but R is true.	1
11	**A government enterprise sells 60% of its shares to private investors while retaining the remaining shares.** This process is known as: A. Liberalisation B. Globalisation C. Privatisation D. Nationalisation	1
12	**An Indian software company provides online services to clients in the USA, UK and Australia.** This is an example of: A. Liberalisation B. Globalisation C. Privatisation D. Nationalisation	1
13	**A manufacturing company no longer requires government permission to expand its production capacity.** This change reflects: A. Liberalisation B. Globalisation C. Privatisation D. Nationalisation	1
14	**A foreign automobile company establishes a production plant in India.** **This is an example of:** A. Foreign Direct Investment (FDI) B. Fiscal Policy C. Disinvestment D. Subsidy	1
15	**After reforms, several public sector enterprises were granted greater managerial autonomy to improve performance.** These enterprises are called: A. Mini Ratna/Navratna enterprises B. Cooperative societies C. Private companies D. Cottage industries	1
16	**Consider the following statements:** **Statement-1:** Liberalisation involves reducing government restrictions on economic activities. **Statement-2**: Liberalisation increases licensing requirements for industries. Choose the correct option: A. Both statements are true. B. Both statements are false. C. Statement 1 is true and Statement 2 is false. D. Statement 1 is false and Statement 2 is true.	1

17	**Consider the following statements:** **Statement-1**: WTO was established in 1995. **Statement-2:** WTO aims to promote international trade. A. Both statements are true. B. Both statements are false. C. Statement 1 is true and Statement 2 is false. D. Statement 1 is false and Statement 2 is true.	1
18	**Consider the following statements:** **Statement-1:** Globalisation encourages the flow of goods, services and capital across countries. **Statement-2:** Globalisation has contributed to economic growth and complete poverty reduction. A. Both statements are true. B. Both statements are false. C. Statement 1 is true and Statement 2 is false. D. Statement 1 is false and Statement 2 is true.	1
19	 **The image represents movement of goods across countries. This is most closely associated with:** A. Nationalisation B. Globalisation C. Disinvestment D. Fiscal Deficit	1
20	 **The image shows investors purchasing shares of companies. Sale of government ownership in public enterprises through share sale is called:** A. Globalisation B. Liberalization C. Disinvestment D. Subsidizations	1

Marking Scheme (MCQs)

1	Ans: B. 1991
2	Ans: B. Reduction in government controls and restrictions
3	Ans: C. Transfer of ownership from public sector to private sector
4	Ans: C. WTO
5	Ans: B. BHEL
6	Ans: A. Both A and R are true and R is the correct explanation of A.

7	Ans: C. A is true but R is false.	
8	Ans: A. Both A and R are true and R is the correct explanation of A.	
9	Ans: A. Both A and R are true and R is the correct explanation of A.	
10	Ans: D. A is false but R is true.	
11	Ans: C. Privatisation	
12	Ans: B. Globalisation	
13	Ans: A. Liberalisation	
14	Ans: A. Foreign Direct Investment (FDI)	
15	Ans: A. Mini Ratna/Navratna enterprises	
16	Ans: C. Statement 1 is true and Statement 2 is false.	
17	Ans: A. Both statements are true.	
18	Ans: C. Statement 1 is true and Statement 2 is false.	
19	Ans: B. Globalisation	
20	Answer: C. Disinvestment	
	Short Answer Type Questions (3 Marks Each)	
1	**Explain any three features of Liberalisation introduced under the New Economic Policy, 1991.** **Ans**: 1. Abolition of Industrial Licensing: Most industries were freed from obtaining licenses for production. 2. Reduction in Import Restrictions: Quantitative restrictions and tariffs on imports were reduced. 3. Financial Sector Reforms: Banking and financial institutions were given greater operational freedom.	3
2	**Explain the meaning of Privatisation. State any two measures adopted by the Government of India towards privatisation.** **Ans**: Privatisation refers to the transfer of ownership and management of public sector enterprises to the private sector. **Measures:** • Disinvestment of Public Sector Undertakings (PSUs) through the sale of government shares. • Granting autonomy to PSUs through Navratna and Miniratna status.	3
3	**What is Globalisation? Explain any two factors that have enabled globalisation.** **Ans**: Globalisation is the process of integrating the economy of a country with the world economy. **Factors:** 1. Liberalisation of trade and investment policies. 2. Rapid development in information and communication technology.	3
4	**Explain any three objectives of the World Trade Organization (WTO).** **Ans:** 1. To promote free and fair international trade. 2. To reduce trade barriers among member countries.	3

	3. To provide a platform for settling trade disputes.	
5	**An Indian automobile company enters a joint venture with a Japanese company and starts exporting vehicles to different countries.** Identify the economic reform reflected in the above case and explain any two benefits of it. **Ans:** The reform reflected is Globalisation. **Benefits:** 1. Access to advanced technology and managerial practices. 2. Expansion of market opportunities leading to higher exports and employment.	3
6	**A public sector company sells 49% of its shares to private investors while the government retains the remaining ownership.** Identify the policy involved and explain any two advantages of this policy. **Ans:** The policy involved is Privatisation through Disinvestment. **Advantages:** 1. Improves efficiency and productivity due to private participation. 2. Generates revenue for the government.	3
7	**After the 1991 reforms, an entrepreneur was able to establish a manufacturing unit without obtaining multiple government approvals.** Which reform measure is reflected in the above situation? Explain any two benefits of this reform. **Ans:** The reform measure is Liberalisation. Benefits: 1. Encourages private investment and entrepreneurship. 2. Promotes competition and efficiency in production.	3
8	**A small Indian textile firm faces intense competition from imported garments after trade barriers are reduced.** Identify the reform responsible for this situation and explain any two challenges faced by domestic producers due to it. **Ans:** The reform responsible is Globalisation (Trade Liberalisation). **Challenges:** 1. Increased competition from foreign producers. 2. Difficulty for small-scale industries to survive due to superior technology and quality of imported products.	3
	Short Answer type Question (4 Marks Each)	
1	**Explain any four measures of Liberalisation introduced under the New Economic Policy (NEP), 1991.** **Ans**: Liberalisation refers to the removal of unnecessary government controls and restrictions on economic activities. **The major measures were:**	4

	1. Abolition of Industrial Licensing – Most industries were exempted from licensing requirements. 2. Reduction in Import Duties – Tariff rates were lowered to encourage international trade. 3. Financial Sector Reforms – Banks and financial institutions were given greater operational freedom. 4. Foreign Exchange Reforms – The rupee was made partially convertible and restrictions on foreign exchange transactions were reduced.	
2	**Explain any four benefits of Globalisation for the Indian economy.** **Ans**: Globalisation has contributed significantly to India's economic development through: 1. Increase in Foreign Investment – India attracted substantial Foreign Direct Investment (FDI). 2. Access to Modern Technology – Indian firms gained access to advanced technology and management practices. 3. Expansion of Export Markets – Indian producers could sell their products in global markets. 4. Improved Consumer Choice – Consumers gained access to a wider variety of goods and services.	4
3	**The Government of India sold a substantial portion of its shares in a public sector enterprise to private investors. As a result, the enterprise improved its productivity and profitability.** Identify the reform policy involved and explain any three advantages of this policy. **Ans:** The reform policy involved is Privatisation through Disinvestment. Advantages: 1. Improved Efficiency – Private ownership encourages better management and accountability. 2. Reduction in Government Burden – Government resources can be used for social and developmental activities. 3. Generation of Revenue – Sale of shares provides funds to the government.	4
4	**An Indian pharmaceutical company enters foreign markets and collaborates with multinational companies for research and production.** Identify the economic reform reflected in the above situation and explain any three benefits arising from it. **Ans:** The reform reflected is Globalisation. **Benefits:** 1. Access to International Markets – The company can increase exports. 2. Technology Transfer – Collaboration helps acquire advanced technology. **3.** Higher Employment Opportunities – Expansion of business activities generates jobs.	4
5	**Read the following case carefully and answer the questions that follow:** *After the economic reforms of 1991, restrictions on imports and exports were reduced. Foreign*	4

	companies were allowed to invest in India, and Indian firms were encouraged to compete in international markets. As a result, many industries modernised their production processes and improved product quality. **(a) Name the reform policy discussed in the case. (1 Mark)** **(b) Explain any three positive impacts of this policy on the Indian economy. (3 Marks)** **Ans:** (a) The reform policy is Globalisation. (b) Positive impacts: 1. Increase in foreign investment. 2. Access to better technology and managerial practices. 3. Improved quality and competitiveness of Indian products in global markets.	
6	**Read the following case carefully and answer the questions that follow:** *The Government of India introduced economic reforms in 1991 to overcome economic difficulties. Industrial licensing was abolished for most industries, private sector participation was encouraged, and restrictions on business activities were reduced. These measures were aimed at improving efficiency and promoting economic growth.* **(a) Identify the reform policy highlighted in the case. (1 Mark)** **(b) Explain any three objectives of this reform policy. (3 Marks)** **Ans:** (a) The reform policy highlighted is Liberalisation. (b) Objectives: 1. To remove unnecessary government controls on industries. 2. To promote competition and efficiency in production. 3. To encourage private investment and economic growth.	4
	Long Answer Type Questions (6 marks each)	
1	**Read the following passage carefully:** *In 1991, India adopted a series of economic reforms to address the economic crisis and accelerate growth. Industrial licensing was abolished for most industries, restrictions on imports were reduced, foreign investment was encouraged, and the role of the private sector was expanded. These reforms transformed the Indian economy and increased its integration with the global economy.* **(a) Identify any two reforms mentioned in the passage. (2 Marks)** **(b) Explain any four benefits of these economic reforms for the Indian economy. (4 Marks)** **Ans**: (a) Explain any two reforms: 1. Liberalisation 2. Privatisation 3. Globalisation **(b) Benefits of Economic Reforms:** 1. Increase in Foreign Investment (FDI): Foreign companies invested in India, leading to capital formation.	6

	2. Improvement in Efficiency: Competition encouraged firms to improve productivity and reduce costs. 3. Access to Modern Technology: Indian firms gained advanced technologies and managerial skills. 4. Expansion of Export Markets: Indian products gained access to international markets.	
2	**Read the following case:** *A public sector enterprise manufacturing heavy machinery was continuously incurring losses. The government sold a majority stake in the enterprise to a private company. Within a few years, productivity increased, profits improved, and the enterprise expanded its operations.* **(a) Identify the policy adopted by the government. (2 Marks)** **(b) Explain any four advantages of this policy. (4 Marks)** **Ans:** (a) The policy adopted was Privatisation through Disinvestment. **(b) Advantages:** 1. Improves efficiency and productivity. 2. Encourages better management practices. 3. Reduces the financial burden on the government. 4. Generates revenue through the sale of government shares.	6
3	**Discuss the positive and negative impacts of Globalisation on the Indian economy. Give any three points in favour and three points against Globalisation.** **Ans:** ***Positive Impacts:*** 1. Increase in Foreign Investment: Globalisation attracted FDI and promoted industrial growth. 2. Access to Technology: Indian firms adopted advanced technologies and management practices. 3. Expansion of Markets: Indian producers gained access to international markets, boosting exports. ***Negative Impacts:*** 1. Threat to Small-Scale Industries: Small producers faced intense competition from multinational companies. 2. Income Inequalities: Benefits of reforms were not equally distributed among all sections of society. 3. Job Insecurity: Increased competition and restructuring sometimes led to job losses. Conclusion: Globalisation has contributed significantly to India's growth, but its benefits need to be distributed more equitably.	6
4	**Explain the concept of Liberalisation. Analyse any five measures undertaken by the Government of India under Liberalisation and one major objective behind these reforms.** **Ans:** **Meaning of Liberalisation:** Liberalisation refers to the removal or reduction of government controls and restrictions on economic activities to promote efficiency and growth.	6

Measures of Liberalisation:

1. Abolition of Industrial Licensing
   Most industries were freed from licensing requirements.
2. Reduction in Import Duties
   Tariffs on imports were reduced to encourage international trade.
3. Financial Sector Reforms
   Banks and financial institutions were given greater autonomy.
4. Foreign Exchange Reforms
   Restrictions on foreign exchange transactions were eased.
5. Tax Reforms
   Tax rates were rationalised to encourage investment and improve compliance.

Major Objective:

To increase competition, efficiency and economic growth by reducing unnecessary government intervention in economic activities.

HUMAN CAPITAL FORMATION IN INDIA

Importance of Education in the Development of a Country

Education plays a crucial role in the overall development of a nation. Its importance can be understood through the following points:

1. It enhances the earning capacity of individuals.
2. It develops social awareness, confidence, and self-respect.
3. It helps people make informed and better decisions in life.
4. It provides knowledge to understand social and economic changes.
5. It promotes innovation and creativity.
6. It helps people adapt to new technologies and changing work environments.

Human Capital vs Human Capital Formation

Human Capital

When investments are made in people through **education, health, training, and information**, they become more productive and skilled. Such productive individuals are known as **human capital**.

Human Capital Formation

Human capital formation refers to the **process of developing the knowledge, skills, abilities, and health of people**, thereby improving their productivity and contribution to the economy.

Difference between Physical Capital and Human Capital

Physical Capital	Human Capital
(i) It is tangible in nature.	(i) It is intangible in nature.
(ii) It can be separated from its owner.	(ii) It cannot be separated from its owner.
(iii) Its benefits mainly accrue to private individuals.	(iii) It provides both private and social benefits.

Similirities between Human Capital and Physical Capital

1. Both require an initial investment for their creation and development.
2. Both contribute significantly to the economic growth and development of a country.

Sources of Human Capital Formation

1. Investment in Education

Education is considered one of the most important sources of human capital formation because:

- It increases future income and earning potential.
- It improves labour productivity.
- It helps control population growth by increasing awareness and literacy.

2. Expenditure on Health

Health is another important source of human capital formation.

- An unhealthy worker cannot contribute effectively to production.
- A healthy worker ensures higher productivity and a continuous supply of labour in the economy.

Memory Tip:

Healthy Worker = Productive Worker

3. Migration

People often migrate from one place to another in search of better employment opportunities and higher incomes.

- People move from rural areas to urban areas due to limited job opportunities in villages.
- Skilled and professionally qualified individuals may migrate to other countries for better career prospects.

Migration helps improve the earning capacity of individuals and contributes to human capital formation.

4. On-the-Job Training

Many organisations provide training to improve the skills and efficiency of their workers.

This training may be provided through:

(a) In-Firm Training

Workers are trained within the organisation under the supervision of experienced employees.

(b) Off-Campus Training

Workers are sent outside the organisation for specialised training programmes.

Investment in training enhances labour productivity, and the benefits usually exceed the costs involved.

Human Development: A Broader Concept than Human Capital

Human Capital focuses mainly on the productivity and earning capacity of individuals.

Human Development is a broader concept because it includes:

- Quality of life
- Health and well-being
- Education
- Social development
- Standard of living

Comparison

Human Capital	**Human Development**
Focuses mainly on productivity.	Focuses on overall quality of life.
Concerned with economic gains.	Concerned with social and economic well-being.
Emphasises short-term productivity gains.	Emphasises long-term human welfare and development.

Therefore, **Human Development is a broader concept than Human Capital.**

Relationship between Human Capital and Economic Growth

Human Capital and Economic Growth are positively related.

How Human Capital Promotes Economic Growth

1. Educated individuals generally earn more and contribute more to national income.
2. Healthy individuals ensure uninterrupted labour supply and higher productivity.
3. Human capital promotes innovation, research, and scientific advancement.
4. A skilled workforce increases the efficiency and competitiveness of the economy.

Indicators of Educational Achievement

The educational progress of a country can be measured through the following indicators:

1. Adult Literacy Rate
2. Primary Education Completion Rate
3. Youth Literacy Rate

These indicators reflect the overall educational status and quality of human resources in a country.

Growth of Education Sector in India

Government expenditure on education is generally measured in two ways:

(i) As a Percentage of Total Government Expenditure

- Education expenditure increased from **7.92% in 1952** to **16.54% in 2020**.

(ii) As a Percentage of Gross Domestic Product (GDP)

- Education expenditure increased from **0.64% of GDP in 1952** to **4.47% of GDP in 2020**.

Conclusion

The steady increase in educational expenditure reflects the growing importance of education in building human capital and promoting economic development in India.

This version is more suitable for Class XII CBSE students because it is concise, grammatically correct, easier to revise, and more exam-friendly while preserving all the original content.

Very Short Answer Questions (01 Mark each)

S. No	Questions	Marks
1	**Which of the following could aid in human capital formation?** (a) Expanding the labour market by increasing supply of jobs (b) Creating larger industries with more complete equipment (c) Creating open markets with increased stability (d) Promoting gender equality in the family	1
2	**_____________refers to the ability of humans to contribute to the process of value-addition in the economy.** (a)Human capital (b)Human Resource (c)Human capital formation (d)None of these	1
3	The government of India enacted the right to Education Act to make free education a fundamental right of all children in the age group of………………… years.	1
4	**ICMR stand for** (a) International Council of Medical Research (b) Indian Council of Medical Resources	1

	(c) International Council of Medical Resource (d) Indian Council of Medical Research	
5	**The benefit of on-the-job training** (a) Enhance the productivity of labour (b) Keeps the employees updated with the latest changes. (c) Both (a) and (b) (d) Neither (a) nor (b)	1
6	**Which of the following cost is included in migration?** (a) Cost of transportation from one place to another (b) Higher cost of living in migrated place (c) Psychic cost (d) All of these	1
7	**The enrolment ratio of female students in schools is ___and their dropout ratio is___.** a) High, Less b) Less, High c) Less, Less d) None of these	1
8	**In_________ Government of India made education free and compulsory for all children between 6-14years of age group.** (a)1991 (b) 2009 (c) 2014 (d) 2017	1
9	**Which of the following is the problem of human capital formation?** (A) Brain drain (B) Raising population (C) Low academic standards (D) All of these	1
10	**Read the following case carefully and answer the question that follow:** Human capital, intangible collective resources possessed by individuals and groups within a given population. These resources include all the knowledge, talents, skills, abilities, experience, intelligence, training, judgment, and wisdom possessed individually and collectively, the cumulative total of which represents a form of wealth available to nations and organizations to accomplish their goals. The stock of skill and expertise of a nation at a point of time is called ________. (Physical / Human Capital)	1
11	**Identify the correct combination of 'sources of human capital'.** (a) Education, Health, Employment, Migration, Information (b) Migration, Housing, Education, On-the-job training, Information (c) Health, Education, Migration, Information, On-the-job training (d) Education, Health, Housing, Migration, Employment	1
12	**The improvement in skills and knowledge of employees through on-the-job training programs is an example of:** (a) Continuous professional development (b) Inclusive economic growth (c) Fiscal policy reforms (d) Technological unemployment	1
13	**Assertion (A):** Human capital formation is required for effective use of physical capital. **Reason (R):** Formation of human capital raises life expectancy of the people. **Alternatives:** (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of	1

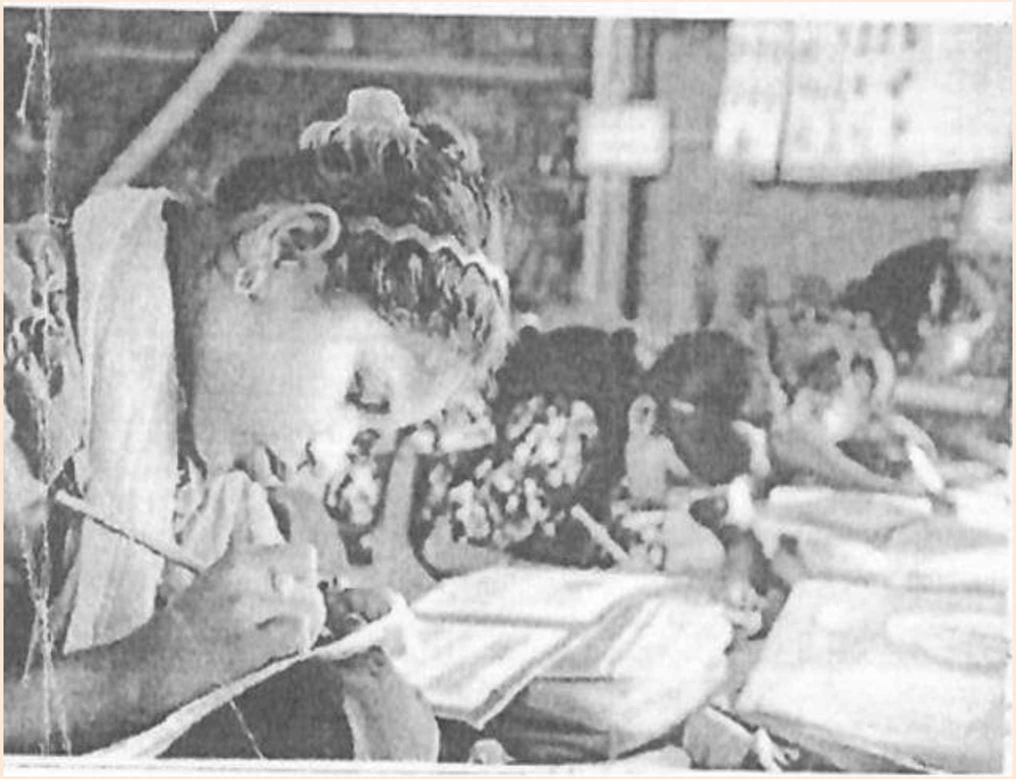
	Assertion (A). (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A). (c) Assertion (A) is true but Reason (R) is false. (d) Assertion (A) is false but Reason (R) is true.	
14	**Assertion (A):** The National Education Policy 2020 states that many unskilled jobs worldwide may be taken over by machines. **Reason (R):** The world is undergoing rapid changes in the knowledge, with various landscapes, dramatic scientific and technological advances, such as the rise of big data, machine learning, and artificial intelligence, Options: 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
15	**Statement 1:** Human capital benefits not only the owner but also society in general **Statement 2:** Human Capital and human development are similar terms. **Alternatives:** (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
16	**Statement 1:** Brain drain refers to the migration of skilled manpower to developed countries of the world. **Statement 2:** 'Loss of skill' causes a dent in the process and pace of growth. In the light of the given sentences, choose the correct alternatives from the following: (a). Statement 1 is true and statement 2 is false (b). Statement 2 is true and statement 1 is false (c). Both statements 1 and 2 are true (d). Both statements 1 and 2 are false	1
17	 The above picture is related with …………(School training / On the job training)	1

18	**Assertion (A):** People spend money to acquire information related to labour and other markets (like education and health). **Reason (R):** Expenditure on information is necessary for efficient utilization of the human capital stock. **Options:** (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
19	__________ five-year plan laid emphasis on human capital development in India.	1
20	**Under human capital formation, expenditure on health includes expenditure for** (a) preventive medicine (b) curative medicine (c) social medicine (d) All of the above	1

Marking Scheme (MCQs)

1	(d) Promoting gender equality in the family
2	(a) Human capital
3	6-14 years
4	(d) Indian Council of Medical Research
5	(c) Both (a) and (b)
6	(d) All of these
7	b) Less, High
8	(b) 2009
9	D) All of these
10	Human Capital
11	(c) Health, Education, Migration, Information, On-the-job training
12	(a) Continuous professional development
13	(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
14	A. Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
15	(c) Statement 1 is true and statement 2 is false
16	(c). Both statements 1 and 2 are true
17	On the job training
18	(A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
19	Seventh Five Year Plan
20	(d) All of the above

	Short Answer Question (03/04 marks)	
21	**An economy that invests heavily in education and health is likely to witness greater innovation, inventions, and technological advancement over time." Do you agree with the given statement? Support your answer with valid arguments.** **Ans:** Yes, the given statement is correct. • Investment in human capital formation (through education and health) enhances the efficiency, productivity, skills, and capabilities of the workforce, thereby promoting economic growth. • Technical skills acquired through education, training, and good health enable individuals to make better use of available resources. • Investment in education increases the ability to adopt new technologies and encourages innovation and inventions, as an educated workforce is generally more adaptable to technological changes.	3
22	**Despite the growing role of private institutions, government regulatory bodies continue to play an important role in the education and health sectors. Identify any two government organisations each that regulate the health and education sectors.** **Ans:** **Government organisations regulating the Health Sector:** 1. Ministries of Health at the Union and State levels 2. Indian Council of Medical Research (ICMR) **Government organisations regulating the Education Sector:** 1. Ministries of Education at the Union and State levels 2. National Council of Educational Research and Training (NCERT) **OR** 3. All India Council for Technical Education (AICTE)	3
23	**A survey reveals that regions with higher female literacy rates generally experience better health outcomes and lower population growth. In this context, discuss the need for promoting women's education in India.** **Ans:** Women's education in India is important due to the following reasons: 1. It improves the economic independence and social status of women. 2. It has a favourable impact on fertility rates and promotes better healthcare for women and children. 3. Educated women contribute more effectively to family welfare and national development.	3
24	**"Human capital formation improves productivity, whereas human development focuses on overall well-being." In the light of this statement, explain how human development is a broader concept than human capital.** **Ans:** Human capital focuses mainly on one aspect, i.e., the productivity of labour. • Human development considers several other aspects such as quality of life, health, education, and social well-being. • Human capital mainly emphasizes economic productivity and short-term gains. • Human development focuses on the overall welfare of individuals and society and aims at long-term development.	3

<table>
<tr><td></td><td>Therefore, human development is a broader concept than human capital.</td><td></td></tr>
<tr><td>25</td><td>"Market forces alone cannot ensure equitable access to quality education and healthcare." In the light of this statement, argue in favour of the need for government intervention in the education and health sectors.
Ans: There is a need for government intervention in education and health sectors due to the following reasons:
1. The private sector is guided by the profit motive and may not provide affordable education and healthcare to all sections of society.
2. Government intervention helps maintain standards and quality in education and healthcare services.
3. Education and health are essential for the upliftment of weaker and backward sections of society.
4. Regional disparities in access to schools and hospitals can be reduced through government policies and infrastructure development.
5. Private institutions may not establish facilities in remote and economically backward areas; therefore, government support becomes necessary.</td><td>4</td></tr>
<tr><td>26</td><td>On the basis of the given image, identify the source of human capital formation depicted and explain how it contributes to economic growth in India.

