

SENIOR SCHOOL CERTIFICATE EXAMINATION MARCH-2013

MARKING SCHEME – ECONOMICS (FOREIGN)

SET-2

Expected Answers / Value Points

GENERAL INSTRUCTIONS :

1. Please examine each part of a question carefully and allocate the marks allotted for the part as given in the marking scheme below. TOTAL MARKS FOR ANY ANSWER MAY BE PUT IN A CIRCLE ON THE LEFT SIDE WHERE THE ANSWER ENDS.
2. Expected suggested answers have been given in the Marking Scheme. To evaluate the answers the value points indicated in the marking scheme be followed.
3. For questions asking the candidate to explain or define, the detailed explanations and definitions have been indicated alongwith the value points.
4. For mere arithmetical errors, there should be minimal deduction. Only $\frac{1}{2}$ mark be deducted for such an error.
5. Wherever only two / three or a “given” number of examples / factors / points are expected only the first two / three or expected number should be read. The rest are irrelevant and must not be examined.
6. There should be no effort at “moderation” of the marks by the evaluating teachers. The actual total marks obtained by the candidate may be of no concern to the evaluators.
7. Higher order thinking ability questions are assessing student’s understanding / analytical ability.
8. The Examiners should acquaint themselves with the guidelines given in the Guidelines for Spot Evaluation before starting the actual evaluation.
9. Every Examiner should stay upto sufficiently reasonable time normally 5-6 hours everyday and evaluate 20-25 answer books and should devote minimum 15-20 minutes to evaluate each answer book.

Every Examiner should acquaint himself / herself with the marking schemes of all the sets.

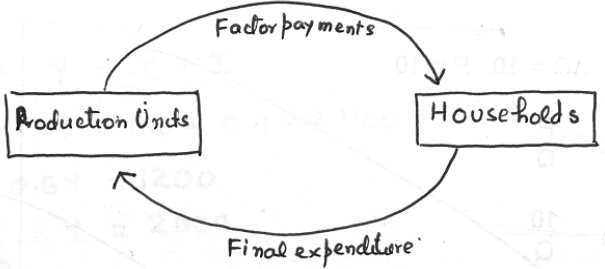
General Note : In case of numerical question no mark is to be given if only the final answer is given.

C2	Expected Answer / Value Points	Distribution of Marks
SECTION-A		
1	$TP_n - TP_{n-1} = MP$ or addition to total product on employing one more unit of variable input	1
2	It is the total supply of a good at a given price during a given period.	1
3	It is locus of points which represents different combinations of the only two goods the consumer consumes, where expenditure on each combination equals the given income.	1
4	The value of the next best alternative foregone while availing the given alternative.	1
5	Decrease in income in case of a normal good, etc.	1
6	<p>With fixed resources, the economy can produce several combinations of different goods produced. The problem is that which combination should be produced. The problem arises because resources are fixed.</p> <p style="text-align: center;"><u>OR</u></p> <p>Economic problem arises on account of three reasons. First, the wants of the people are unlimited. Second, the resources available to meet these wants are limited. Third, the resources have alternative uses. The problem essentially is that which wants should be satisfied.</p>	<p style="text-align: center;">3</p> <p style="text-align: center;">3</p>
7	When $\frac{M.U_X}{P_X} < \frac{M.U_Y}{P_Y}$ the consumer finds that per rupee $M.U_Y > M.U_X$ so he will buy more of Y and less of X till $\frac{M.U_X}{P_X} = \frac{M.U_Y}{P_Y}$	3
8	<p>In case of <u>Substitute good</u>, if the price of substitute good rises, demand for the given good rises. It is because the given good becomes relatively cheaper (dearer) in relation to the substitute good.</p> <p>In case of <u>Complementary good</u>, if the price of the complementary good rises, demand for the given good falls. It is because demand for the complementary good falls and both the goods are to be used jointly.</p>	<p style="text-align: center;">1½</p> <p style="text-align: center;">1½</p>

9	$E_s = \frac{\% \text{ change in supply}}{\% \text{ change in price}}$ $1.6 = \frac{-40}{\% \text{ change in price}}$ $\% \text{ change in price} = \frac{-40}{1.6}$ $= -25\% \text{ (i.e. fall in supply by 25\%)}$	<p>1</p> <p>1</p> <p>½</p> <p>½</p>
10	<p>(i) When $MC < AC$, AC falls</p> <p>(ii) When $MC = AC$, AC is constant</p> <p>(iii) When $MC > AC$, AC rises</p>	<p>1</p> <p>1</p> <p>1</p>
11	<p>The policy of liberalization encourages new firms to enter the industry. This raises output of the industry. Total market demand remaining unchanged, price starts falling. Consumers now get the good at a cheaper price.</p> <p>(Any other individual response with suitable justification should also be accepted even if there is no reference to the text)</p>	<p>4</p>
12	$E_p = \frac{\% \text{ change in dd}}{\% \text{ change in price}}$ $= \frac{\frac{150}{600} \times 100}{-20}$ $= -1.25$ <p style="text-align: center;"><u>OR</u></p> <p>(i) Nature of the good.</p> <p>(ii) Number of substitutes</p> <p>(iii) Any other</p> <p style="text-align: center;">(Any two)</p> <p>Statement</p> <p>Explanation</p>	<p>1</p> <p>2</p> <p>1</p> <p>½×2</p> <p>1½×2</p>