Ans: The image reflects Investment in Education, which is an important source of human capital formation.
Investment in Education contributes to economic growth because:
1. It increases the future earning capacity of individuals.
2. It enhances labour productivity and efficiency.
3. It helps in controlling population growth through greater awareness and literacy.
4. It promotes innovation and adoption of modern technology, leading to higher economic growth.</td><td>4</td></tr>
<tr><td>27</td><td>(a). Despite the expansion of educational institutions and healthcare facilities, India</td><td>6</td></tr>
</table>

	still faces challenges in developing quality human capital. Identify and explain any three major problems responsible for this situation. (3 Marks) **Ans:** The following are three major problems of human capital formation in India: **(i) Rising Population** • Rapid population growth reduces the per capita availability of education, healthcare, housing, sanitation, and employment opportunities. **(ii) Brain Drain** • Migration of highly skilled and educated individuals to foreign countries leads to a loss of valuable human resources for the domestic economy. **(iii) High Poverty Levels** • A large section of the population cannot afford quality education and healthcare, limiting the development of human capital. **(b). A policy report states that "India's investment in human capital often does not yield optimum results due to structural and planning-related challenges." In the light of this statement, explain any three such challenges. (3 Marks)** **Ans:** The following challenges hinder human capital formation in India: **(i) Inefficient Manpower Planning** • There is often a mismatch between the demand and supply of skilled labour, leading to wastage and underutilisation of human resources. **(ii) Long-Term Nature of Human Capital Formation** • Education, training, and skill development require considerable time, making human capital formation a slow process. **(iii) Brain Drain** • Skilled professionals migrating abroad reduce the availability of quality human resources within the country.	
28	**(a). A student wants to pursue higher education in India, while another seeks admission to a technical institution. Name and explain the role of any three government organisations that help regulate and improve the education sector in India.** **(3 Marks)** **Ans:** **(i) National Council of Educational Research and Training (NCERT)** • Develops curriculum, textbooks, and educational materials up to the Senior Secondary level. **(ii) University Grants Commission (UGC)** • Regulates higher education institutions, provides grants, and formulates policies for universities. **(iii) All India Council for Technical Education (AICTE)** • Regulates and promotes technical and professional education in India. **(b). "Efficient healthcare services require proper regulation, research, and policy support." In the context of this statement, explain the role of government organisations in facilitating the functioning of the health sector in India.**	6

(3 Marks)

Ans:

Government organisations support the health sector in the following ways:

(i) Ministry of Health and Family Welfare

- Formulates and implements health policies and programmes at the national level.

(ii) Indian Council of Medical Research (ICMR)

- Promotes medical research and helps formulate standards and policies related to healthcare and medical education.

(iii) State Health Departments

- Implement healthcare schemes, manage public hospitals, and ensure the delivery of healthcare services at the state level.

RURAL DEVELOPMENT

Rural Development refers to improving the quality of life of people living in villages. It aims to reduce poverty, create employment opportunities, improve education and healthcare, develop infrastructure, and increase rural incomes. Since nearly two-thirds of India's population lives in rural areas, rural development is essential for the country's overall progress.

Meaning and Key Issues of Rural Development

Rural development refers to the overall socio-economic development of rural areas that lag behind urban areas. It includes:

Key Areas of Rural Development

- Development of human resources through **education, skill development, healthcare, and sanitation**.
- Implementation of **land reforms** and efficient use of productive resources.
- Development of infrastructure such as **roads, electricity, irrigation, transport, communication, banking, and marketing facilities**.
- Poverty alleviation and creation of productive employment opportunities.
- Improvement in the living standards of weaker and disadvantaged sections of society.

Rural Credit and NABARD

Agriculture requires continuous investment in seeds, fertilizers, machinery, irrigation facilities, and other inputs. Since most farmers have limited savings, they depend on credit.

Sources of Rural Credit

Institutional Sources	Non-Institutional Sources
Commercial Banks	Moneylenders
Regional Rural Banks (RRBs)	Traders
Cooperative Banks	Commission Agents
Land Development Banks	Relatives and Friends
NABARD	-

NABARD

National Bank for Agriculture and Rural Development (NABARD) was established in **1982**.

Functions of NABARD

- Acts as the apex institution for rural credit.
- Coordinates rural financing activities.
- Promotes agriculture and rural development.
- Provides financial assistance to rural financial institutions.

Self-Help Groups (SHGs) and Micro-Credit

Self-Help Groups (SHGs) have emerged as an effective source of credit for rural households.

Members regularly contribute small savings, which are pooled together and used to provide loans at reasonable interest rates.

Importance of SHGs

- Promote saving habits among members.
- Provide collateral-free loans.
- Encourage self-employment and income generation.
- Empower women socially and economically.

Memory Trick:

SHGs = Save Together, Grow Together

Agricultural Marketing

Agricultural marketing includes all activities involved in moving agricultural products from farms to consumers.

Activities Included

- Assembling
- Storage
- Transportation
- Processing
- Grading
- Packaging
- Distribution

Government Measures to Improve Agricultural Marketing

1. Regulation of markets to ensure fair and transparent transactions.
2. Development of infrastructure such as roads, warehouses, cold storages, and processing units.
3. Promotion of cooperative marketing societies.
4. Policy support through:
    - Minimum Support Price (MSP)
    - Buffer Stock Operations
    - Public Distribution System (PDS)

Alternative Marketing Channels

To reduce the role of middlemen and increase farmers' income:

State	Alternative Marketing Channel
Punjab, Haryana & Rajasthan	Apni Mandi
Andhra Pradesh & Telangana	Rythu Bazar
Tamil Nadu	Uzhavar Sandhai
Maharashtra	Hadapsar Mandi

Diversification of Productive Activities

Diversification means reducing dependence on crop farming by adopting allied and non-farm activities.

Allied Activities

- Animal Husbandry
- Dairy Farming
- Poultry Farming
- Fisheries
- Horticulture

Importance of Diversification

- Reduces risk of crop failure.
- Generates additional income.
- Creates employment opportunities.
- Promotes sustainable livelihoods.
- Reduces disguised unemployment in agriculture.

Sustainable Development and Organic Farming

Sustainable Development

Sustainable development means meeting present needs without compromising the ability of future generations to meet their own needs.

Organic Farming

Organic farming is an environmentally friendly method of cultivation that avoids chemical fertilizers and pesticides. It relies on:

- Organic manure
- Compost
- Bio-fertilizers
- Natural pest control methods

Benefits of Organic Farming

- Maintains ecological balance.
- Improves soil fertility and soil health.
- Produces healthy and chemical-free food.
- Reduces dependence on costly chemical inputs.
- Generates export earnings due to increasing global demand.
- Promotes sustainable agriculture.

Limitations of Organic Farming

- Lower yields during the initial years.
- Higher labour requirements.
- Inadequate marketing and certification facilities.
- Lack of awareness among farmers.

Quick Comparison: Organic Farming vs Conventional Farming

Organic Farming	**Conventional Farming**
Uses natural inputs	Uses chemical fertilizers and pesticides
Eco-friendly	May harm the environment
Improves soil health	Can reduce soil fertility over time
Lower initial yield	Higher short-term yield

Conclusion

Rural development is essential for India's economic and social progress. Strengthening rural infrastructure, expanding institutional credit, improving agricultural marketing, promoting diversification, and encouraging organic farming can significantly improve rural livelihoods. A vibrant rural economy is the foundation of a strong and prosperous nation.

Very Short Answer (VSA) Questions (1 Mark)

Q.No.	Questions	Marks
1	**Emerging Challenges of Rural Development include:** A. Diversification of production activities B. Organic farming C. Both (A) and (B) D. None of these	1
2	**Which of the following is NOT an alternative agricultural marketing channel?** A. Rythu Bazars B. Apni Mandi C. Uzhavar Sandhai D. Minimum Support Price	1
3	**Micro-credit programmes are primarily associated with:** A. Commercial Banks B. Regional Rural Banks C. Self-Help Groups (SHGs) D. NABARD	1
4	**Which of the following statements is CORRECT regarding organic farming?** (i) It uses HYV seeds and chemical fertilisers. (ii) It restores, maintains, and enhances ecological balance. (iii) Organic produce always has a longer shelf life than conventional produce. (iv) Yields from organic farming are higher than modern agriculture from the start. A. Only (i) B. Only (ii) C. (ii) and (iii) D. (i) and (iv)	1
5	**Identify the INCORRECT statement:** (i) SHGs promote thrift through minimum contributions from each member. (ii) Formal credit systems always exclude the rural poor due to collateral requirements. (iii) Inland fisheries contribute about 65% of total fish production value in India. (iv) India is the largest producer of fruits and vegetables in the world. A. (i) only B. (ii) and (iv) C. (iv) only D. (ii) only	1
6	**Consider the statements regarding SHGs:** **Statement 1:** By May 2019, nearly 6 crore women in 54 lakh women SHGs were members. **Statement 2:** SHG borrowings are mainly used for productive agricultural investment. A. Both statements are true B. Statement 1 is true, Statement 2 is false C. Statement 1 is false, Statement 2 is true D. Both statements are false	1
7	**Match the following:** (see table below) **Ans:** (A) A – (iii) B – (iv) C – (i) D – (ii) (B) A – (ii) B – (iv) C – (iii) D – (ii) (C) A – (iii) B – (i) C – (ii) D – (iv) (D) A – (iv) B – (iii) C – (i) D – (ii)	1
	Assertion (A): Self-Help Groups have emerged to fill the gap in the formal credit delivery system in rural India. **Reason (R): Formal credit delivery mechanisms require some kind of collateral,**	

Column I	**Column II**
A. Animal Husbandry	(i) Organic Farming
B. Food Processing	(ii) IT Sector
C. Use of Animal Manure	(iii) Diversification of Agriculture
D. Dissemination of Information	(iv) Dynamic Sector

8	**which a large proportion of poor rural households lack.** A. Both A and R are true, and R is the correct explanation of A. B. Both A and R are true, but R is not the correct explanation of A. C. A is true, but R is false. D. A is false, but R is true.	1
9	**Assertion (A): India is the second-largest producer of fruits and vegetables globally.** **Reason (R): The horticulture sector contributes nearly one-third of the value of agricultural output and about 6% of India's GDP.** A. Both A and R are true, and R explains A. B. Both A and R are true, but R does not explain A. C. A is true, but R is false. D. A is false, but R is true.	1
10	**Assertion (A): Organic farming yields are lower than conventional farming during the initial years.** **Reason (R): Organic farming requires more labour input than conventional farming.** A. Both A and R are true, and R correctly explains A. B. Both A and R are true, but R does not explain A. C. A is true, but R is false. D. A is false, but R is true.	1
11	**Identify the Correct Option:** **Consider the following statements:** I. NABARD was established in 1969 to coordinate rural credit institutions. II. More than 10% of goods produced on farms are wasted due to lack of storage facilities. III. Fisheries production accounts for about 0.9% of India's GDP. IV. Operation Flood is related to flood control in rural areas. **A.** Statements **I** and **II** are correct. **B.** Statements **II** and **III** are correct. **C.** Statements **III** and **IV** are correct. **D.** Statements **I** and **IV** are correct.	1
12	**In a village of Odisha, most farmers depend only on paddy cultivation. Due to irregular rainfall, their incomes have become unstable. The local administration encourages farmers to take up dairy farming, fisheries, and beekeeping along with crop cultivation.** What is the primary objective of this initiative? A. To increase dependence on agriculture B. To promote agricultural diversification and sustainable livelihoods C. To reduce rural employment opportunities D. To replace agriculture completely	1
13	**Ravi is a farmer who grows tomatoes. After harvesting, he stores them in a warehouse, gets them graded according to quality, transports them to a nearby city market, and sells them to consumers through a retail chain.** Which of the following best describes the process Ravi is involved in? A. Agricultural Diversification B. Agricultural Marketing C. Organic Farming D. Rural Credit	1
	A farmer in Sikkim stopped using chemical fertilizers and pesticides. Instead, he	

14	**started using compost, bio-fertilizers, and natural pest-control methods. Over time, soil fertility improved, water pollution reduced, and farming became environmentally sustainable.** Which concept is best reflected in the above case? A. Green Revolution B. Sustainable Agriculture C. Agricultural Marketing D. Commercial Farming	1
15	**Ramesh, a small farmer, borrows money from a moneylender at 36% annual interest because he needs funds urgently.** Which reason best explains his choice? A. Institutional loans are interest-free. B. Moneylenders provide quick and hassle-free loans. C. Banks do not lend to farmers. D. Moneylenders are regulated by RBI.	1
16	**A village cooperative society purchases fertilizers in bulk and distributes them among members at reasonable prices.** Which function of cooperatives is highlighted here? A. Export Promotion B. Collective Welfare of Members C. Tax Collection D. Foreign Exchange Management	1
17	**A farmer starts fish farming along with paddy cultivation.** This is an example of: A. Commercialisation B. Agricultural Diversification C. Monocropping D. Mechanisation	1
18	**A group of women in a village save ₹100 every month and provide loans to members from their pooled savings.** This group is known as: A. Cooperative Marketing Society B. Self-Help Group (SHG) C. Panchayat D. Moneylender	1
19	**Farmers in a village complain that they are forced to sell crops immediately after harvest at low prices.** Which facility would help them the most? A. Warehousing B. Advertising C. Insurance D. Subsidy	1
20	**A village in Tripura has poor road connectivity, limited banking facilities, and inadequate healthcare services. Most villagers depend only on agriculture and face low productivity and income. The government plans to improve roads, open bank branches, strengthen schools, and establish health centres in the village.** Which objective of rural development is best reflected in this situation? A. Increasing agricultural exports only B. Improving overall quality of life and economic opportunities in rural areas C. Promoting urbanisation in villages D. Reducing the role of infrastructure in development	1

Marking Scheme (MCQs)

1	(C) Both (A) and (B)
2	(D) Minimum Support Price
3	(C) Self-Help Groups (SHGs)
4	(B) Only (ii)
5	(B) (ii) and (iv)
6	(B) Statement 1 is true, Statement 2 is false

7	(A) A – (iii) B – (iv) C – (i) D – (ii)	
8	(A) Both A and R are true, and R is the correct explanation of A.	
9	(B) Both A and R are true, but R does not explain A.	
10	(B) Both A and R are true, but R does not explain A.	
11	(B) Statements II and III are correct. Explanation: - NABARD was established on July 12, 1982	
12	(B) To promote agricultural diversification and sustainable livelihoods	
13	(B) Agricultural Marketing	
14	(B) Sustainable Agriculture	
15	(B) Moneylenders provide quick and hassle-free loans.	
16	(B) Collective Welfare of Members	
17	(B) Agricultural Diversification	
18	(B) Self-Help Group (SHG)	
19	(A) Warehousing	
20	(B) Improving overall quality of life and economic opportunities in rural areas	
Short Answer (SA) Questions (3 Marks)		
1	A poor farmer in Rajasthan has no collateral but needs ₹8,000 urgently for purchasing seeds before the sowing season. The local bank refuses to provide a loan due to lack of security. However, a Self-Help Group (SHG) in the village agrees to assist him. (i) Explain how the SHG can help the farmer in this situation. (ii) Highlight any two ways in which SHGs contribute to rural development. **Answer:** A Self-Help Group (SHG) can provide the farmer with a small loan from the pooled savings of its members without demanding collateral (security). The loan is usually offered at a reasonable interest rate and can be repaid in easy instalments. Contribution of SHGs to Rural Development: • They provide credit facilities to poor people who cannot easily access formal banking services. • They encourage savings habits and promote self-employment and income-generating activities.	3
2	Raju, a small farmer in Maharashtra, borrowed a loan from a cooperative bank to cultivate cotton. Unfortunately, due to pest attacks and low market prices, he suffered heavy losses and was unable to repay the loan on time. Similar cases are being reported from many rural areas. (i) Identify any two reasons why farmers fail to repay agricultural loans. (ii) Suggest one measure that can help reduce agricultural loan defaults. Answer: (i) Reasons for loan default: • Crop failure due to pests, droughts, floods, or other natural calamities. • Low and uncertain income because of fluctuating agricultural prices. (ii) Measure: • Provide crop insurance coverage and strengthen access to institutional credit facilities.	2+1
	During an educational visit to a regulated market yard, students observed that although farmers brought their produce directly to the market, a large share of the consumer's	

3	payment still went to intermediaries rather than farmers. As an agricultural policy analyst, identify the issue and suggest suitable measures to improve farmers' income. Answer: Problem Identified: The continued dominance of middlemen reduces the share of farmers in the final consumer price. Measures: • Promote direct marketing channels such as Apni Mandi and Rythu Bazars. • Strengthen cooperative marketing societies. • Expand digital platforms and e-NAM to facilitate direct farmer-consumer transactions.	3
4	Read the following passage carefully: *"Kudumbashree" in Kerala started as a thrift and credit society in 1995 for poor women. It mobilised ₹1 crore as savings and has been acclaimed as the largest informal bank in Asia. Today, it runs income-generating activities ranging from mushroom cultivation to doll making.* (i) What type of institution is Kudumbashree? (ii) How does it contribute to women's empowerment? (iii) Name one similar initiative from Tamil Nadu. Ans: (i) Kudumbashree is a Self-Help Group (SHG) and a thrift-and-credit society for women. (ii) It provides savings facilities, access to credit, and employment opportunities, thereby improving women's economic independence and decision-making power. (iii) Mahalir Thittam	1+1+1
5	A village has experienced repeated crop failures due to irregular monsoons. To improve rural livelihoods, the Gram Panchayat proposes encouraging dairy farming, fisheries, and horticulture along with traditional crop cultivation. Evaluate whether this strategy is appropriate. Give any three reasons in support of your answer. Ans: Yes, the strategy is appropriate because: • Diversification reduces dependence on crop farming and minimizes agricultural risk. • Dairy farming, fisheries, and horticulture provide additional and stable sources of income. • These activities create year-round employment opportunities and promote sustainable livelihoods.	3
6	While comparing products in a local supermarket, a student finds that organic tomatoes are priced at ₹80 per kg, whereas conventionally grown tomatoes cost ₹40 per kg. Similarly, organic rice costs ₹120 per kg compared to ₹55 per kg for conventional rice. Based on this observation, analyse any three economic implications of adopting organic farming for Indian farmers. Ans: • Organic products generally fetch premium prices, increasing farmers' income.	3

	• Organic farming reduces dependence on expensive chemical fertilizers and pesticides. • Although farmers may benefit from export opportunities, lower initial yields and marketing challenges may discourage small farmers.	
7	 Observe the picture carefully and answer the following questions: (i) Identify the aspect of rural diversification represented in the picture. (ii) Explain any two ways in which such activities contribute to rural income generation. Ans: (i) The activity falls under non-farm productive activities (food processing). (ii) Contribution to rural income: • It generates additional employment opportunities in rural areas. • It adds value to agricultural products, thereby increasing farmers' earnings.	1+2
8	A group of farmers in a district decide to market their produce collectively through a cooperative society instead of selling individually to private traders. After a year, they report receiving better prices and reduced marketing costs. Using this example, justify the statement: "Cooperative marketing is an effective measure to ensure fair prices to farmers." Ans: Cooperative marketing helps farmers obtain fair prices because: • Farmers gain stronger bargaining power through collective selling. • It reduces the role of intermediaries, allowing farmers to retain a larger share of the consumer's price. • It lowers marketing and transportation costs through collective efforts, thereby increasing farmers' net income.	3
Short Answer (SA) Questions (4 Marks)		
1	A farmer plans to shift from chemical farming to organic farming. However, some villagers oppose the decision, arguing that yields may initially decline. Questions: 1. Why may yields decline in the initial years of organic farming? 2. Explain any three long-term benefits of organic farming. Ans: Yields may decline initially because the soil takes time to regain its natural fertility after the discontinuation of chemical fertilizers and pesticides. Long-term benefits of Organic Farming: • Improves soil fertility and soil health over time. • Produces healthy and chemical-free food. • Helps maintain ecological balance and protects the environment.	4

<table>
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<td>2</td>
<td>Ramesh, a farmer who depended solely on paddy cultivation, experienced unstable income due to irregular rainfall. To reduce risk, he started dairy farming alongside crop cultivation. His family now enjoys a more stable source of income throughout the year.
In the context of the above case, explain why agricultural diversification is considered essential for sustainable rural livelihoods.
Ans:
Agricultural diversification is essential because:
It provides additional sources of income.
It reduces the risk arising from crop failure.
It creates more employment opportunities throughout the year.
It improves the living standards of rural families.
In the given case, Ramesh supplemented paddy cultivation with dairy farming, which helped him earn a more regular income and reduced his dependence on a single crop.</td>
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<td>A group of farmers in a village complained that they were not receiving fair prices for their produce. They also faced problems such as inadequate storage facilities, exploitation by middlemen, and poor transport connectivity. To address these issues, the government introduced several reforms.
Examine any four measures taken by the government to improve agricultural marketing in India.
Ans:
The government has adopted the following measures:
Regulated Markets: Ensure fair and transparent transactions and protect farmers from exploitation.
Storage Facilities: Development of warehouses and cold storages helps farmers store produce safely.
Cooperative Marketing Societies: Enable farmers to sell produce collectively and obtain better prices.
Minimum Support Price (MSP): Provides farmers with an assured minimum price for selected crops.</td>
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<td>4</td>
<td>A village in Assam had a high school dropout rate and poor healthcare facilities. Frequent illnesses reduced productivity and income levels. The government established a school, launched skill development programmes, and opened a health centre. Over time, literacy improved, health conditions became better, and incomes increased.
Analyse the role of education and healthcare in promoting rural development.
Ans:
Role of Education:
Education enhances knowledge and skills among rural people.
It improves employment opportunities and earning capacity.
Role of Healthcare:
Healthcare helps maintain good health and reduces diseases.
Healthy individuals can work more efficiently and productively, leading to higher incomes.
Thus, both education and healthcare are important components of human capital formation and rural development.</td>
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<td>A village suffers from poor road connectivity, inadequate healthcare facilities, low literacy</td>
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<table>
<tr><td>5</td><td>levels, and limited access to institutional credit. Most people depend on agriculture, yet productivity remains low.
Based on the above situation:
1. What is meant by rural development?
2. Identify any three key issues of rural development reflected in the case.
Ans:
(i) Meaning of Rural Development:
Rural development refers to the process of improving the quality of life and economic well-being of people living in rural areas.
(ii) Key Issues of Rural Development (Any Three):
• Poor road and transport infrastructure
• Inadequate healthcare facilities
• Low literacy and educational attainment
• Limited access to institutional credit</td><td>1+3</td></tr>
<tr><td>6</td><td>You are the Agriculture Officer of a district in Mizoram. The district possesses abundant forest resources, river fisheries, and favourable conditions for horticulture. However, most farmers continue to depend only on jhum (shifting) cultivation.
Suggest a diversification strategy by recommending any four livelihood options suitable for the district and justify your suggestions.
Ans:
A suitable diversification plan may include:
• Horticulture: Cultivation of oranges, pineapples, bananas, and spices, which thrive in hilly regions.
• Fish Farming: Utilisation of rivers and ponds for aquaculture and fisheries.
• Bee-Keeping: Forest resources provide abundant flowers, making honey production a viable option.
• Bamboo and Forest-Based Activities: Production of bamboo handicrafts and value-added forest products.
These activities will:
• Generate additional income,
• Create employment opportunities, and
• Reduce dependence on jhum cultivation.</td><td>4</td></tr>
<tr><td>7</td><td>
Observe the picture carefully and answer the following questions.
1. Identify the institution shown in the picture.
2. What type of credit is generally provided through such groups?
3. Explain any two roles played by such institutions in rural development.
Ans:</td><td>1+1+2</td></tr>
</table>

	(i) The institution shown is a Self-Help Group (SHG). (ii) Such groups generally provide microcredit (small loans) to their members. (iii) Roles of SHGs in Rural Development (Any Two): • Easy Access to Credit: SHGs provide loans to rural households, especially women, without requiring heavy collateral. • Promotion of Income-Generating Activities: They encourage members to start small businesses, dairy farming, handicrafts, and other self-employment ventures, thereby increasing income and employment opportunities. 1. Identify the institution shown in the picture 2. What type of credit is generally provided through such groups. 3. Explain any two roles played by SHGs in rural development.	
	Long Answer (LA) Questions (6 marks)	
1	A rural district depends mainly on crop farming. Due to frequent droughts, low farm income, and seasonal unemployment, many farmers face financial difficulties. The district administration plans to promote animal husbandry, fisheries, horticulture, and Information Technology (IT)-based services as alternative livelihood options. Analyse how agricultural diversification through these activities can help create sustainable rural livelihoods. Support your answer with suitable examples from animal husbandry, fisheries, horticulture, and IT. Ans. Agricultural diversification means adopting different productive activities along with crop farming to reduce dependence on a single source of income. How diversification promotes sustainable rural livelihoods: 1. Animal Husbandry: Rearing cattle, goats, poultry, etc. provides regular income through the sale of milk, eggs, and meat. 2. Fisheries: Fish farming creates employment opportunities and generates additional income for rural households. 3. Horticulture: Cultivation of fruits, vegetables, flowers, and spices offers higher returns compared to many traditional crops. 4. Information Technology (IT): IT-based services such as data entry, digital service centres, and online services create non-farm employment opportunities. Farmers can also access weather forecasts and market information through digital platforms. Conclusion: Thus, agricultural diversification increases income, reduces risks associated with crop failure, creates employment opportunities, and improves the standard of living in rural areas.	6
2	A group of progressive farmers in a village proposes a shift towards chemical-free cultivation. However, some farmers are concerned about lower yields and higher labour requirements. What is organic farming? Critically evaluate its benefits and limitations for Indian agriculture. Do you think India has a competitive advantage in organic farming? Justify your answer. Ans. Organic farming is a method of cultivation that avoids the use of chemical fertilisers and pesticides and relies on organic manure, compost, bio-fertilisers, and natural pest-control methods.	1+3+2

	Benefits of Organic Farming: 1. Environment-friendly: Maintains ecological balance and improves soil fertility. 2. Healthy food: Produces chemical-free and nutritious food products. 3. Lower dependence on chemicals: Reduces expenditure on expensive chemical inputs. Limitations of Organic Farming: 1. Lower yields initially: Production may decline during the transition period. 2. Labour-intensive: Requires greater labour input and careful management. 3. Marketing challenges: Inadequate certification and marketing facilities may limit profitability. Yes, India has a competitive advantage in organic farming because: 1. India has a large number of small and marginal farmers who traditionally use fewer chemical inputs. 2. Diverse agro-climatic conditions support the cultivation of a wide variety of organic crops.	
3	Despite the expansion of rural banking institutions, many small and marginal farmers still depend on informal sources of credit. Critically evaluate the role of the rural banking system in India's rural development process. Suggest suitable reforms to make it more effective and inclusive. Ans. The rural banking system includes Commercial Banks, Regional Rural Banks (RRBs), Cooperative Banks, and Self-Help Groups (SHGs) that provide financial services to rural people. Role of Rural Banking in Rural Development: 1. Provides credit to farmers for seeds, fertilisers, irrigation, and farm equipment. 2. Promotes rural entrepreneurship and small business activities. 3. Encourages saving habits and financial inclusion. 4. Supports agricultural and rural development activities. Limitations: 1. Many poor farmers still have limited access to institutional credit. 2. Loan procedures are often complex and time-consuming. 3. Dependence on moneylenders continues in several rural areas. Reforms Needed: 1. Expand banking and digital banking facilities in rural areas. 2. Simplify and speed up loan approval procedures. 3. Provide financial literacy programmes. 4. Increase institutional credit support for small and marginal farmers. Conclusion: A stronger and more inclusive rural banking system can significantly accelerate rural development, employment generation, and poverty reduction.	6
4	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+2+2

	(b) Why is road connectivity important for rural businesses? (c) Name one government scheme that focuses on rural electrification and explain its benefit. Ans. (a) • Roads, electricity, transport, and communication facilities improve the efficiency of economic activities. • They increase production, employment opportunities, and income levels in rural areas. Ans. (b) • Good roads help transport goods to markets quickly and at lower cost. • They improve market access and enable farmers and entrepreneurs to earn higher incomes. Ans. (c) Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) Benefit: • Provides electricity to rural households and businesses. • Enables the use of machines, irrigation pumps, and modern technology, thereby improving productivity and income.	
5	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 the Kisan Credit Card (KCC) scheme and obtains 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? (b) What is the disadvantage of borrowing from local moneylenders? (c) How do government schemes like Kisan Credit Card (KCC) help farmers? Ans. (a) • Credit helps farmers purchase seeds, fertilisers, machinery, and other inputs. • It enables them to increase agricultural productivity and income. Ans. (b) • Moneylenders generally charge very high rates of interest. • Farmers may fall into a debt trap and face repayment difficulties. Ans. (c) • KCC provides timely and affordable institutional credit. • Farmers receive loans at lower interest rates and with easier repayment facilities	2+2+2
6	Sita is a member of a Self-Help Group (SHG) in her village. Through the SHG, she received a small loan (microcredit) and started a poultry farming business. Within a year, her income increased, and she was able to support her children's education. Seeing her success, many other women in the village also joined SHGs and started small businesses. Based on the above case, explain the role of microcredit in rural development. How does it help improve the economic and social condition of rural people? Ans. Microcredit refers to the provision of small loans to poor people who have limited access to formal banking institutions. Role of Microcredit in Rural Development: 1. Helps rural people start small businesses such as poultry farming, dairy farming, handicrafts, and petty trade.	6

2. Promotes self-employment and reduces unemployment.
3. Increases the income and living standards of rural families.
4. Reduces dependence on moneylenders charging high interest rates.
5. Encourages savings habits and financial inclusion.
6. Empowers women by enabling them to become financially independent and participate in decision-making.

Conclusion:

Thus, microcredit plays an important role in poverty reduction, women empowerment, income generation, and sustainable rural development

EMPLOYMENT, GROWTH, INFORMALISATION AND OTHER ISSUES.

GIST OF THE CHAPTER:

1. **Work and Workers:**

- Work includes all economic activities that contribute to national income.
- A worker is anyone engaged in productive economic activities, whether self-employed or employed by others.
- In 2017–18, India had about 471 million workers, with most living in rural areas. rural workers form 2/3rd of this. Men form 77% of workforce, women only 23%.

2. **Worker-Population Ratio (WPR):**

Measures the proportion of workers in the total population.

Formula: WPR = $\frac{Total\ worker}{Total\ population}$x 100

India's WPR (2017–18): 34.7%. Men's participation is much higher than women's. Women's low participation is due to unpaid household work not being counted, social restrictions, and underestimation.

3. **Types of Employment**:

Self-employed (52%) – work in their own business or farm. Casual wage labourers (25%) – hired temporarily, no job security. Regular salaried employees (23%) – receive regular wages/salary.

4. **Employment by Sectors:**

Primary Sector (Agriculture & Mining): 44.6% Secondary Sector (Manufacturing, Construction, Electricity): 24.4% Tertiary Sector (Services): 31.0%. Employment is gradually shifting from agriculture to industry and services.

5. **Changing Employment Pattern:**

GDP has grown faster than employment, leading to Jobless Growth. Share of agriculture in employment has declined over time. **Increase in casual jobs is called Casualisation of Workforce.**

6. **Formal and Informal Sectors:**

Formal Sector: Job security, social security, labour law protection. Informal Sector: No job security or social benefits. About 94% of Indian workers are in the informal sector.

7. **Unemployment:**

Open Unemployment: No job despite actively seeking work. Disguised Unemployment: More workers employed than required (common in agriculture). Seasonal Unemployment: Work available only during certain seasons.

8. **Government and Employment Generation**

Government creates jobs directly and indirectly. MGNREGA guarantees 100 days of wage employment to rural households. Employment programmes also support health, education, roads, housing, sanitation, and rural development.

MULTIPLE CHOICE QUESTIONS (1X20)

Q. No.	QUESTIONS	Marks
1	Less employment of females in comparison to males is an indication of: a) Economic backwardness b) Social backwardness c) both a) and b) d) None of these	1
2	Read the following statement and choose the correct alternative Statement 1- Technology used in the informal sector is up to date. Statement 2- Informal sector maintain proper account and record a) Both are wrong b) Both are correct c) Only 1 is correct d) Statement 1 is wrong and Statement 2 is correct	1
3	Read the statement given below and choose the correct alternative Statement 1– Unemployment only includes involuntary unemployment Statement 2– Students remain voluntarily unemployed a) Both are correct b) Statement 1 is correct c) Only 2 is correct d) None of the above	1
4	"Men particularly rural men, form the major section of the workforce in India. As compared to females (16.5%) more males (52.1%) are found to be working". What possibly can be the reason, choose from the given alternative a) Families encourage women to work b) Women perform household activities c) Women are categorized as workers Women give birth to children	1
5	**Read the following statements: Assertion (A) and Reason (R). Choose one of the correct alternatives given below:** **Assertion (A)** – Ratio of women workers in rural areas is more than the women workers in urban areas. **Reason (R):** Women in rural areas cannot stay at home due to their poor economic condition. **Alternatives:** 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 and 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
6	Statement 1- Casualisation refers to a situation when the percentage of casually hired workers	1

	in the total workforce tends to rise over time. Statement 2- Informalisation refers to a situation when people tend to find employment more in the informal sector of the economy, and less in the formal sector of the economy. a) Both are correct b) Both are incorrect c) Statement 1 is correct and statement 2 is incorrect d) Statement 1 is incorrect and statement 2 is correct	
7	Meena is comparing two jobs. One job offers a fixed salary every month, regular working hours, paid leave, and job security. The other job pays wages irregularly and does not provide any social security benefits. Which of the following is **not** a feature of the organised sector? a) Job Security b) Social security benefits c) Irregular payment Fixed working hours	1
8	Match the following: <table><tr><td>COLUMN A</td><td>COLUMN B</td></tr><tr><td>i) Rural unemployment</td><td>A) Educated unemployment</td></tr><tr><td>ii) Urban unemployment</td><td>B) Labour force – work force</td></tr><tr><td>iii) Participation rate</td><td>C) Disguised unemployment</td></tr><tr><td>iv) No. of person employed</td><td>D) $\frac{\text{Workforce}}{\text{Total Population}} \times 100$</td></tr></table>a) i-C, ii-A, iii-D, iv-B b) i-B, ii- C, iii- A, iv- D c) i-D, ii- C, iii-A, iv- B d) i-A, ii-B, iii-C, IV-D	1
9	Which of the following is the correct definition of self-employed? (A) Not able to find jobs during some months of the year (B) Own and operate their own enterprises (C) Receive wages on a regular basis by the employer (D) Casually engaged in other individual enterprises	1
10	Ravi is looking for a job that offers a regular salary, paid leave, health insurance, and retirement benefits. He wants a job where his employment is secure and protected by labour laws. Based on the information given, in which sector is Ravi most likely to find such benefits? A. Informal sector B. Formal sector C. Agricultural sector D. Household sector	1
11	In a village, many people remain unemployed during the agricultural off-season. To provide them with employment and income support, the government introduced a scheme that guarantees wage employment for rural households. Which government scheme was launched to address rural unemployment by providing guaranteed wage employment? A. GST B. MGNREGA C. PMJDY D. Digital India	1
12	In the Indian economy, during the period of 1951-2012, we were able to produce more goods	1

	and services without generating employment. Scholars refer to this phenomenon as _____. a. Stagnation in growth b. Jobless growth c. Informalization of employment d. Casualization of employment	
13	Why is the official workforce participation rate for women, especially urban women, so low? a. Men are able to earn high incomes b. Families discourage female members from taking up jobs c. Many household activities engaged by women are not recognized as productive work d. Both (a) & (b)	1
14	Which of the following sources collect data on unemployment? a. Census Reports of India b. National Sample Survey Organization's Reports of Employment and Unemployment Situation c. Directorate General of Employment and Training Data of Registration with Employment exchange d. All of the above	1
15	Agriculture is not a major source of employment in urban areas where people are mainly engaged in the service sector. About _____% of urban workers are in the service sector. a. 50% b. 55% c. 60% d. 65%	1
16	Which type of non-farm area of employment is shown in the picture? a) Apiculture b) Fisheries c) Animal husbandry d) None of these 	1
17	If new computers are being installed in a company and some employees are fired from the job due to lack of computer knowledge, then what kind of unemployment will it be called? a) Disguised unemployment b) Structural unemployment c) Hidden unemployment d) Frictional unemployment	1
18	You are a factory owner and have given employment to 400 workers. If 10 workers are dismissed by you without loss of production then this situation will be described as a) casual unemployment b) disguised unemployment c) structural unemployment d) seasonal unemployment	1
19	Which of the following correctly defines the unemployment rate? a) Total number of Employed/Total Labour Force x 100 b) Total Labour Force/Total Number of Unemployed x 100 c) Total Labour Force/Total Number of Employed x 1000 d) None of the above	1
20	The process of moving from self-employment and regular salaried employment to casual wage	1

	work is known as: Informalisation of workforce b) Casualisation of workforce c) Both a) and b) d) Neither a) nor b)	
	MARKING SCHEME	
SN	**ANSWERS**	Marks
1	c. both A and B	1
2	a) both are wrong	1
3	a) both are correct	1
4	b) Women perform household activities	1
5	a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion(A)	1
6	A) both are correct	1
7	c) Irregular payment	1
8	A) a) i-C, ii-A, iii-D, iv-B	1
9	b) Own and operate their own enterprises	1
10	b) Formal sector	1
11	b) MGNREGA	1
12	b) Jobless growth	1
13	d) Both (a) & (b)	1
14	d) All of the above	1
15	c) 60%	1
16	a) Apiculture	1
17	b) Structural unemployment	1
18	b) disguised unemployment	1
19	a) Total number of Employed/Total Labour Force 100	1
20	b) Casualisation of workforce	1
	SHORT ANSWER QUESTION (3 AND 4 MARKS)	
21	"The quality of employment is often better in the formal sector and beneficial than informal sector." Do you agree? Give reason and an example to support your answer. **Ans.** The statement is correct. Reason: Workers in the formal sector receive benefits such as regular salary, provident fund, pension, paid leave, medical facilities, and protection under labour laws. In contrast, workers in the informal sector generally lack job security and social security benefits. Example: A government school teacher receives a regular salary, paid leave, and pension benefits, whereas a daily-wage construction worker may not have a fixed income, paid leave, or social security protection. Conclusion: Therefore, employment in the formal sector generally guarantees better income security and social benefits than employment in the informal sector.	3
22	Analyse the table carefully and answer the questions that follow.	3

Sector	Share in employment (%)	Contribution to GDP (%)

	PRIMARY	42	16		
	SECONDARY	25	29		
	TERTIARY	33	55		

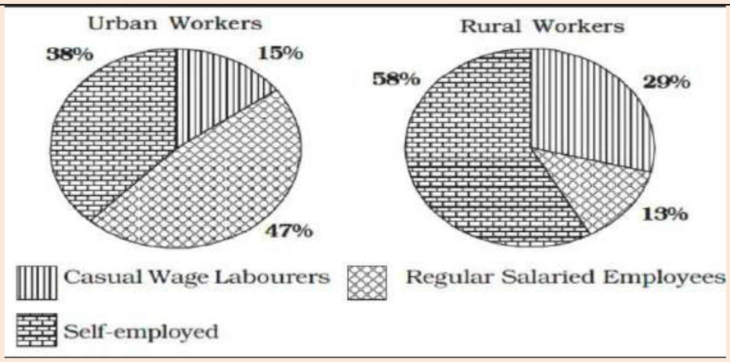
1. Using the data, identify the sector where the gap between employment share and GDP contribution is the highest.
2. What does this gap indicate about the productivity of workers in that sector?
3. Suggest one measure that can help improve productivity and income levels of workers in this sector.

Ans.

1. The **Primary Sector** has the highest gap (42% employment but only 16% GDP contribution)
2. It indicates **low labour productivity** and the presence of **disguised unemployment**.
3. Any one measure:

- Providing modern farming technology.
- Improving irrigation facilities.

Enhancing skill development and training.

23	Ramesh owns one acre of land. Five family members work on the farm, but the output remains the same even if two workers leave. 1. Identify the type of unemployment present in this case. 2. If the two extra workers are employed in a nearby food-processing unit, what impact will it have on the economy? 3. Suggest one government initiative that can help create such alternative employment opportunities in rural areas. **Ans.** 1. Disguised unemployment. 2. It will increase overall production, income, and employment in the economy. Promotion of rural industries, skill-development programmes, or employment schemes such as Mahatma Gandhi National Rural Employment Guarantee Act.	3
24	 The pie charts reveal that the proportion of casual wage labourers in rural areas is almost double than that in urban areas. Analyse the implications of this pattern for rural workers. **Ans.** The share of casual wage labourers is 29% in rural areas compared to 15% in urban areas. Casual workers often face irregular employment, low wages, and lack of social security benefits. This makes rural workers more vulnerable to poverty and income instability. Expanding employment opportunities and skill training can help to improve their economic condition.	3
25	'More than half of India's female workforce is concentrated in the primary sector.' Justify the statement with the help of data. What does this indicate about the nature of female	3

	employment in India? **Ans.** The statement is justified as more than half of India's female workforce is employed in the primary sector, mainly agriculture and allied activities. According to employment data, around 55–60% of working women are engaged in the primary sector. This shows that women are largely dependent on agriculture for employment. It also indicates that employment opportunities for women in the secondary and tertiary sectors are comparatively limited, especially in rural areas.	
26	**Labour supply** is the total number of hours or workers that individuals are willing and able to offer in the market at a given wage rate. You may be able to work 10 hours a day, but willing to work only for 6 hours a day at a particular wage. Labour supply, thus is measured in terms of man hours of work. It is always estimated in relation to wage rate. Labour force on the other hand, refers to the number of the workers actually working or willing to work. It is not related to wage rate. Based on the above passage answer the following question: 1. The number of workers actually working – i) Labour force ii) Work force iii) Labour supply iv) casualisation 2. Labour supply is always estimated in relation to wage rate. (True/False) 3. Labour force is--------------(not related/related) to wage rate. **Ans.** 1. II) Work force 2. True Not related	3
27	Ravi works in a government office and receives a fixed salary, paid leave, and pension benefits. Mohan works as a daily-wage labourers and does not receive paid leave or job security. Based on the above information, identify the sector in which Ravi and Mohan are employed. State any two differences between the sectors. **Ans.** 1. Ravi is employed in the formal sector, whereas Mohan is employed in the informal sector. 2. Two differences: I) Formal sector workers enjoy job security, whereas informal sector workers generally do not. Formal sector workers receive social security benefits such as provident fund, pension, and paid leave, whereas informal sector workers usually do not receive these benefits	3
28	Apoorva noticed that in the last 5 decades (1972-2018) there is a growing trend of “casualisation of workforce”. What does this mean? Is it good for the economy. **Ans.** The process of moving from self-employment and regular salaried employment to casual wage force is called casualisation of workforce. This takes place due to the non-availability of the jobs in regular employment sector and less self-employment opportunities. It is not a good indicator of development because the workers are highly vulnerable in casual work.	3
29	After a factory closed down, many workers in a town started working as daily-wage labourers, street vendors, and helpers in small shops. They no longer received paid leave, pension benefits, or job security. Identify the phenomenon described above and explain any three consequences faced by these	4

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<td>workers.
Ans. The phenomenon is called informalisation of workforce, where workers move from formal jobs to informal employment lacking legal protection.
<u>Consequences:</u>

Workers do not enjoy job security and can lose their jobs easily.
They are deprived of social security benefits such as provident fund, pension, and paid leave.

They often work under poor conditions with low and irregular income</td>
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<td>30</td>
<td>Meena sells vegetables in the local market, while Abdul owns and operates a small repair shop. Neither receives a salary from an employer, yet both earn a living through their work. A student observes that many people in India depend on similar occupations for their livelihood.
Based on the above situation, analyse the role of such employment in India's workforce.
Ans. Meena and Abdul are self-employed workers because they operate their own economic activities and are not employed by others.
Self-employment is an important source of livelihood in India.
Around 52% of India's workforce is self-employed, making it the largest category of employment.
Self-employment provides income opportunities to both men and women, especially in agriculture, small businesses, trade, and home-based activities.</td>
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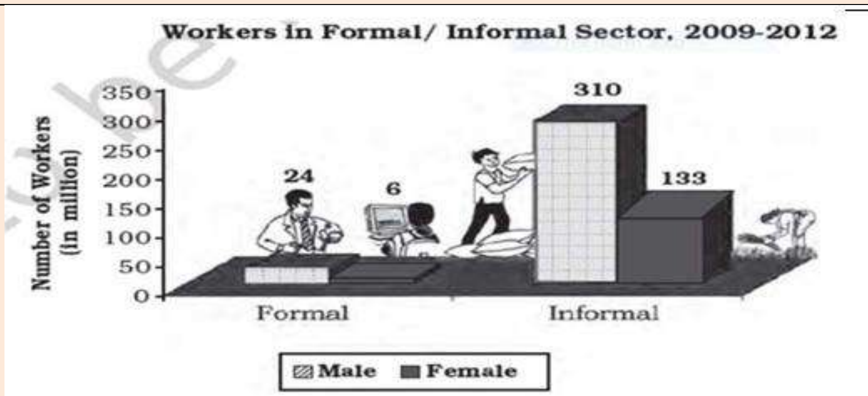

Study the graph showing the number of male and female workers employed in the formal and informal sectors during 2009–2012 and answer the following questions

Compare the employment of male and female workers in the formal and informal sectors. What trend do you observe?
Informal sector employs a much larger number of workers than the formal sector in India? Give any two reasons.

Ans.

The formal sector employs 24 million males and 6 million females, whereas the informal sector employs 310 million males and 133 million females. In both sectors, male workers outnumber female workers. The informal sector provides employment to a much larger workforce than the formal sector.

The informal sector employs more workers because: It requires less education and fewer formal qualifications. It is easier to enter and provides employment opportunities to a large number of people, especially in rural and unorganised activities.</td>
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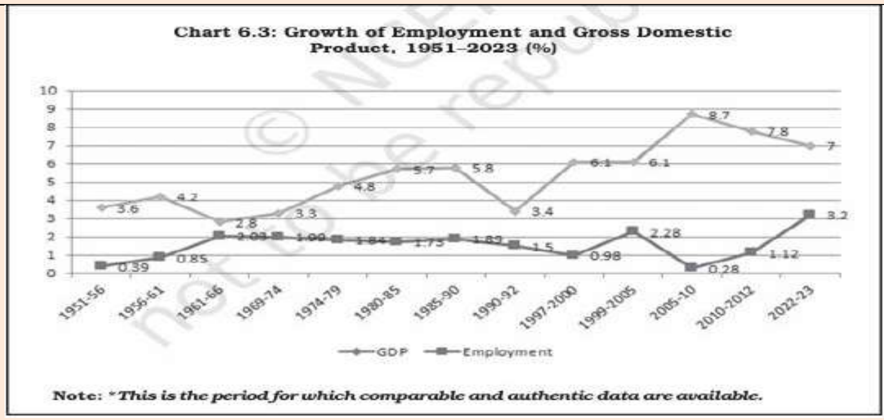
</table>

32	 Look at the graph and determine the indicator that recorded the greater growth rate in 2022–23."Higher GDP growth does not always lead to higher employment growth." Justify the statement with evidence from the chart. **Ans.** 1. GDP (7%) recorded a higher growth rate than Employment (3.2%). 2. The analysis of the chart shows that GDP growth remained consistently higher than employment growth throughout the period under study. Moreover, 3. During 2005–10, GDP growth was the highest (8.7%) but employment growth was only 0.28%. 4. During 2010–22, GDP grew at 7.8%, while employment growth was only 1.12%. 5. Therefore, high economic growth does not necessarily result in proportionate job creation. This indicates that economic growth did not generate proportional employment opportunities, showing a trend of **jobless growth**.	4
33	The government decides to construct highways, rural roads, and irrigation projects across the country. Thousands of workers are employed directly, while cement and steel industries also increase production. Explain does this initiative generate employment. **Ans.** Through this initiative, the government is generating both direct and indirect employment opportunities. **Direct employment**: Construction projects create jobs directly by hiring workers such as labourers, engineers, architects, and supervisors. **Indirect employment**: Demand for cement, steel, transport, and machinery increases, creating jobs in related industries. Such projects improve infrastructure and stimulate economic growth. Thus, employment is generated throughout the economy.	4
34	India has witnessed periods of high economic growth. For example, India's GDP growth increased from 6.1% in 1993–2000 to 8.7% in 2005–10, while employment growth declined from 0.98% to 0.28% during the same period. Analyse this situation and identify the economic issue it reflects. Mention any two consequences. **Ans.** 1. Economic problem: **Jobless Growth**. 2. Consequences: I) Rising unemployment or underemployment.	4

	II) Increase in income inequality. III) Slower improvement in living standards for many people. Growth of informal and insecure employment.	
	LONG QUESTIONS (6 MARKS)	
35	Read the following passage and give the answers to the following questions: For every 100 persons, about 35 (by rounding off 34.7) are workers in India. In urban areas, the proportion is about 34, whereas in rural India, the ratio is about 35. Why is there such a difference? People in rural areas have limited resources to earn a higher income and participate more in the employment market. Many do not go to schools, colleges and other training institutions. Even if some go, they discontinue in the middle to join the workforce in rural areas. People cannot stay at home as their economic condition may not allow them to do so. For every 100 urban females, only about 14 are engaged in some economic activities. In rural areas, for every 100 rural women about 18 participate in the employment market. Why are women, in general, and urban women, in no particular, working? It is common to find that where men are able high to earn incomes, families discourage female members from taking up jobs. Going back to what has already been mentioned above, household activities done by women are not recognised as productive work. This narrow definition of work leads to non-recognition of women's work and, therefore, to the underestimation of the number of women workers in the country. 1. In which areas, you find more employment and why? 2. Why are women in urban areas less employed? Why are the most works done by women and not recognised by as productive workers? **Ans.** 1. In rural areas: ● They use limited resources to earn their livelihood. ● They get less education and training. So they join the job market immediately after leaving education. ● People cannot stay at home as their economic condition do not allow them to do so. 2. Women in urban areas are less employed due to several **social, economic, and structural reasons:** **I)** Limited job opportunities suitable for women. **II)** Higher level of education required. **III)** Social constraints and family responsibilities. **IV)** Safety and mobility issues. **V)** Gender discrimination in hiring. They do more household/ domestic works for which they are not at all paid. Their services are not considered for estimation of national income.	6
36	Read the text and answer the following questions: India's workforce has undergone significant changes over the decades. While the share of employment in agriculture has declined, the service sector has seen a steady rise. However, a large portion of the workforce still remains in the informal sector, lacking job security and social benefits. The worker-population ratio is higher in rural areas due to limited income opportunities, compelling people to take up any available work. Women's participation in the workforce is lower, especially in urban areas, due to social constraints and lack of recognition	6

of household work as economic activity. The phenomenon of casualisation—where workers shift from self-employment or regular jobs to casual wage work—has increased vulnerability in the labour market.