13	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Output</th> <th style="text-align: left;">MC</th> <th style="text-align: left;">TR</th> <th style="text-align: left;">MR</th> <th></th> </tr> </thead> <tbody> <tr> <td>1</td> <td>12</td> <td>10</td> <td>10</td> <td></td> </tr> <tr> <td>2</td> <td>10</td> <td>20</td> <td>10</td> <td></td> </tr> <tr> <td>3</td> <td>8</td> <td>30</td> <td>10</td> <td></td> </tr> <tr> <td colspan="5" style="border-top: 1px solid black;"></td> </tr> <tr> <td>4</td> <td>10</td> <td>40</td> <td>10</td> <td style="text-align: right;">Equilibrium</td> </tr> <tr> <td colspan="5" style="border-top: 1px solid black;"></td> </tr> <tr> <td>5</td> <td>12</td> <td>50</td> <td>10</td> <td></td> </tr> </tbody> </table> <p>The Producer will produce 4 units as at their level of output $MC = MR$ and beyond it $MC > MR$.</p>	Output	MC	TR	MR		1	12	10	10		2	10	20	10		3	8	30	10							4	10	40	10	Equilibrium						5	12	50	10		4
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14	<p>There are two conditions :</p> <p>(i) $MRS = \text{Ratio of prices}$</p> <p>(ii) MRS continuously falls</p> <p><u>Explanation :</u></p> <p>(i) Let the two goods be X and Y. The first condition for consumer's equilibrium is that $MRS = P_x/P_y$. Now suppose MRS is greater than P_x/P_y. It means that the consumer is willing to pay more for X than the price prevailing in the market. As a result the consumer buys more of X. This leads to fall in MRS. MRS continues to fall till it becomes equal to the ratio of prices and the equilibrium is established.</p> <p>(Or, alternatively in terms of when $MRS < P_x/P_y$)</p> <p>(ii) Unless MRS continuously falls, the equilibrium cannot be established.</p>	<p>1</p> <p>1</p> <p>3</p> <p>1</p>																																								
15	<p>When demand increases, there is excess demand resulting in competition among buyers. This will raise price. At higher price demand will fall and supply will increase. These change will continue till price rises to a level at which $DD=SS$. New Equilibrium price will be higher, equilibrium quantity will be more.</p> <p><u>OR</u></p> <p>When firms cooperate with each other in determining price and output, it is called collusive oligopoly.</p> <p>The basic features are :</p> <p>(i) Number of firms is few.</p> <p>(ii) There is interdependence between firms.</p> <p>(iii) There are barriers to entry of new firms into industry.</p> <p>(iv) There is non-price competition.</p> <p style="text-align: center;">(Any two)</p> <p>Statements</p> <p>Explanation</p>	<p>6</p> <p>1</p> <p>1×2</p> <p>1½×2</p>																																								

16	<p>According to the Law of Variable Proportions when only one input is increased while others are held unchanged, MP and TP change in the following manner :</p> <p>Phase-I : MP increases and TP increases at increasing rate i.e. up to A on TO curve (upto K on MP curve) because there is under utilization of the fixed input.</p> <p>Phase-II : MP decreases but is positive and TP increases at decreasing rate i.e. up to B on TP curve (upto L on MP curve) because there is too much of variable input in relation to the fixed input.</p> <p>Phase-III : MP decrease and is negative and TP falls i.e. after B on TP curve (after L on MP curve) because there is too much of variable input in relation to fixed input.</p> <p><u>For Blind Candidates</u></p> <p>Schedule</p> <p>Explanation (Same as above)</p>	2 4 2 4
17	It is the sum of the factor incomes of residents of a country during a year.	1
18	Demand deposits are deposits that can be withdrawn by writing cheque.	1
19	<p>The central bank can bring down foreign exchange rate by bringing in more foreign currency out of its reserves in the foreign exchange market.</p> <p>(Any other individual response with suitable justification should also be accepted even if there is no reference to the text)</p>	1
20	<p>(i) Dividend from public sector undertakings.</p> <p>(ii) License fee etc. (Any two)</p>	$\frac{1}{2} \times 2$
21	A Tax whose incidence and impact falls on the different persons.	1
22	<p>(i) Reduction in inequalities of income.</p> <p>(ii) Price stability.</p> <p>(iii) Reallocation of reasons etc. (any three)</p>	1×3