A. Why is the worker-population ratio higher in rural areas than in urban areas?

B. Why is a large part of India’s workforce employed in the informal sector? Mention its effects on workers

What is casualisation? How does it increase the vulnerability of workers?

Ans.

i) The worker-population ratio is higher in rural areas because income opportunities are limited and many rural households cannot afford to remain unemployed. As a result, people are compelled to take up any available work, even if it is low-paid or irregular. This leads to a larger proportion of the rural population being engaged in economic activities compared to urban areas

ii) A large part of India's workforce is employed in the informal sector because it provides easy access to employment opportunities. Its effects include:

- Lack of job security.
- No social benefits such as pensions and insurance.
- Greater economic uncertainty.

Casualisation is the shift from self-employment or regular employment to casual wage work. It increases vulnerability because: Casual workers have unstable employment. They receive lower wages. They generally lack social security and employment benefits

37 Read the text and answer the following questions: 6

As an economy develops, the pattern of employment undergoes significant changes. In the initial stages of development, a large proportion of the workforce is engaged in agriculture and related activities. However, with industrialisation and urbanisation, workers gradually move from rural areas to towns and cities in search of better employment opportunities. They find jobs in manufacturing industries, construction activities, and various service-sector occupations. Economic activities are generally classified into three sectors: primary, secondary, and tertiary. The primary sector includes agriculture and mining, while the secondary sector consists of manufacturing, electricity, gas, water supply, and construction. The tertiary sector includes trade, transport, storage, and other services. In advanced stages of economic development, the service sector expands rapidly and becomes a major source of employment. The growth of industries and services not only creates new jobs but also helps reduce dependence on agriculture, leading to structural transformation in the economy.

1. The structure of employment changes as an economy develops." Justify the statement with reference to the passage.

2. During economic development, workers often migrate from villages to cities. Explain any three reasons why this migration takes place.

Ans.

I) Initially, most workers are employed in agriculture. With development, workers move to industries. Later, the service sector expands and becomes a major source of employment.

II) Industrial and service sectors create more employment opportunities. Urban areas offer higher wages and better working conditions. Limited employment opportunities in agriculture push workers towards cities.

38	Distribution of workforce by industry , 2023-24	6

Industrial category	Place of residence		Sex		Total
	Rural	Urban	Male	Female	
Primary Sector	59.8	6.7	36.3	64.4	46.1
Secondary Sector	21.4	32.4	28.8	15.6	24.1
Tertiary Sector	18.8	60.9	34.9	20.0	29.8
Total	100.0	100.0	100.0	100.0	100.0

A. Which sector employs the highest percentage of women workers?

B. Why is the service sector important for urban employment?

C. What conclusions can be drawn from this data regarding female employment?

Ans.

A. Primary Sector (57.1%)

B. It provides the largest share of urban jobs (59.1%) through activities such as banking, education, healthcare, transport, and IT services.

C. A large proportion of women are engaged in agriculture and allied activities.Female participation in secondary and tertiary sectors remains comparatively lower.There is scope for increasing women's employment in industry and services through skill development.

ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

Introduction:

Environment means everything around us—air, water, land, plants, animals, forests, rivers, sunlight, etc.

Four Functions of the Environment (SRSA)

• Supplies Resources

• Assimilates Waste

• Sustains Life

• Aesthetic Services

Environmental threats:

- Poverty-induced degradation.
- Affluence-induced pollution.

Environmental Crisis

Occurs when resources are used faster than they regenerate and waste exceeds the environment's absorptive capacity.

Main Causes:

• Rising population

• Industrialisation

• Urbanisation

• Overconsumption

• Pollution

* **Key issues:** Land degradation, biodiversity loss, air pollution, water management, solid waste management.

* **Impact:** Health costs, depletion of resources, pollution.

Global Warming **Meaning:** Increase in Earth's average temperature due to greenhouse gases. **Causes:** • Burning fossil fuels	**Effects:** • Melting polar ice • Sea-level rise • Floods • Climate change • More diseases

• Deforestation • Industrial activities • Vehicle emissions	
Ozone Depletion **Meaning:** Reduction in the ozone layer. **Causes:** • CFCs in refrigerators and ACs • Halons in fire extinguishers	**Effects:** • Skin cancer • Harmful UV radiation • Damage to plants and animals

Environmental Problems in India

• Air Pollution

• Water Pollution

• Land Degradation

• Deforestation

• Biodiversity Loss

Sustainable Development: Development that meets current needs without compromising future generations.

Challenges: 1. Population pressure: Increased demand for resources.

2. Industrial impact: Pollution and resource depletion.

• Global initiatives: UNCED, Brundtland Commission.

S. No.	Question	Marks
1	Which of the following is a biotic component of the environment? A. Water B. Air C. Soil D. Plants	1
2	**Assertion (A):** Environmental resources are limited. **Reason (R):** Human wants are unlimited. A. Both A and R are true and R is the correct explanation of A. B. Both A and R are true but R is not the correct explanation of A. C. A is true but R is false. D. A is false but R is true.	1
3	The maximum population an ecosystem can support sustainably is called: A. Regenerative Capacity B. Carrying Capacity C. Biodiversity D. Ecological Footprint	1
4	**Statement I:** Biodiversity contributes to ecological balance. **Statement II:** Loss of biodiversity can reduce ecosystem stability. A. Both statements are true. B. Statement I is true and Statement II is false. C. Statement I is false and Statement II is true. D. Both statements are false.	1
5	Which of the following is a renewable resource? A. Coal B. Petroleum C. Wind Energy D. Natural Gas	1
6	Acid rain is primarily caused by emissions of: A. Oxygen and Nitrogen B. Sulphur dioxide and Nitrogen oxides C. Carbon dioxide and Methane	1

	D. Hydrogen and Helium	
7	The Chipko Movement originated in: A. Gujarat B. Uttarakhand C. Rajasthan D. Punjab	1
8	**Assertion (A):** Organic farming is gaining popularity. **Reason (R):** Organic farming reduces soil and water pollution. **Alternatives**: A. Both A and R are true and R is the correct explanation of A. B. Both A and R are true but R is not the correct explanation of A. C. A is true but R is false. D. A is false but R is true.	1
9	India possesses approximately what percentage of the world's biodiversity hotspots? A. 2 B. 4 C. 8 D. 12	1
10	**Statement I:** Sustainable development meets present needs without compromising future generations. **Statement II:** Sustainable development encourages excessive resource extraction. A. Both true B. I true, II false C. I false, II true D. Both false	1
11	Which gas is mainly responsible for global warming? A. Oxygen B. Nitrogen C. Carbon Dioxide D. Hydrogen	1
12	Solar energy is classified as: A. Conventional Energy B. Non-renewable Energy C. Renewable Energy D. Fossil Fuel Energy	1
13	Vermicomposting mainly uses: A. Frogs B. Earthworms C. Ants D. Bees	1
14	The Kyoto Protocol was designed to reduce greenhouse gas emissions. True/False	1
15	**Assertion (A):** Rapid industrialization increases environmental pressure. **Reason (R):** Industries generate waste and emissions. A. Both A and R are true and R is the correct explanation of A. B. Both A and R are true but R is not the correct explanation of A. C. A is true but R is false. D. A is false but R is true.	1
16	A city spends huge amounts on pollution control due to industrial emissions. This indicates: A. Environmental sustainability B. Opportunity cost of environmental degradation C. Biodiversity conservation D. Renewable resource management	1
17	A mining project displaces tribal communities and destroys forests. This violates the principle of: A. Sustainable Development B. Comparative Advantage C. Free Trade D. Market Equilibrium	1
18	Which situation reflects a breach of absorptive capacity? A. Reforestation efforts	1

	B. Waste accumulation exceeding nature's ability to decompose it C. Rainwater harvesting D. Organic farming	
19	Using neem-based pesticides instead of chemical pesticides helps because it: A. Increases groundwater contamination B. Reduces environmental pollution C. Promotes acid rain D. Increases greenhouse gases	1
20	**Assertion (A):** Poverty can contribute to environmental degradation. **Reason (R):** Poor communities often depend heavily on natural resources for survival. A. Both A and R are true and R is the correct explanation of A. B. Both A and R are true but R is not the correct explanation of A. C. A is true but R is false. D. A is false but R is true	1
21	**Assertion (A):** The Montreal Protocol was a global response to the issue of Global Warming. **Reason (R):** It resulted in an international agreement to reduce the emission of greenhouse gases like carbon dioxide. A. Both A and R are true and R is the correct explanation of A. B. Both A and R are true but R is not the correct explanation of A. C. A is true but R is false. D. A is false but R is true.	1
22	**Statement I:** Traditional agricultural practices were generally eco-friendly. **Statement II:** Excessive use of chemical fertilizers improves long-term soil fertility. A. Both true B. I true, II false C. I false, II true D. Both false	1
23	Which of the following helps conserve groundwater? A. Excessive tube-well irrigation B. Rainwater harvesting C. Deforestation D. Urban sprawl	1
24	Match the following: (i) Chipko Movement — (a) Greenhouse Gas Reduction (ii) Vermicomposting — (b) Renewable Energy (iii) Kyoto Protocol — (c) Forest Conservation (iv) Solar Energy — (d) Organic Waste Management Options: A. (i)-(c), (ii)-(a), (iii)-(b), (iv)-(d) B. (i)-(a), (ii)-(c), (iii)-(b), (iv)-(d) C. (i)-(c), (ii)-(d), (iii)-(a), (iv)-(b) D. (i)-(b), (ii)-(a), (iii)-(c), (iv)-(d)	1
25	Identify the correctly matched pair: A. Wind Energy – Fossil Fuel B. Gobar Gas – Renewable Energy C. Coal – Non-conventional Energy D. Petroleum – Renewable Resource	1
26	Which of the following are consequences of climate change? I. Rising sea levels II. Increased frequency of extreme weather events III. Loss of biodiversity A. I only B. I and II only C. II and III only D. I, II and III	1

27	India's environmental stress is increased because: A. High population density B. Excessive renewable resources C. Low industrialization D. High Forest cover	1
28	Deforestation can lead to: A. Soil conservation B. Increased groundwater recharge C. Soil erosion and loss of biodiversity D. Improved rainfall patterns	1
29	A village suffers from deforestation due to fuelwood collection, while a nearby city faces air pollution from vehicles. This reflects: A. Only affluence-induced pollution B. Only poverty-induced degradation C. Both poverty-induced degradation and affluence-induced pollution D. Neither of the above	1
30	The full form of CPCB is ____________.	1
S. No.	ANSWER	Marks
1	D. Plants	1
2	A. Both A and R are true and R is the correct explanation of A	1
3	B. Carrying Capacity	1
4	A. Both statements are true	1
5	C. Wind Energy	1
6	B. Sulphur dioxide and Nitrogen oxides	1
7	B. Uttarakhand	1
8	A. Both A and R are true and R is the correct explanation of A	1
9	C. 8	1
10	B. Statement I is true and Statement II is false	1
11	C. Carbon Dioxide	1
12	C. Renewable Energy	1
13	B. Earthworms	1
14	True	1
15	A. Both A and R are true and R is the correct explanation of A	1
16	B. Opportunity cost of environmental degradation	1
17	A. Sustainable Development	1
18	B. Waste accumulation exceeding nature's ability to decompose it	1
19	B. Reduces environmental pollution	1
20	A. Both A and R are true and R is the correct explanation of A	1
21	D. A is false but R is true.	1
22	B. Statement I is true and Statement II is false	1
23	B. Rainwater harvesting	1
24	C. (i)-(c), (ii)-(d), (iii)-(a), (iv)-(b)	1
25	B. Gobar Gas – Renewable Energy	1
26	D. I, II and III	1
27	A. High population density	1
28	C. Soil erosion and loss of biodiversity	1
29	C. Both poverty-induced degradation and affluence-induced pollution	1

30	Central Pollution Control Board	1
	Long Answer Question	
31	Explain the concept of carrying capacity of the environment. How is it affected by excessive industrialisation? **Ans.** Carrying capacity refers to the maximum level of resource use and waste generation that the environment can sustain without degradation. Effect of excessive industrialisation: I. Increases extraction of natural resources. II. Generates large amounts of pollution and waste. Exceeds the absorptive capacity of the environment, leading to environmental degradation.	3
32	Define sustainable development? Mention any two principles of sustainable development. **Ans.** Sustainable development means meeting the needs of the present generation without compromising the ability of future generations to meet their own needs. Two principles: I. Conservation of natural resources. Intergenerational equity (fairness between present and future generations).	3
33	Explain the supply-demand reversal of environmental resources with a suitable example. **Ans.** Supply-demand reversal occurs when the demand for environmental resources exceeds their natural rate of regeneration. Example: Excessive extraction of groundwater for agriculture and industries causes the water table to decline faster than it can be replenished by rainfall.	3
34	Water become an economic good in many parts of India? Give two reasons. **Ans.** Water has become an economic good because: I. Rapid population growth has increased the demand for water. II. Pollution and over-extraction have reduced the availability of clean water resources. As a result, people and governments must spend money to obtain and treat water.	3
35	Deforestation affect the ecological balance? Explain any three effects. **Ans.** Deforestation affects ecological balance by: I. Causing soil erosion and loss of soil fertility. II. Disturbing the water cycle, leading to irregular rainfall. Reducing biodiversity by destroying wildlife habitats.	3
36	Differentiate between renewable and non-renewable resources with suitable examples. **Ans.** <table><tr><td>Renewable Resources</td><td>Non-Renewable Resources</td></tr><tr><td>Can be replenished naturally.</td><td>Cannot be replenished quickly.</td></tr><tr><td>Available for long-term use.</td><td>Exhaustible in nature.</td></tr><tr><td>Examples: Solar energy, Wind energy.</td><td>Examples: Coal, Petroleum.</td></tr></table>	3
37	Explain the role of rainwater harvesting in sustainable water management. **Ans.** Rainwater harvesting helps in sustainable water management by: I. Recharging groundwater levels.	3

	II. Reducing dependence on groundwater extraction. Ensuring water availability during dry seasons and droughts.	
38	Biodiversity conservation important for sustainable development? State any three reasons. **Ans.** Biodiversity conservation is important because: I. It maintains ecological balance. II. It provides resources such as food, medicines, and raw materials. It ensures the survival of different plant and animal species for future generations.	3
39	Explain any three benefits of using biogas plants in rural areas. **Ans.** Benefits of biogas plants: I. Provide a clean and renewable source of energy. II. Reduce dependence on firewood, thereby preventing deforestation. Produce organic slurry that can be used as natural fertilizer.	3
40	3Rs (Reduce, Reuse and Recycle) help in environmental conservation. Explain. **Ans.** The 3Rs help by: I. Reduce: Minimising waste generation and resource use. II. Reuse: Extending the life of products and reducing waste. Recycle: Converting waste into useful products, reducing pollution and conserving resources.	3
41	Discuss any three measures adopted by the Government of India to promote sustainable development. **Ans.** The Government of India promotes sustainable development through: I. Promotion of renewable energy such as solar and wind power. II. Encouraging the use of cleaner fuels like CNG and LPG. Afforestation programmes and restrictions on plastic use.	3
42	Ozone layer depletion considered a global environmental problem? Explain briefly. **Ans.** Ozone layer depletion is a global problem because: I. It allows harmful ultraviolet (UV) rays to reach the Earth's surface. II. It increases the risk of skin cancer, cataracts, and other health problems. III. It affects crops, forests, and marine ecosystems worldwide. The problem requires international cooperation, such as the Montreal Protocol, to control ozone-depleting substances.	3
43	Read the following case and answer the questions: A village located near a forest has experienced rapid deforestation due to excessive cutting of trees for fuelwood and construction. As a result, soil erosion and water scarcity have increased. (a) Identify the environmental problem. (1) (b) Explain any two consequences of this problem. (2) (c) Suggest one sustainable measure to overcome it. (1) **Ans.** (a) The environmental problem is deforestation due to excessive cutting of trees. (b) Soil Erosion: Removal of trees loosens the soil, making it prone to erosion. Water Scarcity: Reduced forest cover decreases groundwater recharge and rainfall, leading to water shortages. (c) Afforestation and strict forest conservation measures should be adopted.	4
44	Explain the concept of global warming. Discuss any three major causes responsible for it.	4

	Ans. Global warming refers to the gradual increase in the average temperature of the Earth's atmosphere due to the greenhouse effect. Major causes: 1. Burning of fossil fuels such as coal, petrol, and diesel. 2. Deforestation, which reduces carbon dioxide absorption. Emission of greenhouse gases such as methane and CFCs.	
45	Read the following passage: A city generates thousands of tons of solid waste every day. Most of the waste is dumped in open landfills, causing foul smell, groundwater pollution and health hazards. (a) Identify the environmental issue. (1) (b) Explain any two adverse effects. (2) (c) Suggest one suitable measure for proper waste management. (1) **Ans.** (a) The environmental issue is solid waste pollution due to improper waste disposal. (b) Explain any two adverse effects. 1. Groundwater contamination from landfill leachate. 2. Health hazards and spread of diseases due to unhygienic conditions. (c) Segregation of waste at source and promotion of recycling and composting.	4
46	How do forests contribute to environmental sustainability? Explain any four functions performed by forests. **Ans.** Forests contribute to environmental sustainability by: 1. Preventing soil erosion through root binding. 2. Regulating climate and rainfall patterns. 3. Absorbing carbon dioxide and reducing global warming. Conserving biodiversity by providing habitat to wildlife.	4
47	"International cooperation is essential for environmental protection." Explain the statement with reference to any two international environmental agreements. **Ans.** Environmental problems such as climate change and ozone depletion affect all countries and require collective action. 1. Montreal Protocol (1987): Aimed at phasing out ozone-depleting substances like CFCs. 2. Paris Agreement (2015): Encourages countries to reduce greenhouse gas emissions to combat climate change. Thus, international cooperation is essential for protecting the global environment.	4
48	Read the following case: A state government proposes a large mining project that will generate employment and income. However, environmentalists fear loss of forest cover and biodiversity. (a) Identify the conflict involved. (1) (b) Explain any two environmental concerns. (2) (c) Suggest one sustainable solution. (1) **Ans.** (a) The conflict is between economic development and environmental conservation. (b) Explain any two environmental concerns.	4

	1. Loss of forest cover due to mining activities. 2. Reduction in biodiversity and destruction of wildlife habitats. (c) Conduct a proper Environmental Impact Assessment (EIA) before starting the project.	
49	Discuss the importance of renewable sources of energy in India. Mention any four advantages of solar and wind energy. **Ans.** Renewable energy is important because it reduces dependence on fossil fuels and supports sustainable development. Advantages: 1. Renewable and inexhaustible source of energy. 2. Causes very little environmental pollution. 3. Reduces greenhouse gas emissions. Enhances energy security by reducing fuel imports.	4
50	Read the following newspaper report and answer the questions that follow: **ENVIRONMENT TODAY** Headline: "Rising UV Radiation Raises Health Concerns" A recent environmental report highlighted that some regions are witnessing increased exposure to harmful ultraviolet (UV) rays. Scientists explained that excessive use of old refrigerators, air conditioners, aerosol sprays, and industrial cooling systems has released harmful gases into the atmosphere. Experts warned that continued environmental negligence may increase skin diseases, eye problems, and negatively affect crop productivity. Countries around the world are encouraging industries to adopt eco-friendly technologies to reduce environmental damage. **Based on the above case, answer the following questions:** A) Identify the environmental issue discussed in the report. B) Analyse why the gases released from refrigerators and air conditioners are harmful to the atmosphere. C) Explain one possible consequence of this environmental issue on human life or agriculture. D) Suggest one international effort or practical measure that can help reduce this problem. **Ans.** (A) The issue is ozone layer depletion. (B)They release CFCs, which destroy ozone molecules in the stratosphere. (C) Increased UV radiation can cause skin cancer and eye diseases or reduce crop productivity. (D) Implementation of the Montreal Protocol to phase out ozone-depleting substances.	4
51	Explain the Chipko Movement. How did it contribute to forest conservation and environmental awareness in India? **Ans.** The Chipko Movement was a non-violent movement started in 1973 in Uttarakhand where villagers hugged trees to prevent them from being cut. Contributions: 1. Helped prevent indiscriminate deforestation. 2. Increased public awareness about environmental conservation. 3. Encouraged community participation in forest protection. Influenced government policies on forest conservation.	4
52	Many Indian cities face severe air pollution due to increasing vehicular traffic.	4

	(a) Identify the environmental issue. (1) (b) Explain any two harmful effects of vehicular pollution. (2) (c) Suggest one measures to reduce air pollution in cities. (1) **Ans.** (a) The environmental issue is air pollution. (b) The two harmful effects of vehicular pollution. 1. Causes respiratory diseases such as asthma and bronchitis. 2. Increases greenhouse gas emissions and contributes to global warming. (c) Promote the use of public transport and electric vehicles.	
53	A state government approved the construction of a large industrial park to promote employment and economic growth. Over the years, nearby villages experienced declining groundwater levels, air pollution, and loss of agricultural productivity. While industries contributed significantly to state income, local residents raised concerns about environmental degradation. **Answer the following questions:** i. Identify the economic dilemma highlighted in the case. (1) ii. Explain any two environmental costs associated with industrialisation. (2) iii. Why cannot economic growth alone be considered true development? (1) iv. Suggest any two measures to ensure sustainable development in the region. (2) **Ans.** (i) The economic dilemma highlighted in the case is the conflict between economic development and environmental sustainability (or development versus environmental protection). (ii) Air Pollution: Industries release harmful gases and pollutants into the atmosphere, causing respiratory diseases and environmental degradation. Groundwater Depletion and Loss of Agricultural Productivity: Excessive industrial use of water lowers groundwater levels, reducing water availability for irrigation and leading to a decline in crop production. (iii) Economic growth alone cannot be considered true development because development should improve people's quality of life while ensuring environmental sustainability. Rising income accompanied by pollution, resource depletion, and health problems leads to unsustainable growth. (iv) Adoption of Green Technologies and Pollution Control Measures, Rainwater Harvesting and Groundwater Conservation.	6

54	A Himalayan region is witnessing rapid tourism growth. Hotels, roads, and recreational facilities are being developed to accommodate tourists. However, environmentalists have reported increased waste generation, deforestation, and pressure on local water resources. **Answer the following questions:** (i) Identify the environmental problem arising from tourism development. (1) (ii) Explain any two adverse effects on the environment. (2) (iii) How does this situation reflect the concept of carrying capacity? (1) (iv) Suggest two sustainable tourism practices that can be adopted. (2) **Ans.** (i)Environmental degradation due to excessive tourism is a major concern in ecologically sensitive regions. (ii)Large numbers of tourists generate waste and put pressure on water, forests, and land resources. Excessive tourism causes pollution, habitat destruction, and depletion of natural resources. (iii)When tourist numbers exceed the environment's ability to absorb their impact, the carrying capacity of the ecosystem is breached. (iv)Sustainable tourism can be promoted through eco-tourism, waste management, visitor limits, and environmental awareness programmes.	6
55	Debate the statement: "India's rapid industrialisation justifies the environmental costs it incurs." Use evidence from India to argue for or against this view. Hint: Weigh economic benefits against health and ecological costs. **Ans.** Industrialisation has significantly contributed to India's economic development by increasing production, employment opportunities, infrastructure, and technological advancement. However, rapid industrialisation has also resulted in air and water pollution, deforestation, soil degradation, and biodiversity loss. Pollution has increased health problems and environmental restoration costs. Excessive exploitation of resources threatens long-term sustainability. Sustainable development provides a balanced approach through cleaner technologies, renewable energy, waste management, and stricter environmental regulations.	6
56	"Global warming is one of the greatest environmental challenges faced by the world today." In the light of the above statement: (i) Define global warming. (1) (ii) Explain any three major causes of global warming. (3) (iii) Suggest any two measures to control global warming. (2) **Ans.** (i) Global warming refers to the gradual increase in the average temperature of the Earth due to the accumulation of greenhouse gases in the atmosphere. (ii) Major causes include: (a) Burning of fossil fuels releasing carbon dioxide, (b) Deforestation reducing carbon absorption, (c) Methane emissions from livestock and landfills, and (d) Nitrous oxide emissions from chemical fertilisers. (iii) Measures to control global warming include promoting renewable energy, afforestation, energy conservation, and adopting cleaner technologies.	6
57	Assess the viability of replacing thermal and hydropower plants with non-conventional energy	6

	sources like wind and solar power in India. What economic and environmental trade-offs are involved? **Ans.** India's growing energy demand requires sustainable alternatives to thermal and hydropower. Wind and solar energy are renewable, abundant, and environmentally friendly sources of power. They reduce greenhouse gas emissions, improve energy security, and decrease dependence on fossil fuels. However, challenges include high initial investment, large land requirements, and grid integration issues. Despite these challenges, renewable energy provides long-term economic and environmental benefits.	
58	A village located near a forest depended heavily on firewood for cooking and heating. Continuous cutting of trees led to deforestation, soil erosion, and declining biodiversity. To address the problem, the government introduced biogas plants and solar cookers. **Answer the following questions:** (i) Identify the environmental problem faced by the village. (1) (ii) Explain any two consequences of this problem. (2) (iii) How do biogas plants contribute to sustainable development? (1) (iv) Explain any two advantages of using solar cookers. (2) **Ans.** (i) Environmental Problem: Deforestation due to excessive dependence on firewood. (ii) Consequences: (a) Soil erosion, (b) Loss of biodiversity and ecological imbalance. (iii) Role of Biogas Plants and Solar Cookers: Biogas plants use organic waste to produce clean and renewable energy, reducing dependence on firewood and conserving forests. (iv) Solar cookers use solar energy for cooking without causing pollution or consuming conventional fuels. Both technologies promote resource conservation and environmental protection.	6

DEVELOPMENT EXPERIENCE OF INDIA COMPARATIVE DEVELOPMENT EXPERIENCE OF INDIA WITH ITS NEIGHBOURS

GIST OF THE CHAPTER

1. Essential Abbreviations

- GLF: Great Leap Forward (China's 1958 industrialisation campaign)
- SEZ: Special Economic Zone (Regions with liberal economic laws to attract FDI)
- HDI: Human Development Index (Composite index measuring health, education, and income)
- FDI: Foreign Direct Investment (Investment made by a foreign company into domestic markets)
- GDP: Gross Domestic Product (Total value of goods and services produced inside a country)
- PPP: Purchasing Power Parity (An economic metric used to compare economic productivity and standards of living between countries by adjusting for currency value differences)
- PRC: People's Republic of China (Official political name of China established in 1949)

2. Important Keywords & Key Concepts

- <u>Commune System</u>: A system of collective farming in China where land was pooled together and cultivated jointly by large rural communities.
- <u>Great Proletarian Cultural Revolution</u>: A period (1966–1976) led by Mao Zedong where students and professionals were forced to work and learn from the countryside to eliminate capitalist elements.
- <u>Dual Pricing Policy:</u> A reform-era policy in China where goods were sold at two different prices: a fixed quantity at government-regulated prices, and the rest at market-determined prices.
- <u>Import Substitution</u>: An economic policy that replaces foreign imports with domestic production using

high tariffs and import quotas.