23	<p>The current account records transactions relating to income and expenditure, i.e. imports and exports, incomes, and transfers.</p> <p>The capital account records transactions involving changes in foreign exchange assets and liabilities, like borrowing and lending, foreign investment, etc.</p>	<p>1½</p> <p>1½</p>
24	<p>Revenue deficit is the excess of revenue expenditure over revenue receipts whereas fiscal deficit is the excess of total expenditure over total receipts excluding borrowings.</p> <p style="text-align: center;"><u>OR</u></p> <p>Revenue receipts are receipts that neither reduce an asset nor create a liability. Example : Tax receipts.</p> <p>Capital receipts are receipts that either reduce an asset or create a liability. Example : investment.</p>	<p>3</p> <p>1</p> <p>½</p> <p>1</p> <p>½</p>
25	<p>Money serving as a medium of exchange means exchange of goods and services for money. It has solved the problem of double coincidence of wants and has facilitated trade.</p>	<p>3</p>
26	<p>When price of foreign currency falls, the domestic economy has to pay less for imports. As a result demand for imports increases leading to rise in demand for foreign exchange.</p>	<p>3</p>
27	$GVA_{fc} = i + ii - v + iii$ $= 8000 + 100 - 5500 + 200$ $= \text{Rs. 2800 Crore}$	<p>2</p> <p>1½</p> <p>½</p>
28	<p>(i) It will be included in domestic product as it is factor income earned within domestic territory.</p> <p>(ii) It will not be included in domestic product as Russian Embassy is not a part of domestic territory of India.</p> <p>(No marks if the reason is not given)</p> <p style="text-align: center;"><u>OR</u></p> <div style="text-align: center;">  </div> <p>Incomes are first generated in production units due to the joint efforts of factor owners from households. These incomes are distributed to the factor owners who in turn spend the income on purchasing goods and services produced in production units. This makes the circular flow of incomes complete.</p> <p>(Explanation without the use of diagram must be awarded)</p>	<p>2</p> <p>2</p> <p>4</p>

29	<p><u>Open market operations</u> refers to the sale and purchase of the government securities by the central bank in the open market. When there is excess demand central bank sells securities. This leads to flow of money out of the commercial banks into the central bank when people make payment by cheques. This reduces deposits with the banks leading to decline in their lending capacity. Borrowings decline. AD declines.</p>	4
30	<p>(i) $Y = C + I$ $Y = 400 + 0.75Y + 2000$ $0.25Y = 2400$ $Y = 9600$</p> <p>(ii) $C = 400 + 0.75Y$ (given) $= 400 + (0.75 \times 9600)$ $= 400 + 7200$ $= 7600$</p> <p>(No marks if only the final answer is given)</p>	<p>1 1 $\frac{1}{2}$ $\frac{1}{2}$ 2 $\frac{1}{2}$ $\frac{1}{2}$</p>

31	<p><u>Suppose AD is greater than AS.</u> As a result the producers find their inventories falling faster than expected. To maintain the inventory level, producers produce more. AS starts rising and continues to rise till AD equals AS once again.</p> <p><u>Now suppose AD is less than AS.</u> As a result producers find that the inventories start going above the expected level. To bring down the inventories to the expected level, they start producing less. AS starts falling and continues to fall till AD equals AS once again.</p> <p style="text-align: center;"><u>OR</u></p> <p>Investment multiplier refers to increase in national income as a multiple of a given increase in investment. Its value is determined by Marginal Propensity to Consume. The value equals :</p> <p>Multiplier = $\frac{1}{1-MPC}$ or $\frac{1}{MPS}$</p> <p>Suppose increase in investment is Rs. 1000 and $MPC = 0.8$. The increase in national income is in the following sequence.</p> <ul style="list-style-type: none"> • Increase in investment raises income of those who supply investment goods by Rs. 1000. This is first round increase. • Since $MPC = 0.8$, the income earners spend Rs. 800 on consumption. This raises the income of the suppliers of consumption goods by Rs. 800. This is second round increase. • In the similar way the third round increase is $Rs. 640 = 800 \times 0.8$. In this way national income goes on increasing round after round. • The total increase in income is Rs. 5000 which equals $\Delta Y = \Delta I \times \frac{1}{1-MPC}$ $\Delta Y = 1000 \times \frac{1}{1-0.8} = Rs. 5000$ <p>(Working based on table must be awarded).</p>	<p style="text-align: right;">3</p> <p style="text-align: right;">3</p> <p style="text-align: right;">2</p> <p style="text-align: right;">4</p>
32	$N.I. = ii + iii + vii + x - viii$ $= 6000 + 400 + 800 + 500 - (-80)$ $= Rs. 7780 \text{ Crore}$ <p>(No marks if only the final answer is given)</p>	<p style="text-align: right;">3</p> <p style="text-align: right;">2</p> <p style="text-align: right;">1</p>