- Remittances: Money sent back home by migrants working in foreign countries (a major driver of Pakistan's economy).
- Liberty Indicators: Measures of human well-being that evaluate civil and political freedoms (e.g., freedom of speech, democratic participation), used alongside traditional HDI.

3. Vital Facts & Timeline Anchors

- 1947: Year of independence for both India and Pakistan.
- 1949: Year of the establishment of the People's Republic of China.
- 1951: India launches its First Five-Year Plan.
- 1953: China launches its First Five-Year Plan.
- 1956: Pakistan launches its First Five-Year Plan (originally called the National Development Plan).
- 1978: China initiates its massive economic reforms under Deng Xiaoping.
- 1979: China introduces its highly strict One-Child Policy to curb population growth.
- 1988: Pakistan implements its structural economic reforms.
- 1991: India introduces its New Economic Policy (LPG reforms) due to a balance of payments crisis.
- 1980s Transition: The exact decade up to which all three countries had similar growth rates and identical per capita incomes.

Summary of the Chapter:

1. Development Path

- 1947: India and Pakistan gained independence.
- 1949: People's Republic of China was established.
- 1950s: All three nations started Five-Year Plans.
- Reforms: China started in 1978, Pakistan in 1988, and India in 1991.

2. China's Key Strategies

- Great Leap Forward (1958): Industrialised the nation by making people set up backyard industries.
- Commune System: Pooled agricultural land for collective farming.
- Cultural Revolution (1966-76): Sent students and professionals to work in rural areas.
- SEZs: Created Special Economic Zones to attract foreign investors.

3. Pakistan's Key Strategies

- Mixed Economy: Coexistence of public and private sectors.
- Protectionism: Raised tariffs on imports to protect local industries.
- Green Revolution: Boosted food grain production in the 1960s.
- Privatisation: Shifted focus to de-nationalisation in the late 1980s.

4. Comparative Indicators

- Population: China's growth rate fell due to its One-Child Policy. India has the highest population.
- GDP Growth: China leads with double-digit growth for decades. India follows, while Pakistan has slowed down.
- Sector Shift: China shifted from agriculture to Manufacturing. India and Pakistan shifted straight to Services.
- Human Development: China ranks highest in health, literacy, and safety. India is medium, and Pakistan ranks lowest.

5. Final Conclusion

This chapter compares the economic development trajectories of India, China, and Pakistan, which started their journeys around the same time in the late 1940s but achieved widely differing outcomes due to the timing and nature of their policies. China initiated structural reforms earliest in 1978, leveraging aggressive industrialization campaigns like the Great Leap Forward and Special Economic Zones along with heavy investments in health and education to become a global manufacturing superpower. India launched its reforms in 1991, skipping the traditional industrial phase to become a service-led economy that enjoys steady growth but faces deficits in manufacturing and social infrastructure. Meanwhile, Pakistan began its reforms in 1988 but experienced structural stagnation, moving directly into the service sector while suffering from long-term political instability, high military spending, and a heavy reliance on foreign aid. Ultimately, China leads across all demographic, economic, and human development indicators, followed by India's moderate performance and Pakistan's lagging metrics.

QUESTION AND ANSWER

S. No.	QUESTION	Marks
1	Find out the correct match from the given alternative. (a) Mixed — (i) China & Pakistan (b) Socialist — (ii) China (c) Capitalist — (iii) India and Pakistan (d) Closed — (iv) India and China Alternatives: (a) a-i (b) b – ii (c) c –iii (d) d - iv	1
2	Arrange the following events in chronological order and choose the correct alternative. (i) Great Proletarian Cultural Revolution (ii) Great Leap Forward Campaign (iii) Introduction of Economic Reforms in China (iv) First Five Years Plan (a) (ii), (i), (iii), (iv) (b) (iv), (ii), (i), (iii) (c) (ii), (iv), (i), (iii) (d) (iv), (i), (ii), (iii)	1
3	India is not a member of which of the following regional/global economic grouping? SAARC (b) BRICS (c) G-7 (d) G-20	1
4	Read the following statement – Assertion (A.) and Reason (R.) Choose one of the correct alternatives given below: **Assertion (A)**: Nations are forming regional and global economic groups. **Reason (R)**: The primary motive is to strengthen their own domestic economy also they want to understand the development process pursued by their neighboring nations. Alternatives: (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 and Reason (R.) is not the correct explanation of Assertion (A). (c) Assertion (A.) is True but Reason (R.) is False. Assertion (A.) is False but Reason (R.) is True.	1
5	Read the following statement – Assertion (A.) and Reason (R.) Choose one of the correct alternatives given below: Assertion (A.): Due to the process of Globalisation developing countries have to face competition only from developed countries.	1

	Reason (R.): Because they have capital and technology. Alternatives: (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 and Reason (R.) is not the correct explanation of Assertion (A). (c) Assertion (A.) is True but Reason (R.) is False. Assertion (A.) is False but Reason (R.) is True.	
6	Read the following statement – Assertion (A.) and Reason (R.) Choose one of the correct alternatives given below: Assertion (A.): China introduced reforms in phases. Reason (R.): In initial phases reforms were initiated in the industrial sector. Alternatives: (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 and Reason (R.) is not the correct explanation of Assertion (A). (c) Assertion (A.) is True but Reason (R.) is False. Assertion (A.) is False but Reason (R.) is True.	1
7	Read the following statement – Assertion (A.) and Reason (R.) Choose one of the correct alternatives given below: Assertion (A.): In China reform process also involved dual pricing. Reason (R.): Farmers and industrial units were required to buy and sell fixed quantities of input and output on the basis of prices fixed by the government and the rest were purchased and sold by at market price. Alternatives: (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 and Reason (R.) is not the correct explanation of Assertion (A). (c) Assertion (A.) is True but Reason (R.) is False. Assertion (A.) is False but Reason (R.) is True.	1
8	Read the following statement – Assertion (A.) and Reason (R.) Choose one of the correct alternatives given below: Assertion (A.): The sex ratio is low and biased against females in all the three countries. Reason (R.): Scholars cite son preference prevailing in all three countries. Alternatives: (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 and Reason (R.) is not the correct explanation of Assertion (A). (c) Assertion (A.) is True but Reason (R.) is False. Assertion (A.) is False but Reason (R.) is True.	1
9	Read the following statement – Assertion (A.) and Reason (R.) Choose one of the correct alternatives given below:	

	Assertion (A.): The normal course of development can be seen only in India. Reason (R.): In the normal course of development countries first shift from agriculture to manufacturing and then services. Alternatives: (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 and 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.	
10	Read the following statement – Assertion (A.) and Reason (R.) Choose one of the correct alternatives given below: Assertion (A.): China was able to maintain double-digit growth for one decade. Reason (R.): China growth is mainly contributed by manufacturing and service sectors. Alternatives: (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 and 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
11	Statement 1 – The contribution of agriculture to GDP was more in India in comparison with other two nations. Statement 2 – But the proportion of work force that works in this sector is more in Pakistan in compare to India. In the light of the given statement, choose the correct alternative form the following: (a) Statement 1 is true and statement 2 is false. (b) Statement 1 is false and statement 2 is true. (c) Both the statement 1 and 2 are true. (d) Both the statement 1 and 2 are false.	1
12	Statement 1 – India remains the third position regarding urbanization. Statement 2 –Urbanization is high in China. (a) Statement 1 is true and statement 2 is false. (b) Statement 1 is false and statement 2 is true. (c) Both the statement 1 and 2 are true. (d) Both the statement 1 and 2 are false.	1
13	Statement 1 – In 1965 Mao introduced the Great Proletarian Cultural Revolution. Statement 2 – Under which students and professionals were sent to work and learn from the countryside. In the light of the given statement, choose the correct alternative form the following: (a) Statement 1 is true and statement 2 is false. (b) Statement 1 is false and statement 2 is true. (c) Both the statement 1 and 2 are true. (d) Both the statement 1 and 2 are false.	1

14	Statement 1 –India announced its first five-year plan for 1951-1956 Statement 2 – Pakistan announced its first three-year plan called Medium Term Development Plan in 1956. In the light of the given statement, choose the correct alternative form the following: (a) Statement 1 is true and statement 2 is false. (b) Statement 1 is false and statement 2 is true. (c) Both the statement 1 and 2 are true. (d) Both the statement 1 and 2 are false.	1
15	Statement 1 – Under the Commune system people were encourage to set up industries in their backyard. Statement 2 – The GLF campaigning initiated in 1958 aimed at industrializing the country. In the light of the given statement, choose the correct alternative form the following: (a) Statement 1 is true and statement 2 is false. (a) Statement 1 is false and statement 2 is true. (b) Both the statement 1 and 2 are true. (d) Both the statement 1 and 2 are false.	1
16	"Geography has made us neighbors. History has made us friends. Economics has made us partners, and necessity has made us allies. Those whom God has joined together, let no man put as under". The above statement is best suitable for which chapter of Indian economic development? (a) Indian Economy on the eve of Independence. (b) Human capital formation in India. (c) Comparative development experiences of India and its Neighbors. Environment and sustainable development.	1
17	Which of the following was not the key strategy of Economic development of China? (a) The Great Leap Forward (b) Commune System (c) Green Revolution (d) Culture Revolution	1
18	A Japanese automobile company sets up a manufacturing plant in India and invests billions of rupees in production facilities. This investment is an example of: (a) GDP (b) PPP (c) FDI (d) HDI	1
19	Arrange the following events of Pakistan in chronological order and choose the correct alternative. (i) Nationalisation of Capital Goods (ii) First five-year Plan (iii) Pakistan's Independence (iv) Introduction of reforms Alternatives: (a) (iii), (ii), (i), (iv) (b) (iv), (ii), (i), (iii) (c) (ii), (iv), (i), (iii) (d) (iv), (i), (ii), (iii)	1
20	Two countries produce goods and services worth similar amounts. However, the cost of living is much lower in one country. Economists use a method that adjusts for price differences while comparing living standards. The method used to compare living standards after adjusting for differences in prices is: (a) Gross Domestic Product (c) Purchasing Power Parity	1

	(b) Great Leap Forward (d) Special Economic Zone	
	MCQ Answer	
S. No.	ANSWER	Marks
1	(b) – ii (Socialist – China)	1
2	(b) (iv), (ii), (i), (iii)	1
3	(c) G-7	1
4	(a) Both Assertion (A.) and Reason (R.) are true and Reason (R.) is the correct explanation of Assertion (A).	1
5	(d) Assertion (A.) is False but Reason (R.) is True.	1
6	(c) Assertion (A.) is True but Reason (R.) is False.	1
7	(a) Both Assertion (A.) and Reason (R.) are true and Reason (R.) is the correct explanation of Assertion (A).	1
8	(a) Both Assertion (A.) and Reason (R.) are true and Reason (R.) is the correct explanation of Assertion (A).	1
9	Assertion (A) is False but Reason (R) is True.	1
10	(a) Both Assertion (A.) and Reason (R.) are true and Reason (R.) is the correct explanation of Assertion (A).	1
11	(d) Both the statement 1 and 2 are false.	1
12	(c) Both the statement 1 and 2 are true. (as per NCERT)	1
13	(c) Both the statement 1 and 2 are true.	1
14	(a) Statement 1 is true and statement 2 is false.	1
15	(b)Statement 1 is false and statement 2 is true.	1
16	(c) Comparative development experiences of India and its Neighbors.	1
17	(c) Green Revolution	1
18	(c) FDI	1
19	(a) (iii), (ii), (I), (iv)	1
20	(c) Purchasing Power Parity	1
21	 Observe the given picture and explain the objectives of the campaign initiated in 1958 in China. **Ans.** The Great Leap Forward was launched in China in 1958 to accelerate industrial growth and economic development. Under this programme, people were encouraged to establish small-scale "backyard industries" in villages and communes. The aim was to increase industrial production without relying only on large factories. The Chinese government believed that mass	3

	participation in industrial activities would help modernize the economy quickly. Although the programme faced several challenges, it reflected China's determination to achieve rapid industrialisation and economic self-reliance.	
22	 Identify and analyse the impact of the system shown on China's agricultural sector during 1950's and 1960's. **Ans.** The Commune System aimed to increase agricultural production through collective farming and shared resources. It promoted cooperation among farmers and large-scale cultivation. However, the lack of individual incentives sometimes reduced productivity. While the system helped organize rural resources, its effectiveness was limited because farmers had less control over their land and output.	3
23	Compare the objectives of protectionism and privatisation in Pakistan's economic policy. **Ans.** Protectionism aimed to support domestic industries by shielding them from foreign competition, whereas privatisation sought to improve efficiency by transferring ownership from the public to the private sector. While protectionism increased government intervention, privatisation reduced it and promoted market-oriented growth.	3
24	"At the time of independence, both India and Pakistan inherited similar colonial Economic structures. Both the nations adopted many similar economic planning Strategies". Explain any two such similarities in the developmental path of India and Pakistan. **Ans.** Two similar developmental strategies adopted by India and Pakistan: • Both the nations followed the path of mixed economic system involving the public as well as the private sector. • Both India and Pakistan adopted import substitution policy in order to protect their domestic industries from foreign competition.	3
25	"In the late 1970's China's population growth rate has sharply declined as compared to India". Elucidate the reasons and impacts of this situation. **Ans.** In the late 1970s, China experienced a sharp decline in its population growth rate compared to India due to the implementation of one-child policy introduced by the government. This policy led to an ageing population, with a higher proportion of elderly people as compared to the young population.	3
26	(i) State the meaning of 'Commune system'. (ii) Explain any two reasons for the slow economic growth in Pakistan. **Ans.**	3

	(i) **The Commune system** refers to a system in which people collectively cultivate agricultural land. (ii) **Pakistan experienced slow economic growth owing to**: • its agricultural growth and food supply situation were based not on an institutionalised process of technical change but on good harvest. • the problems of overdependence on remittances, rising foreign loans and increased difficulty in paying back the loans.	
27	"United Nations Department of Economic and Social Affairs indicated that India has Overtaken China as the world's most populous country in the month of April 2023". Explain the consequences of one-child policy adopted by China in the 1970s. **Ans.** In the late 1970's, owing to the population explosion and the subsequent socio-economic concerns, China adopted the One Child Norm. This policy led to a sharp decline in its population growth rate. In addition to this, the sex ratio declined. Furthermore, the implementation of the one-child norm led to increase in the population of elderly people in proportion to young people.	3
28	**Three primary reasons why India has been less successful than China in reducing its poverty levels?** **1.** Ans. (i) Political Hurdles: Frequent shifts in government and political instability have weakened the long-term political will needed to enforce major anti-poverty policies. 2. (ii) Rapid Population Growth: Population expansion outpaced job creation and resource availability, forcing millions of people below the poverty line. (iii) Inefficient Welfare Delivery: Corrupt distribution channels and systemic leakages prevented government financial aid and food supplies from fully reaching the poor.	3
29	 Observe the above picture and discuss the impacts of Special Economic Zones (SEZs) on the economic growth of China. **Ans.** The setting up of Special Economic Zones (SEZs) in China led to a substantial increase in foreign direct investment in the economy. With the massive inflow of foreign capital and technology in China, the productive capacity increased thereby contributing to the rapid economic growth of China.	3
30	"In certain parameters of development, Pakistan has an edge over India". Whether the given statement is true or false, give reason in support of your answer. **Ans.** True. These parameters are:	3

(i) **Reduction of Poverty**: Pakistan had recorded lesser percentage of BPL population than India. (in 2013).

(ii) **Access to Improved Water Resources**: Pakistan had achieved an edge over India as regards, Accessibility to improved water resources. However, in the recent past, India has surpassed Pakistan while in Pakistan 91.4 per cent of population has access to improved water resources in India it is 94.1 per cent.

(iii) **Rural-Urban Migration**: Migration of population from rural to urban areas as well as migration of workforce from agriculture to industry has been more effective in case of Pakistan than India.

31 Observe the table given on the Annual growth of Gross Domestic Product (%), 1980-2015 and answer the questions given bellow. 2 + 2

Country	1980-1990	2011-2015
India	5.7	6.7
China	10.3	7.9
Pakistan	6.3	4.0

Source: Key indicators of Asia and Pacific 2016.

(a) In 1980's Pakistan was ahead of India and China was having double-digit growth and India was at the bottom. Give the reason for low growth rate of India.

(b) What was the reason for low growth rate in Pakistan during 2011-2015.

Ans. (a)

(i) Many public sector firms incurred huge losses due to inefficient managerial capability.

(ii) 'Permit license raj' prevented many private firms from becoming efficient as big industrial houses misused license policy against new firms.

(b)

(i) Political instability and lack of peace and tranquility in Pakistan during this period.

(ii) Pakistan growth rate is based of agriculture growth when there was a good harvest the economy was good condition and when it was not the economic indicators showed negative trends.

32 Case Study 4

Economic growth alone does not indicate overall development. Human development depends on factors such as education, healthcare, literacy, and life expectancy. China performs better than India and Pakistan on many human development indicators because of greater investments in health and education.

Questions:

(i) What is meant by human development?

(ii) Name two indicators of human development.

(iii) Which country among India, China, and Pakistan performs best in human development indicators?

(iv) Why is economic growth alone not sufficient for development?

Ans. (i) Human development refers to improvements in people's quality of life through better education, health, and living standards.

(ii) Literacy rate and life expectancy.

(iii) China.

(iv) Because development also requires improvements in education, healthcare, employment, and living standards.

33

"China's economic success was the result of both state control and market reforms". Justify this statement with reference to its key strategies.

4

Ans. State-controlled policies such as the Great Leap Forward, Commune System, and Cultural Revolution aimed to mobilize people and resources for national development. Later, market-oriented reforms like SEZs encouraged foreign investment and international trade. The combination of government planning and economic liberalization helped China achieve rapid growth, showing that both approaches contributed to its development.

34

Compare and analyses the following information related to Imports and Exports of India with its neighboring nations.

4

Country	Export from India (in Rs. Crore)			Import to India (in Rs. Crore)		
	2004-05	2018-19	Annual growth (%)	2004-05	2018-19	Annual growth (%)
Pakistan	2341	14426	3.7	427	3476	5.1
China	25232	117289	2.6	31892	492079	10.3

Ans. (a)The above table shows that during the given periods the Exports from India to Pakistan have increased at an annualized rate of 3.7 % while the same with China shows 2.6% of growth.

(b) On the other hand, India's import from China accounted for a massive 10.3 %.

(c) The corresponding figure with Pakistan witnessed an average of 5.1% respectively.

(d) The situation indicates that Indian imports from China are too high in comparison to the exports to China.

(e) This shows that Indian economy was over-dependent on Chinese economy for goods and services, over the given period of time.

35

Case Study:

4

China implemented economic reforms in 1978 that allowed foreign direct investment, decentralized decision-making, and promoted private entrepreneurship. The government invested heavily in infrastructure and export-led manufacturing. As a result, it witnessed double-digit growth for several years. Meanwhile, India initiated economic reforms in 1991, liberalizing trade, reducing government control, and opening up to foreign investment. However, India's democratic structure often slowed the pace of implementation.

Questions

a) Compare and evaluate how the nature of political systems in India and China influenced the pace and outcomes of economic reforms in both countries.

b) Identify two key strategies adopted by China post-1978 to boost economic growth.

Ans. (a) China's centralized system allowed for faster decision-making, while India's democratic system led to slower but more inclusive growth.

(b) (i)Establishment of Special Economic Zones (SEZs).

(ii) Encouragement of Foreign Direct Investment (FDI).

36

While FDI in retail has proved to be growth-friendly in China, why should there be opposition to it in India? Give your opinion.

4

Ans. It is an undisputed fact that FDI (in wholesale or retail) is growth-friendly. After all it is an

	investment and increases production capacity of the nation. The opposition to FDI is not because it may be a road block in the process of growth. It is because it may generate unwarranted competition for the retail traders in India; they may be marginalised and finally driven out of the market. Such a situation may erode (reduce) t h e opportunities of self-employment in the country, and may also lead to concentration of economic power in the hand some foreign investors.	
37	"China's economic turnaround post-1978 can be attributed to a phased reform process that introduced market mechanisms while maintaining state regulations". In light of the given statement, explain the following structural strategies adopted by China to accelerate its industrial and agricultural growth: (a) Commune Land Allocation (Initial Phase) (b) Dual Pricing Mechanism **Ans. (a) Commune Land Allocation (Initial Phase)** (i) **Shifted control**: China moved from collective farming to the Household Responsibility System. (ii) **Leased land**: Communes distributed plots to individual households on long-term leases. (iii) **Created incentives**: Farmers kept or sold all crop surpluses after meeting state quotas. (iv) **Boosted production**: This ownership incentive drastically increased agricultural output and rural income. **(b) Dual Pricing Mechanism** (i) **Two-tier system**: Goods had two distinct prices based on production targets. (ii) **Fixed quotas**: Farmers and industrial state-owned enterprises sold mandatory quotas to the state at fixed government prices. (iii) **Market freedom**: Producers sold any surplus output above the quota at fluctuating market prices. (iv) **Smooth transition**: This strategy introduced free-market forces without causing sudden economic instability or shortages.	6
38	(a) State any two operational similarities in the developmental paths and planning models adopted by India and Pakistan since their independence. (b) China's Great Leap Forward (GLF) campaign initiated in 1958 was a massive industrialisation drive, yet it faced severe structural failures. Evaluate any two major setbacks that crippled the GLF campaign. **Ans.** (a) **Simultaneous Initiation of Planning Models**: Both India and Pakistan started their developmental paths at the same time after achieving independence in 1947. India launched its First Five-Year Plan for the period 1951–56, while Pakistan announced its First Five-Year Plan (now called the Medium-Term Development Plan) shortly after in 1956. (b) **Adoption of a Mixed Economy Framework**: Both nations adopted a highly similar economic structure that featured the co-existence of public and private sectors. They relied heavily on creating a large public sector and increasing public expenditure on social development and infrastructure to drive growth. (c) **Severe Famine and Natural Calamity**: The campaign was severely disrupted by a catastrophic drought that caused widespread havoc across China. This environmental crisis ruined agricultural production, leading to a massive famine that resulted in the tragic deaths of about 30 million people, completely crippling the rural economy and labor force.	6

	(d) **Withdrawal of Soviet Professionals**: China experienced intense geopolitical and ideological conflicts with Russia (the Soviet Union) during this period. As a direct consequence, Russia abruptly withdrew all of its industrial experts and professionals who had been sent to China to guide, manage, and assist in the large-scale industrialization process, leaving Chinese factories without essential technical expertise.	
39	Mention the three indicators of human development index. Define the liberty indicator. Give any two examples of liberty indicators. **Ans.** (A) The various indicators of human development are: (i) Life expectancy-higher the better. (ii) Adult literacy rate-higher the better. (iii) Percentage of population below poverty line-lower the better. (iv) Infant mortality rate-lower the better. (v) Maternal mortality rate-lower the better. (vi) Percentage of population having access to improved water sources- higher the better. (vii) Percentage of undernourished population-lower the better. (B) Liberty indicators refer to such indicators as the freedom of expression, and the liberty to participate in state administration. Such indicators are often omitted in the construction of HDI, even when the scale of such indicators is much higher in India than China and Pakistan. Omission of these indicator leads to lower HDI rating of India compared to Pakistan and China.	6
40	**Read the following Case study carefully and answer the questions 1-3 on the basis of the same:** China and India are the two Asian giants who are gradually becoming major superpowers of the world economy. The success stories of both the countries are amazing considering the fact that their economic condition even 30 years ago was pitiable. They carried out noticeable structural and economic reforms to fast pace their growth. There are some astonishing similarities among the two countries. They are large countries by geographical measure and the two most populous countries in the world with almost 2.5. Billion people. Both the countries possess strong socialist views. They still have lots of government controls, restrictions, rules and regulation for the outsiders to invest and operate business in various sectors of their economy. Corruption, income inequality and political influence are familiar terms for both the economies. 1. Explain which sector contributes maximum to the GDP of China in comparison to India? 2. According to the text, what are two major socio-economic challenges that both China and India familiarly face despite their rapid economic growth? **Ans.** 1. While the Service (Tertiary) sector currently contributes the highest share to the GDP of both nations, China's Industrial (Secondary) sector contributes a significantly higher percentage to its GDP compared to India's. 2. i. Corruption: Heavy government controls, rules, and regulations create opportunities for bribery and illegal practices when outsiders try to invest or operate businesses. ii. Income Inequality: Despite the amazing success stories and rapid economic growth over the last 30 years, the wealth generated is not distributed evenly among the 2.5 billion people, leaving a large gap between the rich and the poor	6
41		6

Country	Population (in million)	Annual Growth of population	Density (per sp.km)	Sex ratio	Fertility rate	Urbanization

India	1311	1.2	441	2.3	2.3	33
China	1371	0.5	146	1.6	1.6	56
Pakistan	188	2.1	245	3.7	3.7	39

Study the table given above and explain briefly the salient demographic indicators:

a) Total Population.

b) Annual Growth Rate of Population.

c) Density of Population.

d) Sex Ratio of China, Pakistan and India.

Ans. a) **Total Population**: China is the largest populated country in the world followed by India. The above table depicts that China's population in 2000-01 was approximately 1311 million and that of India and Pakistan was 1103.6 million and 162.4 million respectively.

b) **Annual Growth Rate of Population**: Although China is the largest populated country but a strong positive point for China is that, its annual growth rate of population is just 0.5% per annum while that of India and Pakistan is 1.2% and 2.1% per annum. With such a high growth rate it would not be wrong to expect that in the forthcoming decades India will surpass the total population of China.

c) **Density of Population**: In spite of the fact that China is highly populated and geographically occupying the largest area among the three nations, its density of population is the lowest. It is as low as 138 persons per square kilometer of area compared to 358 and 193 persons in India and Pakistan respectively. Lower the degree of density of population the lower is the pressure on the country's natural resources and higher is the probability of sustainable development.

d) **Sex Ratio**: This ratio counts the number of females per 1000 males. The sex ratios in all the three countries are almost same with China having a marginally higher sex ratio of 937 females per 1000 males. This depicts the low economic and social status of women in India and Pakistan.

SAMPLE QUESTION PAPER- I

CLASS: XII SUBJECT & CODE: ECONOMICS (030) TIME: 3:00 HOURS M.M.: 80

General Instructions:

Read the following instructions carefully and strictly follow them:

1) *This question paper contains **34** questions. **All** questions are **compulsory**.*
2) *This question paper contains **two** Sections:*
   - ***Section A** - Macro Economics*
   - ***Section B** - Indian Economic Development*
3) *This paper contains **20** Multiple Choice Questions Type questions of **1** mark each.*
4) *This paper contains **4** Short Answer Questions Type-I questions of **3** marks each to be answered in 60 to 80 words.*
5) *This paper contains **6** Short Answer Questions Type-II questions of **4** marks each to be answered in 80 to 100 words.*
6) *This paper contains **4** Long Answer Questions Type questions of **6** marks each to be answered in 100 to 150 words.*
7) *Attempt all parts of a question together.*

SECTION A: MACROECONOMICS

Q. No.	QUESTION	Marks
1	If the reserve deposit ratio is 12.5%, the value of money multiplier will be: (a) 2 (b) 5 (c) 8 (d) 10	1

2	Read the following statements carefully and choose the correct alternative: **Statement I**: If the equilibrium level of output is more than the full employment level, this situation is called situation of excess demand. **Statement II**: There exists a direct relationship between marginal propensity to save and investment multiplier. (a) Both the statements are true. (b) Both the statements are false. (c) Statement I is true, Statement II is false. (d) Statement II is true, Statement I is false.	1
3	Import of mobile phones from China will be included in……… account on……side of balance of payments account of India. (a) current, credit (b) current, debit (c) capital, credit (d) capital, debit	1
4	Export of COVID-19 vaccines manufactured in India has led to (a) Inflow of Indian currency (b) Inflow of foreign currency and employment generation (c) Outflow of foreign currency (d) Outflow of foreign currency and employment generation	1
5	Which of the following is not true for MPC in an economy? (a) MPC can be zero (b) MPC may lie between zero and one (c) MPC can exceed one (d) both (b) and (c)	1
6	Which of the following will be included in national income? (a) Money receipt from sale of old car (b) Scholarships received by students (c) Remittances from abroad (d) Free services of owner-occupied building	1
7	If marginal propensity to save is 20% and the level of consumption at zero level of income in the economy is ₹100 crore, then consumption function of this hypothetical economy will be: (a) C = 0.2Y (b) C = 0.8Y (c) C = ₹900 crore + 0.2Y (d) C= ₹100 crore + 0.8Y	1
8	In the context of commercial bank, which of the following alternatives is correct? (i) Deposits are liabilities of banks. (ii) Commercial banks are creator of money. (iii) Commercial banks accept deposits of the general public. (iv) Commercial banks accept deposits of World Bank for Agriculture and Rural Developments. ***Alternatives:*** (a) (i) and (ii) (b) (ii) and (iii) (c) (i), (ii) and (iii) (d) (i) and (iv)	
9	If C = 100 + 0.75Y, then the corresponding saving function will be expressed as: (a) S = 100 + 0.25Y (b) S = -100 + 0.75Y (c) S = -100 + 0.25Y (d) S = 75 + 0.25Y	1
10	From the following given sets of statements in column I and II, choose the correct pair of statements.	1

Column I	**Column II**
A. Exports of goods and services	i. Excess of Exports of goods over the Imports of goods

	B. Trade Surplus | ii. An element of invisible items C. Current Transfers to rest of the world | iii. Recorded as a positive item in the BoP account D. Portfolio Investments | iv. Foreign Institutional Investors (a) A-i (b) B-ii (c) C-iii (d) D-iv	
11	'Trade Deficit must exist if a country is facing a situation of Current Account Deficit.' Defend or refute the statement, with valid argument.	3
12	Calculate Net National Product at market price.	3

Sr. No.	Particulars	Amount (in ₹ crores)
(i)	Gross domestic fixed capital formation	350
(ii)	Private final consumption expenditure	8000
(iii)	Government final consumption expenditure	3000
(iv)	Value of output produced in the economy	150
(v)	Current replacement cost of fixed capital	40
(vi)	Net exports	(-)60
(vii)	Net factor income from abroad	80
(viii)	Sales by all firms in the economy	100

OR

State giving reasons whether the following statements are True or False:

(a) Capital goods are used up to produce other goods.

(b) Machine purchased is always a final good.

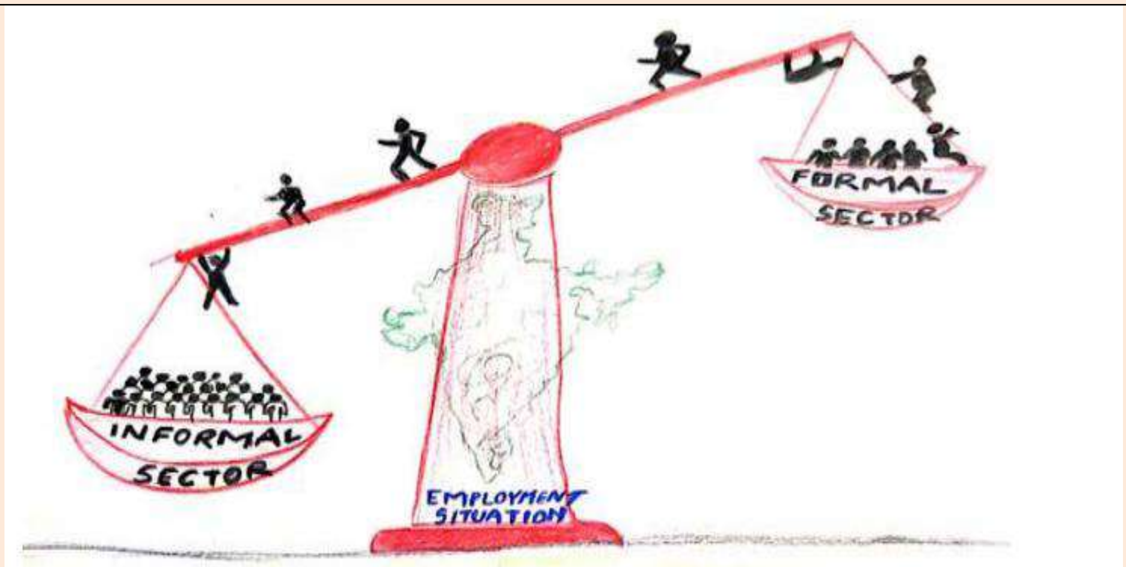
13	The saving function of an economy is given as: S = (−10) + 0.20Y If the ex-ante investments are ₹240 crores, calculate the following: (i) Equilibrium level of income in the economy (ii) Additional investments which will be needed to double the present level of equilibrium income. **OR** 'An economy is operating at under-employment level of income.' What is meant by the given statement? Discuss one fiscal measure to tackle this situation.	4
14	In an economy, if initial investments are increased by ₹100 crores, discuss the working of investment multiplier presuming marginal propensity to consume is 0.8.	4
15	Explain 'Banker to the Government' function of Central Bank.	4
16	(a) From the following data about a government budget calculate primary deficit:	3

Sr. No.	Items	(₹ in crores)
(i)	Revenue Deficit	40
(ii)	Non-debt creating capital receipts	190
(iii)	Tax revenue	125
(iv)	Capital expenditure	220
(v)	Interest payments	20

(b) Explain 'economic stability' function of government budget. 3

	OR Categorise the following into revenue expenditure and capital expenditure. Give reasons. (i) Investment in shares (ii) Subsidies (iii) Construction of school building (iv) Defence services expenditure (v) Repayment of loan (vi) Interest payment	6
17	(a) Which of the following items will be included/not included in the estimation of Gross Domestic Product of India? Give reasons. 1) Wages received by an Indian working in the British Embassy in India. 2) Financial aids received from abroad after 'Fani cyclone.' (b) "Net factor income from abroad can never be negative." Defend or refute the given statement with valid argument.	3 3
	SECTION B: INDIAN ECONOMIC DEVELOPMENT	
18	On the eve of independence, India's demographic condition was characterised by which of the following statement? (a) Low level of literacy, low mortality rates and high life expectancy (b) High level of literacy, high mortality rates and low life expectancy (c) Low level of literacy, high mortality rates and high life expectancy (d) Low level of literacy, high mortality rates and low life expectancy	1
19	India is not a member of which of the following regional/global economic grouping? (a) SAARC (b) BRICS (c) G-7 (d) G-20	1
20	India has become a preferred outsourcing destination because of___________. (i) Availability of cheap labour (ii) Quality of IT services (iii) Availability of skilled labour (iii) Availability of unskilled labour ***Alternatives:*** (a) Only (i) (b) (i) and (ii) (c) Only (ii) (d) (i), (ii) and (iii)	1
21	Read the following statements carefully and choose the correct alternative: **Statement I**: Since 2018, Pakistan is working on the basis of 12th Five Year Development Plan (2018-23), whereas, China is working on 13th Five Year Plan (2021-25) **Statement II**: Until March 2017, India had been following Five Year Plan-based development model, which now has been replaced by NITI Aayog. (a) Both the statements are true. (b) Both the statements are false. (c) Statement I is true, Statement II is false. (d) Statement II is true, Statement I is false.	1
22	The vaccination campaign for containing COVID-19 is an example of _____medicine. (a) Preventive (b) Curative (c) Social (d) Emotional	1
23	Arrange the following events of China in chronological order and choose the correct alternative: (i) Great Proletarian Cultural Revolution (ii) Great Leap Forward campaign (iii) Introduction of Economic Reforms (iv) First five year plan	1

	Alternatives: (a) (ii), (iv), (iii), (i) (b) (iv), (ii), (i), (iii) (c) (ii), (iv), (i), (iii) (d) (iv), (i), (ii), (iii)	
24	Read the following statements - **Assertion (A)** and **Reason (R)**: **Assertion (A)** – The worker-population ratio in rural India is higher than that in urban areas. **Reason (R)** – People in rural areas have limited resources to earn a higher income. People cannot stay at home as their economic condition may not allow them to do so. They participate more in the employment market. **From the given alternatives choose the correct one:** **Alternatives:** (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 and 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
25	From the following given sets of statements in column I and II, choose the correct pair of statements. <table><tr><th>Column I</th><th>Column II</th></tr><tr><td>A. Introduction of economic reforms in China</td><td>i. 1949</td></tr><tr><td>B. Establishment of People's Republic of China</td><td>ii. 1953</td></tr><tr><td>C. China announced its first five-year plan</td><td>iii. 1978</td></tr><tr><td>D. Great Leap Forward campaign initiated in China</td><td>iv. 1958</td></tr></table>(a) A-i (b) B-ii (c) C-iii (d) D-iv	1
26	Read the following statements carefully and choose the correct alternative: **Statement I**: The Pollution Control Boards (PCBs) prepare manuals, codes and guidelines relating to treatment and disposal of sewage and trade effluents. **Statement II**: The CPCB (Central Pollution Control Board) has identified seventeen categories of industries (large and medium scale) as significantly polluting. (a) Both the statements are true. (b) Both the statements are false. (c) Statement I is true, Statement II is false. (d) Statement II is true, Statement I is false.	1
27	In 1955, Karve committee was constituted for aiming the__________. (a) Modernisation (b) Industrial development (c) Development of small-scale industries (d) Self-reliance	1
28	"Some economists believe that the economic reforms have adversely affected the agriculture sector in India." Do you agree with the given statement? Justify your answer with valid reasons. **OR** "The most important characteristic of India's foreign trade throughout the colonial period was the generation of a large export surplus. But this surplus came of a huge cost to the country's economy." Do you agree with the above statement? Give valid reasons in support of your answer.	3

29	"Recently Indians have drifted away from the traditional knowledge and practices and caused large scale damage to environment." Explain how, adopting the traditional practices can be helpful in achieving the objective of sustainable development.	3
30	"The present day fast industrial growth in China can be traced back to the reforms introduced in 1978." Defend or refute the given statement with valid arguments.	4
31	 Identify the situation depicted in the given image. Suggest the impact of the indicated situation, on the Indian economy.	4
32	Discuss the importance of credit in rural development. **OR** Bring out the differences between human capital and human development.	4
33	State the meaning of import substitution. Explain how import substitution can protect domestic industries? Why did the policy makers adopt such policy of protection? **OR** Why and how was private sector regulated under the IPR 1956?	6
34	Read the following text carefully and answer questions that follow: **SINO-PAK FRIENDSHIP CORRIDOR** **The China-Pakistan Economic Corridor (CPEC)** relationship between the two nations. But it has also sparked criticism for burdening Pakistan with mountains of debt and allowing China to use its debt strategic assets of Pakistan. The foundations of CPEC, part of China's Belt and Road Initiative, were laid in May 2013. At the time, Pakistan was reeling under weak economic growth. China committed to play an integral role in supporting Pakistan's economy. Pakistan and China have a strategic relationship that goes back decades. Pakistan turned to China at a time when it needed a rapid increase in external financing to meet critical investments in hard infrastructure, particularly power plants and highways. CPEC's early harvest projects met this need, leading to a dramatic increase in Pakistan's power generation capacity, bringing an end to supply-side constraints that had made rolling blackouts a regular occurrence across the country. Pakistan leaned into CPEC, leveraging Chinese financing and technical assistance in an	

	attempt to end power shortages that had paralyzed its country's economy. Years later, China's influence in Pakistan has increased at an unimaginable pace. **China As Pakistan's Largest Bilateral Creditor:** China's ability to exert influence on Pakistan's economy has grown substantially in recent years, mainly due to the fact that Beijing is now Islamabad's largest creditor. According to documents released by Pakistan's finance ministry, Pakistan's total public and publicly guaranteed external debt stood at $44.35 billion in June 2013, just 9.3 percent of which was owed to China. By April 2021, this external debt had ballooned to $90.12 billion, with Pakistan owing 27.4 percent —$24.7 billion — of its total external debt to China, according to the International Monetary Fund (IMF). Additionally, China provided financial and technical expertise to help Pakistan build its road infrastructure, expanding north-south connectivity to improve the efficiency of moving goods from Karachi all the way to Gilgit-Baltistan (POK). These investments were critical in better integrating the country's ports, especially Karachi, with urban centers in Punjab and Khyber-Pakhtunkhwa provinces. Despite power asymmetries between China and Pakistan, the latter still has tremendous agency in determining its own policies, even if such policies come at the expense of the long-term socioeconomic welfare of Pakistani citizens. *(https://www.usip.org/publications/2021/05/pakistans-growing-problem-its-china-economic-corridor - Modified)* (a) Outline and discuss any two economic advantages of China Pakistan Economic Corridor (CPEC) accruing to the economy of Pakistan. (b) Analyse the implication of bilateral 'debt-trap' situation of Pakistan vis-à-vis the Chinese Economy.	3 3

SAMPLE QUESTION PAPER MARKING SCHEME

SECTION A: MACROECONOMICS

Q. No.	ANSWER	Marks
1	(c) 8	1
2	(c) Statement I is true, Statement II is false.	1
3	(b) current, debit	1
4	(b) Inflow of foreign currency and employment generation	1
5	(c) MPC can exceed one	1
6	(d) Free services of owner-occupied building	1
7	(d) C = ₹100 crore + 0.8Y	1
8	(c) (i), (ii) and (iii)	1
9	(c) S = -100 + 0.25Y	1
10	(d) D-iv	1
11	The given statement is refuted as the Current Account Deficit (CAD) is a broader concept. CAD occurs when the foreign exchange payments on account of visible, invisibles and current transfers are in excess over the receipts of visible, invisibles and current transfers. A country may face a situation of CAD, even if the country has trade surplus, with greater negative balances on account of services and unilateral transfers.	3
12	GDPmp = (ii) + (iii) + (i) + (iv) – (viii) + (vi) = 8000 + 3000 + 350 + 150 – 100 + (-) 60 = 11340	1

NNPmp = GDPmp – Current replacement cost + Net factor income from abroad $\frac{1}{2}$

= 11340 – (v) + (vii) = 11340 – 40 + 80 = ₹ 11380 crore 1

OR $\frac{1}{2}$

(a) False. Capital goods like machines make production of other goods feasible, but they themselves don't get transformed in the production process, i. e., they are not used up to produce other goods. $1\frac{1}{2}$

(b) False. Whether 'machine' is a final good or not depends on how it is being used. If the machine is bought by a household, then it is a final good because it is used for final consumption. If the machine is bought by a firm for its own use, then also it is a final good because it is used for investment. If the machine is bought by a firm for re-sale, then it is an intermediate good. $1\frac{1}{2}$

13

(i) In the state of equilibrium

S = I 1

(−10) + 0.20Y = 240

Y = ₹1250 crores 1

(ii) ΔI = ΔY/k 1

= 1250/5 = ₹250 crores 1

OR

An economy is said to be operating at under employment equilibrium level, if the planned aggregate expenditure (i. e. aggregate demand) falls short of available output in the economy, corresponding to the full employment level. It refers to a situation of deficient demand, which gives rise to a deflationary gap. 2

To tackle such a situation the aggregate demand has to be increased by an amount equal to the deflationary gap. 2

(i) One fiscal measure - Decrease in taxes

The government under its fiscal policy may decrease the rate of taxes (both direct and indirect taxes). This will ensure greater purchasing power in the hands of general public. This will help to increase aggregate demand and remove the deflationary gap.

(any other fiscal measure may be awarded marks)

14

The working of investment multiplier is based on the principal that one's expenditure is another's income. 1

Given initial investment = ₹100 crores and MPC = 0.8, the working of investment multiplier is shown in the given table: 2

Round	Change in investment (₹ in crores)	Change in income (₹ in crores)	Change in consumption (₹ in crores)	Change in saving (₹ in crores)
I	100	100	80	20
II	-	80	64	16
III	-	64	51.2	12.8
-	-	-	-	-
-	-	-	-	-
Total	ΔI = 100	ΔY = 500	ΔC = 400	ΔS = 100

(Brief discussion of the above table) 1

15	Central bank is a banker, agent, and financial advisor to the government. As a banker, it manages accounts of the all-government banks across the country. As an agent to the government, it buys and sells securities of the government. As an advisor, it helps government in framing policies to regulate the money market.	4
16	(a) Fiscal Deficit = Revenue Deficit + Capital Expenditure – Non-debt creating capital receipts = 40 + 220 – 190 = ₹70 crore Primary Deficit = Fiscal Deficit – Interest Payments = 70 – 20 = ₹50 crore (b) The government of a country is always committed to save the economy from fluctuations. Budget is used as an instrument to correct the situations of deflation and inflation. By doing it government tries to achieve the state of economic stability. OR (i) Capital expenditure as it creates assets (ii) Revenue expenditure as it neither creates assets nor reduce liabilities (iii) Capital expenditure as it creates assets (iv) Revenue expenditure as it neither creates assets nor reduce liabilities (v) Capital expenditure as it reduces liabilities (vi) Revenue expenditure as it neither creates assets nor reduce liabilities	2 1 3 1 1 1 1 1 1
17	(a) 1) No, it will not be included in Gross Domestic Product of India as the British Embassy is not a part of domestic territory of India. 2) No, it is a transfer payment. (b) The given statement is refuted. Net factor income from abroad is the difference between factor income earned from rest of the world and factor income paid to rest of the world. If the value of factor income paid to rest of the world is greater than the factor income earned from rest of the world, the resulting value (net factor income from abroad) can be negative.	$1\frac{1}{2}$ $1\frac{1}{2}$ 3
	SECTION B: INDIAN ECONOMIC DEVELOPMENT	
18	(d) Low level of literacy, high mortality rates and low life expectancy	1
19	(c) G-7	1
20	(d) (i), (ii) and (iii)	1
21	(d) Statement II is true, Statement I is false.	1
22	(a) Preventive	1
23	(b) (iv), (ii), (i), (iii)	1
24	(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).	1
25	(d) D-iv	1
26	(a) Both the statements are true.	1
27	(c) Development of small-scale industries	1
28	The given statement that Agriculture Sector was adversely affected by reform process is correct. This can be supported with the following arguments: (a) Reduction in public investment in agriculture sector: Public investment in agriculture sector especially in infrastructure like irrigation power, etc. has been reduced in the reform period. (b) Removal of fertilizers subsidy: Removal of fertilizer subsidy has increased the cost of production affecting thereby the small and marginal farmers. (c) Increased international competitiveness due to liberalisation and reduction of import duties. (d) Shift from food Crops to cash Crops due to export-oriented policy in agriculture led to a rise	 1 1 1

	in prices of food-grains. (any three valid points) **OR** The give statement is correct to its character. India's foreign trade during the British colonial rule generated a large export surplus but at a huge cost to the country's economy because: (i) Several essential commodities such as food grains, clothes, kerosene, etc. ere scarcely available in the domestic market. (ii) The export surplus did not result in any flow of gold or silver into India. Rather, this was used to make payments for the expenses incurred by an office set up by the colonial government in Britain, expenses on war fought for the British government, and the import of invisible items. All these led to the "'drain of India wealth".	1 1 1
29	The given statement is quite appropriate. India is very much privileged to have about 15,000 species of plants which have medicinal properties. The traditional health care systems such as Ayurveda, Unani, Tibetan etc. are very useful for treating chronic health problems. Traditional cosmetic products are herbal in composition. These products are not only environment-friendly but also, are free-from side effects. They do not involve large-scale industrial and chemical processing.	1 2
30	The given statement is correct. (i) In the initial phase, reforms were initiated in agriculture, foreign trade and investment sectors. For instance, in agriculture commune lands were divided into small plots which were allocated (for use not ownership) to individual households. They were allowed to keep all income from the land after paying taxes. (ii) In the later phase, reforms were initiated in the industrial sector. Private sector firms and township & village enterprises were allowed to produce goods. At this stage, State Owned Enterprises (SOEs) were made to face competition. (ii) The reform process also involved 'dual pricing'. This means fixing the prices in two ways - farmers and industrial units were required to buy and sell fixed quantities of inputs and output on the basis of prices fixed by the government and the rest were purchased and sold at market prices. Over the years, as production increased, proportion of goods and inputs transacted in the market also increased. (iv) In order to attract foreign investors, special economic zones were set up.	1 1 1 1
31	The given image depicts the drift of the Indian workforce from the formal sector to the informal sector employment. This situation is popularly known as 'informalisation of the workforce'. In India, informal sector includes millions of farmers, agricultural labourers, non-farm casual wage labourers, owners of small enterprises and the self-employed people. The workforce in the informal sector does not get regular income; they do not have any protection or regulation from the government. Workers may be dismissed without any compensation/notice. The Government is taking steps to safeguard the interests of the workers in the informal sector.	1 3
32	Growth of rural economy depends primarily on infusion of capital, from time, to realise higher	4

<table>
<tr>
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<td>productivity in agriculture and non-agriculture sectors. As the gestation gap between crop sowing and realisation of income after production is quite long, farmers borrow from various sources (formal and informal) to meet their requirements on seeds,
fertilisers etc. and other family expenses of marriage, religious ceremonies etc.
OR
<table>
<tr><th>Human Capital</th><th>Human Development</th></tr>
<tr><td>Human capital considers education and health as a means to increase labour productivity.</td><td>Human development is based on the idea that education and health are integral to human well-being because these help him make other choices.</td></tr>
<tr><td>Human capital treats human beings as a means to an end, the end is the increase in productivity.</td><td>In human development perspective, human beings are ends in themselves.</td></tr>
<tr><td>Investment in education and health is unproductive if it does not enhance production of goods and services.</td><td>Investment in education and health should be made even if such investments do not result in better labour productivity.</td></tr>
<tr><td>To summarise, investment in education and health is made to increase the labour productivity.</td><td>To summarise, investment in education and health is made to improve quality of life of an individual.</td></tr>
</table>
</td>
<td>4</td>
</tr>
<tr>
<td>33</td>
<td>Import substitution refers to a policy of replacement or substitution of imports by domestic production.
The domestic industries of India were not in a position to compete against the goods produced by developed economies. So, the policy of import substitution helped in protecting them in two ways:
(i) The tariff on imported goods, and
(i) Fixation of quotas helped in restricting the level of imports.
As a result, the domestic firms could expand without fear of competition from the foreign market.
The policy makers adopted the policy of protection due to the following reasons:
1) Protection was based on the notion that industries of developing country like India were not in a position to compete against the goods produced by more developed countries. It was assumed that if the domestic industries were protected, they would learn to compete in the course of time.
2) Our planners also feared the possibility of foreign exchange being spent on import of luxury goods if no restrictions were placed on imports.
OR
Under the Industrial Policy Resolution (IPR), 1956 the private sector was regulated through a system of licenses.
1) No industry was allowed unless a license was obtained from the government
<u>Reasons</u>: This policy was used for promoting industry in backward regions. It was easier to</td>
<td>2
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	obtain a license if the industrial unit was established in an economically backward area. Even such units were given tax concessions and electricity at a low tariff. Thus, the purpose of licensing policy was to promote regional equality. 2) Even an existing industry had to obtain a license for expanding output or for diversifying production Reason: This was meant to ensure that the quantity of goods produced was not more than what the economy required. License to expand production was given only if the government was convinced that the economy required a larger quantity of goods.	1 2
34	(a) Economic advantages of China Pakistan Economic Corridor (CPEC) to the economy of Pakistan are: 1) China provided financial and technical expertise to help Pakistan build its road infrastructure, supporting employment and income in the economy. 2) CPCE has led to a massive increase in power generation capacity of Pakistan. It has brought an end to supply-side constraints in the nation, which had made blackouts a regular phenomenon across the country. (b) China has become famous for its 'Debt Trap Diplomacy' in recent times. Under this China provides financial and technical expertise/assistance to help various nations to bring them under its direct or indirect influence. The first and the foremost implication of the diplomacy is that Beijing has now become Islamabad's largest creditor. According to documents released by Pakistan's finance ministry, its total public external debt stood at $44.35 billion in June 2013, just 9.3 percent of which was owed to China. By April 2021, this external debt had ballooned to $90.12 billion, with Pakistan owing 27.4 percent —$24.7 billion — of its total external debt to China, according to the IMF.	 $1\frac{1}{2}$ $1\frac{1}{2}$ 3

SAMPLE PAPER- II

Class-XII

Economics (030)

Time allowed: 3 Hours **Maximum Marks: 80**

GENERAL INSTRUCTIONS:

1. This question paper contains two sections:

Section A – Macro Economics

Section B – Indian Economic Development

2. This paper contains 20 Multiple Choice Questions type questions of 1 mark each.

3. This paper contains 4 Short Answer Questions type questions of 3 marks each to be answered in 60 to 80 words.

4. This paper contains 6 Short Answer Questions type questions of 4 marks each to be answered in 80 to 100 words.

5. This paper contains 4 Long Answer Questions type questions of 6 marks each to be answered in 100 to 150 words.

SECTION A – MACRO ECONOMICS

Q No.	QUESTION	Marks

1	The value of change in stock is…………………………… If: i)Gross domestic fixed capital formation =450 ii)Net domestic capital formation = 400 iii) Depreciation = 100 Options: A) 50 B) 100 C) 150 D) 200	1
2	Which of the following statement does not support the function of RBI as supervisor to the commercial banks (A) Regulates the expansion, merger, acquisition etc of the bank (B) Formulates all rules and regulations for the commercial banks (C) Inspection of operations of banks (D) Extend loans to the commercial bank	1
3	Which among the following is not true about depreciation concept: A) It is an accounting concept. B) Normal wear and tear are a part of depreciation. C) It is included in domestic income. D) Disuse of capital is not a part of depreciation.	1
4	If the value of Investment Multiplier (K) is 4, the relevant consumption function would be………………………. (A) C = 200 + 0.25 Y (B) C = 200 + 0.75 Y (C) C = 200 + 0.20 Y (D) C = 200 + 0.50 Y Or If the value of MPC = 0.75, What is the value of Investment Multiplier)K)? (A) 4 (B) 5 (C) 8 (D) 10	1
5	In the hypothetical economy, following data is given: <table><tr><td>S.No</td><td>Items</td><td>Amount (in ₹ crores)</td></tr><tr><td>1</td><td>Merchandise Export</td><td>1000</td></tr><tr><td>2</td><td>Merchandise Import</td><td>900</td></tr><tr><td>3</td><td>Communication and Tourism</td><td>700</td></tr><tr><td>5</td><td>Net remittances from abroad</td><td>(-) 200</td></tr></table>The value of Balance on Current Account would be ₹………………. crores. (A) 100 (B) 600 (C) 700 (D) 1000	1

6	Read the following statement: Assertion (A) and Reason (R). Choose one of the correct alternatives given below: Assertion (A): Central Bank provides loan to the commercial bank in the situation of financial distress. Reason (R): Central Bank can order the government to help the bank facing the financial crisis. Alternatives: (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 and 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
7	Let us suppose there is an oil refinery which refines crude petroleum and sells it in the market. The value added of the refinery will be counted as part of the GDP of the economy. But in carrying out the production the refinery may also be polluting the nearby river. Pollution may also kill fish or other organisms of the river on which fish survive. Such harmful effects that the refinery is inflicting on others, for which it will not bear any cost, are called externalities. If we take GDP as a measure of welfare of the economy, then in above scenario the wellbeing of the people will……………………. and this shows the ………………………………. of the Gross domestic product. Options: A) Rise, Overestimation B) Rise, Underestimation C) Fall, Overestimation D)Fall, Underestimation	1
8	When in a country the price of foreign currency falls, the national income will………………….. (A) Rise (B) Fall (C) Remain unchanged (D) Both (A) and (B)	1
9	Read the following statement carefully and choose the correct alternative: Statement I: When aggregate demand is less than aggregate supply, planned inventory rises above the desired level Statement II: Planned inventory is the unsold goods which anticipated in case of an expected fall in sale. A) Both the statements are true B) Both the statements are false C) Statement I is true and statement II is false D) Statement I is false and statement II is True	1

Q. No.	Question	Marks
10	If Rakshit has a mobile and he wants a tablet, Shivam has a laptop and he wants a mobile in exchange of laptop, then what problem Rakshit and Shivam are facing. (A) Lack of measure of value (B) Lack of double coincidence of wants (C) Lack of store of value (D) None of these	1
11	How the legal reserve ratio influences the process of credit creation? Explain it briefly using the concept of money multiplier.	3
12	Giving valid reason explain how the following would be treated while estimating National income: A) Payment of indirect taxes by a firm. B) Purchase of goods by foreign tourists. OR Distinguish between Real National Income and Nominal National Income.	3
13	Distinguish between current account balance of payment and capital account balance of payment with examples.	4
14	For an economy saving function is given S= (-)25+ 0.5Y and investment expenditure is I = 5000, find equilibrium level of income and equilibrium level of consumption. Or Calculate value of Consumption at income levels 100, 200, 300 and 400 if autonomous consumption is 25 and MPC is 0.5.	4
15	Calculate the Net National Product at Market Price from the given details: (table below)	4

S.No.	Particular	(₹ in Crores)
(i)	Mixed income of self-employed	8,00
(ii)	Depreciation	20
(ii)	Profit	1,00
(iv)	Rent	60
(v)	Interest	70
(vi)	Compensation of employees	3,00
(vii)	Net indirect taxes	50
(viii)	Net factor income to abroad	6
(ix)	Net exports	(−) 5
(x)	Net current transfers to abroad	2

Q. No.	Question	Marks
16	A) Suppose in a hypothetical economy actual aggregate demand is greater than planned level of aggregate demand. What is its effect on the general price level? Explain B) How the government through its fiscal measures of taxation and expenditure deals with the above situation? Or A) Define aggregate demand. What are its components in a two-sector closed economy? B) Elaborate the changes that the central bank brings in repo rate and bank rate while controlling the situation of deflation in the economy.	6 (3+3)

17	**Read the following text carefully:** Government deficit can be reduced by an increase in taxes or reduction in expenditure. In India, the government has been trying to increase tax revenue with greater reliance on direct taxes as indirect taxes are regressive in nature – they impact all income groups equally. There has also been an attempt to raise receipts through the sale of shares in PSUs. However, the major thrust has been towards reduction in government expenditure. This could be achieved through making government activities more efficient through better planning of programmes and better administration. The other way is to change the scope of the government by withdrawing from some of the areas where it operated before. Cutting back government programmes in vital areas like agriculture, education, health, poverty alleviation, etc. would adversely affect the economy. We must note that larger deficits do not always signify a more expansionary fiscal policy. The same fiscal measures can give rise to a large or small deficit, depending on the state of the economy. For example, if an economy experiences a recession and GDP falls, tax revenues fall because firms and households pay lower taxes when they earn less. This means that the deficit increases in a recession and falls in a boom, even with no change in fiscal policy. On the basis of the given text and common understanding, answer the following questions: a) In case an economy experiences a boom, it means there is ………….. (fall/rise) in tax revenue and …………………(fall/rise) in GDP. b) Government attempt to raise receipts through the sale of shares in PSUs is known as ………………………….(Disinvestment/re-investment) and such receipts are ………………………………(revenue/ capital) receipts. c) Write any two differences between direct taxes and indirect taxes. d) Describe why the cut in government expenditure adversely affect the economy?	6 (1+1+ 2+2)
	SECTION B – INDIAN ECONOMIC DEVELOPMENT	
18	Which of the following statement is False? (A) During the British rule 70-75 % of the workforce involved in agricultural sector. (B) During British rule 10% of the work force involved in manufacturing sector. (C) The British introduced Railways in 1853. (D) The life expectancy during colonial rule in India was 64 years. or From the following statement regarding Goods and Services Tax, identify the incorrect statement: (A) It ensures uniformity of tax rates across all states. (B) It ensures better text compliance and tax collection. (C) It is imposed on the supply of goods and services (D) All types of direct and indirect taxes have been subsumed by it.	1
19	Which among the following is true about Industrial Policy Resolution 1956 (IPR 1956): (i) This resolution classified industries into three categories. (ii) Existing industry had no need to obtain a license for expanding output or for diversifying production (producing a new variety of goods). (iii) This policy was used for promoting industry in backward regions.	1

	(iv) The purpose of this policy was to promote regional equality. Option: (A) (i) and (ii) (B) (i), (iii) and (iv) (C) (ii), (iii) and (iv) (D) (i), (ii), (iii) and (iv)	
20	Which among the following is not an indicator of Educational Aachievements in a country: (A) Adult literacy rate (B) Primary education completion rate (C) Youth literacy rate (D) Women literacy rate	1
21	The need for diversification in agriculture sector in India arises from the fact that: (i) There is greater risk in depending exclusively on farming for livelihood. (ii) Most of the agriculture employment activities in India are concentrated in the kharif crop. (iii) During Rabi season there is ample opportunity for gainful employment in India. (iv) Agriculture is already overcrowded a major proportion of increasing labour force needs to be shifted to alternative employment opportunities in other non-farm sectors. (A) (i), (ii) and (iii) (B) (i), (ii) and (iv) (C) (i), (iii) and (iv) (D) (i), (ii), (iii) and (iv)	1
22	The ability of the environment to assimilate or handle degradation, such as waste and pollution, is called its …………………………….. (A) Carrying Capacity (B) Sustainable development (C) Absorptive capacity (D) Resource conservation	1
23	Which among the following is not true: (A) Worker population ratio is an indicator which is used for analysing the Casualisation of workforce in India. (B) All those who help the main workers in the economic activities are also considered as worker. (C) Those activities which contribute to the gross national product are called economic activities. (D) The nature of employment in India is multifaceted.	1
24	Identify, which among the following statement is not related to development strategy of China: (A) In rural areas, communes were started. (B) Mao introduced Great Proletarian Cultural revolution. (C) In the 1970s nationalisation of capital goods industry took place. (D) State owned enterprises (SOE) were made to face competition.	1
25	Who once said that the real progress of India did not mean simply the growth and expansion of	1

	industrial urban centres but mainly the development of the village? (A) Pandit Jawhar Lal Nehru (B) Norman Ernest Borlaug (C) M.S. Swaminathan (D) Mahatma Gandhi	
26	Read the following statements carefully: Statement 1: Human capital is not sold in the market, only the services of human capital are sold. Statement 2: Human capital is perfectly mobile between countries. In the light of the given statements, choose the correct alternative from the following: (A) Both the statements are true (B) Both the statements are false (C) Statement I is true and statement II is false (C) Statement I is false and statement II is True	1
27	Read the following statement: Assertion (A) and Reason (R). Choose one of the correct alternatives given below: Assertion (A): Information technology plays an important role in achieving sustainable development and food security. Reason (R): Information technology provides necessary information about the new techniques of production, prices and weather etc. to the farmers. Alternatives: (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 and 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
28	India, Pakistan, and China adopted different developmental paths post-independence. Compare the structural approach of China's "Great Leap Forward" (1958) with India's early Five-Year Plans. How did this strategic difference impact their agricultural and industrial sectors in the long run?	3
29	Explain the role of the services as shown in the image below in the rural development.	3

	 **Regional Rural Bank**	
30	Why are regular salaried employees more in urban areas than in rural areas? Or Analyse the following distribution of workforce in different sectors of the economy with valid reasons. **Distribution of workforce by industry 2022-23**	4

Industrial category	Place of residence	
	Rural (Percentage)	Urban (Percentage)
Primary sector	57.8	9.0
Secondary sector	22.5	31.7
Tertiary/Service sector	18.7	59.3
Total	100	100

31	Why the honest implementation of land reform is required in India?	4
32	**Read the following text carefully:** India, China and Pakistan have travelled seven decades of developmental path with varied results. Till the late 1970s, all of them were maintaining the same level of low development. The last three decades have taken these countries to different levels. India, with democratic institutions, performed moderately, but a majority of its people still depend on agriculture. Scholars are of the opinion that political instability, over-dependence on remittances and foreign aid along with volatile performance of agriculture sector are the reasons for the slowdown of the Pakistan economy. In China, the lack of political freedom and its implications for human rights are major concerns; yet, in the last four decades, it used the 'market system without losing political commitment' and succeeded in raising the level of growth along with alleviation of	4 (2+2)

	poverty. You will also notice that unlike India and Pakistan, which are attempting to privatise their public sector enterprises, China has used the market mechanism to 'create additional social and economic opportunities'. By retaining collective ownership of land and allowing individuals to cultivate lands, China has ensured social security in rural areas. Public intervention in providing social infrastructure even prior to reforms has brought about positive results in human development indicators in China. **On the basis of the given text and common understanding, answer the following questions:** i) Despite the lack of political freedom, how the China is able to raise the level of growth in the last four decades? ii) Write down any two challenges faced by Pakistan since independence.	
33	(A) Why was it necessary for the developing country like India to follow self-reliance as planning objective. (B) Do you think that outsourcing is good for India? Why are developed countries opposing it? Or (A) Give a quantitative appraisal of India's demographic profile during the colonial period. (B) Agriculture sector appears to be adversely affected by the reform process. Why?	6 (3+3)
34	(A) Mention some obstacles that hinders the mechanism of agriculture marketing. (B)Keeping in view your locality describes any three strategies of sustainable development.	6 (3+3)

Class: - XII-Economics (030)

Marking Scheme

Q No	Answer	Marks
1	(A) 50 (GDFCF + Change in stock = NDCF + Depreciation = GDCF)	1
2	(D) Extend loans to the commercial bank	1
3	C) It is included in domestic income.	1
4	(A) C = 200 + 0.25Y Or (A) 4	1
5	(B) 600	1
6	(C) Assertion (A) is True but Reason (R) is False.	1
7	C) Fall, Overestimation	1
8	(B) Fall	1
9	A) Both the statements are true	1
10	(B) Lack of double coincidence of wants	1
11	The credit creation by commercial banks depends on money multiplier as it is inversely related to Legal reserve ratio. It means: i) When legal reservation is high- it means money multiplies is low-As result credit creation will also be low ii)On the attend if legal reserve ratio is low in that case money multiplier will be high and credit creation will be more.	3
12	(A) Payment of indirect taxes by a form will not be included in national income as it is a transfer payment occurring without any corresponding value addition. (B) Purchase of good by foreign tourists will be included in the national income as it is considered as exports of goods.	3

	OR The key differences are: 1.Nominal National Income is measured at current prices and Real National Income is calculated using base year prices 2. Nominal National Income is not adjusted for inflation while Real National Income is adjusted for inflation using base-year prices to show actual growth in output and purchasing power. 2. Nominal National Income does not accurately represent a true increase in a country's economic welfare or production capacity and Real National Income is a better indicator of economic growth and welfare because it reflects an increase in the real output of goods and services. Or any other relevant point.	
13	(see table below)	4

BOP on Current Account	BOP on Capital Account
These are transactions which do not affects assets or liabilities position of a country.	These are transactions which affects assets or liabilities position of a country.
It is a flow concept.	It is a stock concept.
Earning or spending is related to this account.	Borrowing or Lending is related to this account.
Examples: Goods, service, unilateral transfer account.	Examples: FDI, Portfolio investment, borrowing etc.

14 (4 marks)

In equilibrium S= I

So that - 25+ 0.5Y= 5000

0.5Y= 5000+25

0.5Y= 5025

$Y = \frac{5025}{0.5} = 10050$

S at equilibrium S = - 25+ 0.5(10050)

S = - 25 + 5025 = 5000

We know Y=C+S

C=Y-S

Equilibrium C = 10050- 5000 = 5050

OR

We know that C = c̄+ bY

Income	C = c̄ + bY	Consumption
100	C =25 + 0.5 (100)	25+50= 75
200	C =25 + 0.5 (200)	25+100=125
300	C =25 + 0.5 (300)	25+150= 175
400	C =25 + 0.5 (400)	25+200= 275

15 (4 marks)

Net Domestic Product at Factor Cost (NDPFC)

= Compensation of Employees + Rent + Interest + Profit + Mixed Income of Self-Employed = 300 + 60 + 70 + 100 + 800 = ` 13,30 crores

	Net National Product at Market Price (NNPMP) = NDPFC – Net Factor Income to Abroad + Net Indirect Taxes = 1330 –6 + 50= ` 1374 crores	
16	A) When actual aggregate demand in an economy is greater than the planned (or aggregate supply at full employment), it creates excess demand—commonly called an inflationary gap—which leads to an increase in the general price level, i.e., inflation. This occurs because firms cannot immediately increase output to meet the higher demand, so the adjustment happens through rising prices rather than increased production. B) Reducing Government Expenditure: By lowering public spending, the government directly decreases aggregate demand, helping to control rising prices. Increasing Taxes: Raising taxes reduces disposable income for households and businesses, which dampens consumption and investment, further lowering aggregate demand. OR A) Aggregate demand is the total value of spending on all final goods and services in an economy at a particular price level and during a set period. In a two-sector closed economy (with only households and firms, without government or foreign trade), aggregate demand consists of: Consumption (C): Expenditure by households on goods and services. Investment (I): Expenditure by firms on capital goods like machinery and equipment. B) Lowering Repo Rate: The repo rate is the rate at which commercial banks borrow short-term funds from the central bank. By reducing this rate, the central bank makes it less expensive for banks to access funds. This encourages banks to lend more to businesses and households, boosting consumption and investment demand in the economy. Lowering Bank Rate: The bank rate is the rate at which the central bank lends to commercial banks for the long term. A reduction in the bank rate lowers the cost of long-term borrowing for banks, increasing their capacity to create credit. This move also promotes lending, supporting economic activity and helping to raise overall price levels	6
17	(A) Rise, Rise (B) Dis-investment, capital receipts (C) A direct tax is a tax levied directly on a taxpayer and is paid straight to the imposing authority. An indirect tax is levied on goods and services and is paid by an individual to the intermediaries who then submit the tax to the government. (D) Cuts in government expenditure adversely affect the economy by reducing aggregate demand, which leads to less consumption and investment, slower economic growth, and job losses.	6
18	(D) The life expectancy during colonial rule in India was 64years. Or D) All types of direct and indirect taxes have been subsumed by it.	1
19	(B) (i), (iii) and (iv)	1
20	(D) Women literacy rate	1
21	(B) (i), (ii) and (iv)	1
22	(C) Absorptive capacity	1
23	(A) Worker population ratio is an indicator which is used for analysing the casualisation of workforce in India.	1
24	(C) In the 1970s nationalisation of capital goods industry took place.	1

25	(D) Mahatma Gandhi	1
26	C) Statement I is true and statement II is false	1
27	A) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A).	1
28	India focused on a mixed economy model, relying on both public and private sectors alongside the gradual modernization of agriculture through Five-Year Plans. Conversely, China implemented strict state control through radical collectivization (communes) and aggressive mobilization of the workforce for large-scale projects and backyard manufacturing. While China's approach aimed for rapid initial industrialization, it caused severe economic shocks, whereas India experienced slower but more structurally stable agricultural growth.	3
29	Rural banking system helped the farmers directly/ indirectly in various ways. An organized well-structured agriculture credit system is very essential for the rural development as: i) It ensures availability of adequate credit to the farmers ii) Loan to rural population for productive needs at a cheap rate of interest from formal credit sources. iii)Increase in the rural farm and non-farm output, income and employment in rural areas	3
30	Regular salary employees are more in urban area because urban people have a variety of employment opportunities due to their educational attainments like skill. Moreover, the nature of work is different in Urban area and enterprises required worker on a regular basis. On the other hand, only 13% of rural people engage as regular salaried employees due to illiteracy and lack of skill. OR Rural Workforce Dominated by Primary Sector: The majority (57.8%) of the rural workforce is engaged in the primary sector (mainly agriculture and allied activities) because rural areas offer abundant land but limited industrial and service infrastructure. Limited Non-Farm Opportunities: With fewer industries and services established in rural regions, alternate jobs in the secondary and tertiary sectors are restricted. Tradition and Skill Set: Many rural households have a traditional connection to farming, and a lower proportion of skilled jobs exists outside agriculture. Urban Workforce Strong Tertiary Sector: Almost 60% of the urban workforce is found in the service sector due to higher demand for services like IT, finance, education, healthcare, hospitality, and retail. Urban centers serve as economic hubs, supporting these industries. Industrialization and Manufacturing: Urban areas house a larger secondary sector (31.7%) workforce because manufacturing units and construction activities are largely urban phenomena. Minimal Primary Activities: Only 9% are in the primary sector in cities, reflecting limited space for agriculture and the urban economy’s greater industrial and service orientation.	4
31	i)Land reforms granted to the tenants the ownership of land which keep them incentive to increase output. ii) It enabled the tiller to make profit from the increased output ii)It ensure the growth in agriculture sector iii)It helped to promote equity in the agriculture sector	4

32	(A) China has used the market mechanism to 'create additional social and economic opportunities. By retaining collective ownership of land and allowing individuals to cultivate lands, China has ensured social security in rural areas. Public intervention in providing social infrastructure even prior to reforms has brought about positive results in human development indicators in China as well. (B) Political instability and over-dependence on remittances and foreign aid	4
33	(A)Self-Reliance was considered necessary by Indian because of following reasons: i) To reduce our dependency on foreign countries especially for food grains ii) To make the economy competitive. iii) To save the foreign exchange reserve. (B) Yes, outsourcing is good for India the following point justify this: i)It provide employment ii) It enables the exchange of ideas in technical know how iii) Outsourcing also enhances India's international credibility and also required for the better stand of living. Or (A) Demographic profile on the eve of independence i) High birth date and death rate ii) Extremely low literacy rate iii) Poor health facilities, low life expectancy and high infant mortality rate (B) Agriculture sector was adversely effective by the reform process in the following manner: i) Reduction of public investment ii) Removal of subsidy and shift towards Cash crop iii) liberalization and reduction in import duties	6
34	(A)Some obstacles that hinder the mechanism of agriculture marketing: i) Agricultural market still dominated by private traders like money lenders, big merchants etc. ii)Lack of storage facilities iii)Lack of transportation and market information (B) Following are the three strategies: i) Use of environmentally friendly fuel for example CNG ii)Use of renewable resources for example solar energy **iii)** Recycling of waste material and avoid plastic bags/products	6

Senior School Certificate Examination 2026

ECONOMICS (Subject Code–030)

[Paper Code: 58/1/1]

Q. No.	EXPECTED ANSWER / VALUE POINTS	Marks
	SECTION -A **(Macro Economics)**	
1.	In a two-sector economy, the flow of factor payments moves from ____________to ____________. (Choose the correct option to fill in the blanks) (A) firms, households (B) firms, government	

	(C) banks, households (D) households, firms **Ans. (A) firms, households**	**1**
2.	Read the following statements: Assertion (A) and Reason (R). Choose the correct option from those given below: **Assertion (A):** Money is of perishable nature and is generally accepted by all at any point of time. **Reason (R):** Money serves as a store of value, facilitating individuals to transfer purchasing power from the present to the future. **Options:** (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. **Ans. (D) Assertion (A) is false, but Reason (R) is true.**	**1**
3.	Read the following statements carefully: **Statement 1:** Depreciation of currency is an economic action undertaken by the government of a nation under the fixed exchange rate system. **Statement 2:** Under the floating exchange Rate system, authorities actively intervene in the foreign exchange market by way of maintaining foreign exchange reserves. In the light of the given statements, choose the correct option from the following: (A) Statement 1 is true and statement 2 is false. (B) Statement 1 is false and statement 2 is true. (C) Both statements 1 and 2 are true. (D) Both statements 1 and 2 are false. **Ans. (D) Both statements 1 and 2 are false.**	**1**
4.	In an economy, when ___________ is insufficient to achieve the level of output corresponding to the full employment, the difference is termed a deflationary gap. (Choose the correct option to fill in the blank) **Options:** (A) ex-ante Aggregate Demand (B) ex-post Aggregate Demand (C) ex-ante Aggregate Supply (D) ex-post Aggregate Supply **Ans. (A) ex-ante Aggregate Demand**	**1**
5.	In an economy, exclusion of _____________ may lead to under estimation of the value of Gross Domestic Product (GDP). (Choose the correct option to fill in the blank) (i) Barter Transactions (ii) Services provided by family members (iii) Illegal activities (iv) Depreciation of Assets Options: (A) (i) and (ii) (B) (ii) and (iii) (C) (iii) and (iv) (D) (i), (ii) and (iii) Ans. (A) (i) and (ii)	1
6.	Identify, which of the following is true at the Break Even level of Income. (Choose the correct option) **Options:**	

	(A) Slope of Consumption Curve = Slope of Saving Curve (B) Average Propensity to Consume (APC) = Average Propensity to Save (APS) (C) Slope of Saving Curve = Unity (1) (D) Average Propensity to Consume (APC) = Unity (1) **Ans. (D) Average Propensity to Consume (APC) = Unity (1)**	**1**
7.	Read the following statements carefully: **Statement 1:** Final goods are those goods which normally lose their identity in the production process. **Statement 2:** Final goods may get transformed during the consumption process by a consumer. (Choose the correct option) **Options:** (A) Statement 1 is true and statement 2 is false. (B) Statement 1 is false and statement 2 is true. (C) Both statements 1 and 2 are true. (D) Both statements 1 and 2 are false. **Ans. (B) Statement 1 is false and statement 2 is true.**	**1**
8.	Read the following statements: Assertion (A) and Reason (R). Choose the correct option from those given below: **Assertion (A):** Unilateral Transfers are recorded in the Current Account of the Balance of Payments (BoP) of a nation. **Reason (R):** Capital account records transactions which cause a change in the assets or liabilities of the country. **Options:** (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. **Ans. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).**	**1**
9	"In the Indian Banking System, the Statutory Liquidity Ratio (SLR) plays a vital role in controlling the credit creation capacity of the Commercial Banks, as it _____." (Choose the correct option to fill in the blank) (A) ensures that all the deposits are converted into liquid assets. (B) requires banks to maintain a percentage of deposits in the form of liquid assets. (C) sets the maximum interest rate which the banks can charge on loans. (D) promote banks from lending beyond a specific proportion of their total reserves. **Ans. (B) requires banks to maintain a percentage of deposits in the form of liquid assets.**	1
10.	'In an economy, the currency held by the public, Net Demand Deposits with Commercial Banks and Net Time Deposits with Commercial Banks stand at ₹ 1,42,000 crore, ₹ 22,000 crore and ₹ 86,000 crore respectively. The value of Money Supply (M_1) would be ₹ ___________ crore. (Choose the correct option to fill in the blank) **Options:** (A) 2,50,000 (B) 86,000 (C) 1,64,000 (D) 1,42,000	

Ans. (C) 1,64,000 1

11 A Meera and Shahid are two classmates, who were comparing India's economic growth over the years.

Meera referred to the increase in Gross Domestic Product (GDP) at current prices prevailing in market, while Sahid insisted on considering GDP after adjusting for inflation. Their debate on which of the two measures gives a true picture of people's well-being, remained inconclusive.

Considering the above mentioned situation, elaborate with valid reason, which of the two variables is considered a better indicator of welfare and why?

Ans. Gross Domestic Product (GDP) after adjusting for inflation (Real GDP) is a better measure of welfare than GDP at current prices (Nominal GDP). 1

Real GDP is a true indicator of economic growth of a country as it changes only with the change in physical output. Thus, it eliminates the effect of changes in prices, showing the real growth of the economy. 1

In contrast, Nominal GDP might change with the change in output or/and change in prices. 1 = 3

(B) **OR**

Two friends, Ravi and Harry were discussing whether the money received from sale of an old car should be included in India's National income.

Ravi was of the view that it should be included in India's National income while Harry did not agree with him.

They also had difference of opinion on the treatment of brokerage paid to the car dealer. As their Economics teacher, state the treatments with valid arguments.

Ans. Harry's opinion is correct. 1 ½

The money received from the sale of an old car will not be included in India's National Income because its value was already included in the year it was originally produced. Hence, it does not contribute to the current flow of goods and services.

However, the brokerage paid to the car dealer is included in India's National Income, as it represents payment for productive services rendered in the current year. 1 ½ = 3

12. "Under the provisions stated in the Section 20 and Section 21 of the Reserve Bank of India (RBI) Act, 1934, the RBI is mandated to handle the banking operations of the Government of India."

In the light of the given statement, elaborate the indicated function of the Reserve Bank of India.

Ans. The Reserve Bank of India (RBI) serves as banker to the government, managing its accounts, receiving deposits and processing payments. Exchanges, remittances and various banking operations are facilitated by the RBI on behalf of the government.

In addition to this, during any financial crisis, RBI provides credit to the government to ensure its smooth functioning and to support the state in managing its obligations effectively. (To be marked as a whole) 3

13 A For a hypothetical economy, assuming there are only two firms (X and Y) with equal values of Gross Value Added (GVA).

On the basis of the following data, estimate the value of Domestic Sales of both the firms (X and Y):

S. No.	Items	Amount (in ₹ crore)
(i)	Value of Output of firm Y	700
(ii)	Purchases by firm X from firm Y	200

(iii)	Exports by firm X	100
(iv)	Purchases by firm Y from firm X	150
(v)	Additions to Stock of firm X	50

Ans. Gross Value Added of Firm Y = (i) – (iv) ½

= 700 – 150

= ₹ 550 crore ½

Domestic Sales of Firm Y = Gross Value Added of Firm Y + (iv) ½

= 550 + 150

= ₹ 700 crore ½

Gross Value Added of Firm X = Gross Value Added of Firm Y = ₹ 550 crore 1

½

Domestic Sales of Firm X = Gross Value Added of Firm X – (iii) – (v) + (ii) ½

= 550 – 100 – 50 + 200 4

= ₹ 600 crore

OR

B Ms. Reeta D'Costa, retired from the post of Income Tax Commissioner in the year 2023.

Apart from her pension, she also receives the following from various sources:

- Rental income from a flat she owns.
- Interest income from her fixed deposits.
- Money sent by her children settled abroad.

Identify and classify, her monthly incomes into 'factor income' and 'transfer income', with valid reasons. ½

Ans. Factor Income: ½

- **Rental income from a flat she owns.** ½
- **Interest income from her fixed deposits.** ½
- **Retirement pension (Deferred Payment) Transfer** 1

Income: 1

- **Money sent by her children settled abroad.** 4

Factor income is the income earned by the factors of production for rendering their services.

14 Michel, an entrepreneur of Country Zeta, borrowed $ 5 million from an overseas bank to expand his textile business.

During the same financial year, the Government of Country Zeta secured a loan of $ 30 Billion from an International Financial Institution to manage the ongoing Balance of Payments.

Samuel, an Economics student categorised both of these transactions as 'autonomous transactions' in the BoP account of the country.

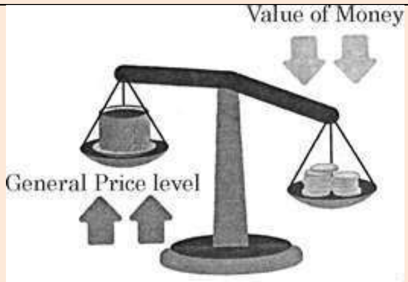
Do you agree with his classification? Justify your answer with valid reasons.

Ans. No. The loan taken by the Government of Zeta in this case can be classified as an accommodating transaction. Such transactions are those international economic transactions which are undertaken (by competent authorities) to cover the surplus or deficit in Balance of Payments (BoP) and are independent of any economic motive. 2

However, loan taken by Michel, can be classified as an autonomous transaction. Such international economic transactions are independent of the state of BoP and generally take place with an economic motive. 2

4

15 Refer the given image carefully:



Explain any two measures that can be taken by the Central Bank to control the indicated macroeconomic problem.

Ans. To deal with the situation of highlighted macroeconomic problem i.e. inflation, the Central Bank may use the following measures: 2

- **Repo Rate: A rise in repo rate will force the commercial banks to increase the lending rates, making the credit dearer for the general public, discouraging the borrowings. Consequently, Aggregate Demand will fall thus correcting the problem of inflation in the economy.** 2
- **Open Market Operations: The Central Bank can sell government securities in the open market, thereby, reducing the availability of funds with the commercial banks for lending. Consequently, Aggregate Demand will fall thus correcting the problem of inflation in the economy.**

(Any other valid interpretation and explanation of the image to be awarded marks) 4

16 "Income of an economy increased from ₹ 20,000 to ₹ 50,000 crore. Savings of the economy increased from ₹ 2,000 crore to ₹ 10,000 crore."

(i) Calculate Average Propensity to Consume (APC) and Average Propensity to Save (APS), before and after the rise in income.

Ans.

Income (Y) (in ₹ crore)	Savings (S) (in ₹ crore)	Consumption (C = Y - S) (in ₹ crore)	APC (C/Y)	APS (S/Y)
20,000	**2,000**	**18,000**	$\frac{18000}{20000}$ **= 0.9**	$\frac{2000}{20000}$ **= 0.1**
50,000	**10,000**	**40,000**	$\frac{40000}{50000}$ **= 0.8**	$\frac{10000}{50000}$ **= 0.2**

1 + 1

1 + 1

(Any other valid alternative solution to be awarded marks)

(ii) Draw appropriate conclusion regarding the behaviour of Average Propensity to Consume (APC) as his income increases.

Ans. From the given data, it can be concluded that as income increases from ₹ 20,000 to ₹ 50,000 crore, value of Average Propensity to Consume (APC) falls from 0.9 to 0.8, thereby establishing an inverse relationship between the level of income and APC. 2

OR 6

"Under a study, examining the spending habits of a hypothetical economy, it was observed that even households with zero income managed to consume basic necessities.
As the income of people increased, their consumption also increased, but not as rapidly as income."

Based on the given text and common understanding, answer the following questions:

	(i) Identify and elaborate the type of consumption indicated in the first para of the above text. **Ans. The type of consumption indicated in the above paragraph is Autonomous Consumption.** **Autonomous Consumption is independent of level of income. Autonomous Consumption signifies the minimum level of consumption which is essential for survival.** (ii) Explain, the reason behind the positive slope of Aggregate Demand Curve. **Ans. Aggregate Demand (AD) is the sum of consumption and investment. Based on the assumption that, investment is autonomous, thereby, when income rises, consumption also rises, which leads to a rise in Aggregate Demand. Hence, Aggregate Demand curve slopes upward, reflecting a direct relationship between income and Aggregate Demand.**	1 2 3 6
17	Refer the given text carefully: According to the Economic Survey 2024-25, the government budget's projections for the fiscal year 2025-26 indicate that gross direct tax revenue will rise by 12.7%, while gross indirect tax collections are expected to grow by 8.3% relative to FY 2024-25. Direct taxes include income tax and corporate tax, reflecting earnings and profits of households and firms. It plays a key role in revenue growth of the government. Indirect taxes encompass Goods and Services Tax (GST), custom duties and other transaction-based levies. Higher growth rate projected for direct taxes suggests a push to enhance tax buoyancy through improved compliance and reforms. On the other hand, indirect taxes are expected to benefit from consumption trends and Goods and Services Tax (GST) administration improvements. The balance tax strategy aims to mobilise resources while supporting fiscal consolidation and sustainable economic growth. On the basis of the above passage and common understanding, answer the following questions: (i) Differentiate between the two types of taxes indicated in the above text, with suitable examples. **Ans. The two types of taxes indicated in the above text are direct and indirect taxes.** **Direct taxes are those taxes whose impact and incidence lies on the same entity.** **In other words, the liability of paying direct taxes can't be shifted.** **For example: Income tax etc.** **Whereas;** **Indirect taxes are those taxes whose impact and incidence may lie on different entities. In other words, the liability of paying indirect taxes can be shifted.** **For example: Goods and Services Tax (GST) etc.** **(Any other valid example to be awarded marks)** Elaborate the likely consequences of the tax projections made by the government. **Ans. The projected increase in tax revenues is likely to strengthen the government's revenue base. Overall, this balanced tax strategy will help mobilise resources, support fiscal consolidation and promote sustainable economic growth.**	1 ½ ½ 1 ½ ½ 2 6
SECTION – B (Indian Economic Development)		
18.	Read the following statements carefully: **Statement 1:** During the British rule in India, the export surplus was utilised to import of invisible items from Britain. **Statement 2:** Indians paid for the expenses incurred by an office set up by the colonial government in Britain. In the light of above statements, choose the correct option from the following: (A) Statement 1 is true and statement 2 is false.	1

	(B) Statement 1 is false and statement 2 is true. (C) Both statements 1 and 2 are true. (D) Both statements 1 and 2 are false. **Ans. (C) Both statements 1 and 2 are true.**	
19.	**Read the following statements: Assertion (A) and Reason (R), Choose the correct option from those given below:** **Assertion (A):** Education facilitates the assimilation of knowledge and competencies. It also fosters inventive capacities and enhances the aptitude to integrate advance technology. **Reason (R):** Education plays a pivotal role in transforming cognitive perspectives and serves as a catalyst for the economic advancement of a nation. **Options:** (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. **Ans. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).**	1
20.	Read the following text carefully: "In the recent times, the Government of India, has introduced several measures to encourage greater public participation in the capital market, including both primary and secondary stock markets." Under which sector have the above mentioned reforms been introduced? (Choose the correct option) **Options:** (A) Industrial (B) Financial (C) Taxation (D) Foreign Trade **Ans. (B) Financial**	1
21.	The Montreal Protocol was signed in the year 1987 committing nations to____. (Choose the correct option to fill in the blank) **Options:** (A) protect biodiversity from any further losses. (B) reduce the impact of global warming. (C) protect ozone layer from depletion incurred due to chlorofluoro carbons. (D) reduce the impact of deforestation. **Ans. (C) protect ozone layer from depletion incurred due to chlorofluoro carbons.**	1
22.	Read the following statements: Assertion (A) and Reason (R), Choose the correct option from those given below: **Assertion (A):** The notion of rural development encompasses a far wider spectrum than agricultural advancement. **Reason (R):** Government interventions in the agricultural sector remain imperative, as it constitutes the primary means of sustanance for the rural population. **Options:sssss** (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	1

	of Assertion (A). (C) Assertion (A) is true, but Reason (R) is false. (D) Assertion (A) is false, but Reason (R) is true. **Ans. (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).**	
23.	Identify, which of the following, highlights a highly relevant issue associated with evolving employment trends in India's labour market? **Options:** (A) Progressive increase in the share of permanent salaried employees. (B) Increase in the proportion of casually employed individuals. (C) Expansion of self-employment avenues in all regions. (D) Significant rise in job opportunities within the formal sector. **Ans. (B) Increase in the proportion of casually employed individuals.**	1
24	Match the terms given in Column-I with their respective meaning in Column-II. Select the correct option:	1

	Column-I		Column-II
(i)	Seasonal Unemployment	(a)	Private enterprises hiring less than 10 employees
(ii)	Self-employed	(b)	Workers using their own resources to earn livelihood
(iii)	Unorganised sector	(c)	Unemployment occurring in specific season
(iv)	Disguised Unemployment	(d)	Zero Marginal Productivity

Options:

(A) (i)-(d); (ii)-(a); (iii)-(b); (iv)-(c) (B) (i)-(b); (ii)-(a); (iii)-(c); (iv)-(d)

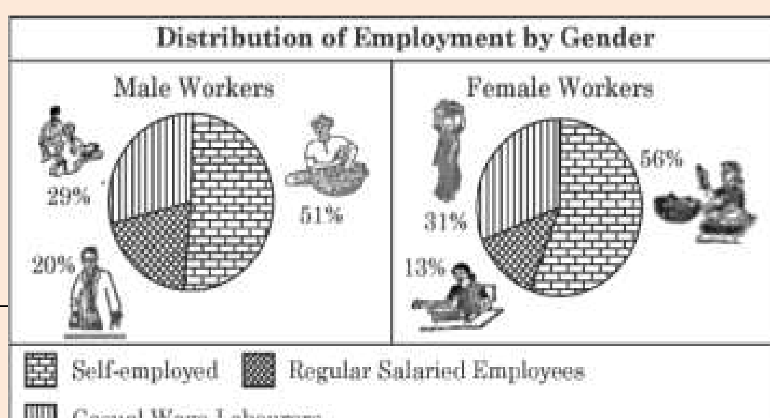
(C) (i)-(c); (ii)-(b); (iii)-(a); (iv)-(d) (D) (i)-(c); (ii)-(d); (iii)-(a); (iv)-(b)

Ans. (C) (i)-(c); (ii)-(b); (iii)-(a); (iv)-(d)

25.	"Sustainable development refers to the development that meets the need of the present generation without compromising the ability of the future generations, to meet their own needs." The above mentioned definition has been given by __________. (Choose the correct option to fill in the blank) (A) United Nations Conference on Environment and Development (B) United Nations Committee on Environment and Development (C) United Nations Committee on Protection of Environment (D) United Nations Conference on Protection of Environment **Ans. (A) United Nations Conference on Environment and Development**	1
26.	Read the following statements: Assertion (A) and Reason (R), Choose the correct option from those given below: **Assertion (A)**: The Government of India adopted the measure of regulation of markets to improve marketing conditions for agricultural products. **Reason (R):** Regulation of market ensured transparent pricing, fair trade practices, and protection for farmers against exploitation in agricultural marketing. **Options:** (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

	Ans. (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).	
27.	Arrange the following events in China's economic development history in correct chronological sequence and select the correct option: I. Great Proletarian Cultural Revolution. II. Great leap forward III. Introduction of Economic Reforms IV. Launch of the First Five Year Plan **Options:** (A) II, IV, III, I (B) IV, II, I, III (C) II, IV, I, III (D) IV, I, II, III **Ans. (B) IV, II, I, III**	1
28 (A)	"Employment in the formal sector guarantees better income and social benefits compared to informal sector job." Defend or refute the above statement with valid reason and example. **Ans. The given statement is defended. Formal sector workers are entitled to fair wages and other social security measures such as pension, provident fund, etc.** **Whereas, workers in the informal sector do not get regular income and social security benefits. They can be dismissed without any compensation.** **For example: A government employee receives regular salary along with pension and social security, whereas a daily wage worker works without any social security. (Any other valid example to be awarded marks) OR**	1 1 1 3
(B)	During the 'Mann ki Baat' program aired on 29th June, 2025, Prime Minister shared that World Health Organisation (WHO) has declared India as a Trachoma free (an eye disease). This achievement, he shared, is a result of sustained efforts in health care, sanitation, awareness and medical access. In the light of the above statement, explain how investments in health care contributes to a nation's development. Support your answer with valid arguments. **Ans. Investment in healthcare contributes to a nation's development by ensuring the availability of a healthy workforce. The productivity of a healthy person is relatively higher than that of an unhealthy person. Healthy people may provide an uninterrupted labour supply for a long period. Thus, better healthcare enhances labour productivity, promotes human capital formation and ultimately supports the economic development of a country. (To be marked as a whole)**	3
29.	"In the late 1970's China's population growth rate has sharply declined as compared to India." Elucidate the reasons and impacts of this situation. **Ans. In the late 1970s, China experienced a sharp decline in its population growth rate compared to India due to the implementation of one-child policy introduced by the government.** **This policy led to an ageing population, with a higher proportion of elderly people as compared to the young population.**	1 ½ 1 ½ 3
30. (A)	State and explain any two changes which were observed in India's occupational structure during the British Rule. **Ans. During the British rule the occupational structure of India showed regional variation as:** **Shift towards Industrial and Service sector: Parts of Madras Presidency, Bombay and Bengal witnessed a decline in the dependence of the workforce on the agricultural sector with a commensurate increase in the manufacturing and the**	½ + 1 ½

	services sectors. • **Rising Dependence on Agriculture sector: There had been an increase in the share of workforce in agriculture in states such as Orissa, Rajasthan and Punjab.** **OR** "The British sought to achieve their vested interest through their policies of infrastructural development in India." Do you agree with the given statement? Justify your answer with valid explanation. **Ans. Yes. The British developed the basic infrastructure to subserve their own interest. Roads and railways were built primarily to mobilise the army within India, drawing out raw materials from the countryside to the nearest railway station/port for exporting to England/other foreign destinations. Moreover, various communication tools like electric telegraph were introduced to maintain law and order. (To be marked as a whole)** **(Any other valid explanation to be awarded marks)**	½ + 1 ½ 4 4
31.	"At the time of independence, both India and Pakistan inherited similar colonial economic structures. Both the nations adopted many similar economic planning strategies." Explain any two such similarities in the developmental path of India and Pakistan. **Ans. Two similar developmental strategies adopted by India and Pakistan:** • **Both the nations followed the path of mixed economic system involving the public as well as the private sector.** • **Both India and Pakistan adopted import substitution policy in order to protect their domestic industries from foreign competition.** **(Any other valid strategy to be awarded marks)**	2 2 4
32.	(A) State the meaning of 'Disguised Unemployment'. **Ans. Disguised unemployment refers to a situation when the person seems to be employed but is not contributing to the output i.e., his marginal productivity is zero.** (B)	1



	In the light of the given chart, analyse the gender-wise sectoral distribution of workers. **Ans. The given chart highlights the following points regarding the gender-wise sectoral distribution of workers:** • **Male workers dominate in most sectors such as manufacturing, construction, trade, transport etc.** • **Female participation is relatively low in construction and transport indicating gender inequality.** • **Education and health sectors show a relatively balanced distribution, with female participation being significantly higher compared to other sectors.** **(Any other valid point to be awarded marks)**	1 1 1
33 **(A)**	(i) Mr. Ravi, an IT entrepreneur from Bengaluru, observed that several MNC's prefer India as their outsourcing Hub for services like software development, customer support, data management etc. His friend Priya believes this is due to certain inherent advantages of the Indian economy. In your opinion, state and explain any two factors that make India a preferred outsourcing destination. **Ans. India has emerged as a preferred outsourcing destination because of:** • **Expansion of Information Technology and Communication: Growth of fast modes of communication, particularly the growth of Information Technology (IT).** • **Availability of skilled manpower: Efficient and skilled manpower is available at a relatively affordable cost.**	½ + 1 ½ + 1
	(ii) "In the post-independence era, India adopted a protective tariff policy." Do you agree with the given statement? Justify your answer with any two valid arguments. **Ans. Yes. In the post-independence era, India adopted a protective tariff policy to:** • **promote domestic production by substituting imports with locally produced goods.** • **safeguard emerging industries from intense foreign competition, allowing them to grow and develop sustainably.** **(Any other valid argument to be awarded marks) OR**	1 ½ 1 ½ 6
(B)	(i) 'Strategic sale of a public sector undertaking and minority sale of their shares are methods of disinvestment.' Defend or refute the given statement with valid argument. **Ans. The given statement is defended. Both strategic and minority sale are the methods of disinvestment used by the government to reduce its ownership and encourage private participation. It leads to improved efficiency and better performance of public sector enterprises. Strategic sale involves transferring a significant share of government ownership along with management control to a private entity. Although minority sale refers to selling a limited portion of shares while the government retains control.** **(Any other valid explanation to be awarded marks)**	3
	(ii) Discuss briefly, how bilateral trade agreements are different from multilateral trade agreements? **Ans. Bilateral Trade Agreement refers to the agreements relating to exchange of Goods and services between two countries.** **Whereas;**	1 ½ 1 ½ 6

	Multilateral Trade Agreement refers to the trade agreements made by a country with more than two nations to exchange goods and services.	
34.	Read the following text carefully: To ensure inclusive and quality education for all, the Indian government has launched several important schemes. These schemes aimed at improving access, equity and learning outcomes, especially among disadvantaged group. The Right to Education (RTE) Act, passed by the India Parliament on August 4, 2009, guarantees free and compulsory education to every child between 6-14 years of age. It ensures that all children have access to education in neighbourhood schools, until they complete elementary education. Another key initiative is Sarva Siksha Abhiyan (SSA). It was introduced in 2001. It is one of India's flagship programmes for the Universalisation of Elementary Education. Digital India Campaign, launched on July 1, 2015, focuses on transforming India into a digitally empowered society by improving mobile and internet connectivity, particularly in rural and remote regions. This initiative supports digital learning & access to educational resources. Through these initiatives, the government strives to create an equitable, accessible & quality driven educational environment for all children, laying a strong foundation for national development. On the basis of the given text and common understanding, answer the following questions: (i) Identify, which law guarantees free and compulsory education up to the age of 14 years. Explain, how does it help in enhancing access to education. **Ans. The Right to Education (RTE) Act, 2009 guarantees free and compulsory education up to the age of 14 years.** **It enhances access to education by ensuring that every child between 6 to 14 years can attend school without any financial burden. It also provides schooling facilities in neighbourhood areas, making education easily accessible. This helps include children from disadvantaged groups and ensures that all children complete elementary education.** (ii) In your opinion, how has the increase in public spending on education contributed to India's social and economic transformation? Support your answer with valid arguments. **Ans. Increase in government spending on education has played an important role in India's social and economic development. It has made education more accessible, especially for weaker sections, thus, promoting equality. Education has improved skills and knowledge, leading to better job opportunities and higher productivity. It has helped in improving the standard of living of the people and overall development of the country. (To be marked as a whole)** **(Any other valid explanation to be awarded marks)**	1 2 3 6