

# SENIOR SCHOOL CERTIFICATE EXAMINATION MARCH-2013

## MARKING SCHEME – ECONOMICS (FOREIGN)

### SET-3

#### 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 every day 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.

C3	Expected Answer / Value Points	Distribution of Marks
<b>SECTION-A</b>		
1	Total receipts from sales or total market value of the output produced.	1
2	When proportionate change in supply is less than proportionate change in price.	1
3	It is a situation when consumer gets maximum satisfaction by spending the given income.	1
4	The value of the next best alternative foregone while availing the given alternative.	1
5	When demand for good increases with increase in income, it is normal good.	1
6	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.	3
	<p style="text-align: center;"><u>OR</u></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.	3
7	MRS refers to the quantity of one good which the consumer is willing to sacrifice to obtain one more unit of the other good. As the consumer obtains more and more of the other good, he is willing to sacrifice less and less quantity of the other good due to diminishing marginal utility.	3
8	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.	1½
	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.	1½
9	$E_s = \frac{\% \text{ change in supply}}{\% \text{ change in price}}$	1
	$2 = \frac{30}{\% \text{ change in price}}$	1
	$\% \text{ change in price} = \frac{30}{2}$	½
	= 15% (i.e. rise in supply by 15%)	½

10	<table border="1"> <thead> <tr> <th><u>Units</u></th> <th><u>AC</u></th> <th><u>TC</u></th> <th><u>MC</u></th> </tr> </thead> <tbody> <tr> <td>1</td> <td>10</td> <td>10</td> <td>10</td> </tr> <tr> <td>2</td> <td>10</td> <td>20</td> <td>10</td> </tr> </tbody> </table>	<u>Units</u>	<u>AC</u>	<u>TC</u>	<u>MC</u>	1	10	10	10	2	10	20	10	3												
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1	10	10	10																							
2	10	20	10																							
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><b>(Any other individual response with suitable justification should also be accepted even if there is no reference to the text)</b></p>	4																								
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.                      (ii) Number of substitutes                      (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 style="text-align: right;">½×2</p> <p style="text-align: right;">1½×2</p>																								
13	<table border="1"> <thead> <tr> <th>Output</th> <th>MC</th> <th>TR</th> <th>MR</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>12</td> <td>10</td> <td>10</td> </tr> <tr> <td>2</td> <td>10</td> <td>20</td> <td>10</td> </tr> <tr> <td>3</td> <td>8</td> <td>30</td> <td>10</td> </tr> <tr> <td>4</td> <td>10</td> <td>40</td> <td>10</td> </tr> <tr> <td>5</td> <td>12</td> <td>50</td> <td>10</td> </tr> </tbody> </table> <p style="text-align: right; margin-right: 20px;">Equilibrium</p> <p>The Producer will produce 4 units as at their level of output <math>MC = MR</math> and beyond it <math>MC &gt; MR</math>.</p>	Output	MC	TR	MR	1	12	10	10	2	10	20	10	3	8	30	10	4	10	40	10	5	12	50	10	4
Output	MC	TR	MR																							
1	12	10	10																							
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4	10	40	10																							
5	12	50	10																							

14	<p>There are two conditions :</p> <p>(i) MRS = 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 <math>MRS = P_x/P_y</math>. Now suppose MRS is greater than <math>P_x/P_y</math>. 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 <math>MRS &lt; P_x/P_y</math>)</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 <math>DD=SS</math>. New Equilibrium price will be higher, equilibrium quantity will be more.</p> <p style="text-align: center;"><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>6</p> <p>1</p> <p>Statements 1×2</p> <p>Explanation 1½×2</p>

16	<div data-bbox="443 159 863 510" data-label="Figure"> </div> <p data-bbox="188 595 1273 707">'Contraction in Supply' means fall in quantity supplied due to fall in price of the good only, other factors remaining unchanged. For example, fall in supply from <math>OQ_1</math> to <math>OQ_2</math> is on account fall in price from <math>OP_1</math> to <math>OP_2</math>.</p> <div data-bbox="467 786 831 1099" data-label="Figure"> </div> <p data-bbox="188 1223 1273 1335">'Decrease in supply' means fall in supply due to a factor other than the price of the good. For example, fall in supply from <math>OQ_1</math> to <math>OQ_2</math> is at the same price. It means that some other factor has caused this price change.</p> <p data-bbox="188 1357 512 1391"><b><u>For the blind candidates</u></b></p> <p data-bbox="188 1413 596 1447">Distinction (on the above lines)</p> <p data-bbox="188 1469 320 1503">Schedules</p>	<p data-bbox="1374 439 1398 472">1</p> <p data-bbox="1374 674 1398 707">2</p> <p data-bbox="1374 1055 1398 1088">1</p> <p data-bbox="1374 1290 1398 1323">2</p> <p data-bbox="1342 1402 1430 1435">2+2=4</p> <p data-bbox="1342 1458 1430 1491">1+1=2</p>
<b>SECTION-B</b>		
17	It is contribution to total production of final products by the residents of a country during a year.	1
18	Currency with public + demand deposits.	1
19	<p data-bbox="188 1805 1273 1872">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 data-bbox="188 1895 1273 1962"><b>(Any other individual response with suitable justification should also be accepted even if there is no reference to the text)</b></p>	1

20	Capital expenditure is the expenditure that either creates an asset or reduces a liability.	1
21	Income Tax, etc (direct tax) (any one) Excise duty, etc (indirect tax) (any one)	$\frac{1}{2}$ $\frac{1}{2}$
22	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.	3
23	(i) Reduction in inequalities of income. (ii) Price stability. (iii) Reallocation of reasons etc. (any three)	$1 \times 3 = 3$
24	The current account records transactions relating to income and expenditure, i.e. imports and exports, incomes, and transfers. The capital account records transactions involving changes in foreign exchange assets and liabilities, like borrowing and lending, foreign investment, etc.	$1\frac{1}{2}$ $1\frac{1}{2}$
25	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. <u>OR</u> Revenue receipts are receipts that neither reduce an asset nor create a liability. Example : Tax receipts. Capital receipts are receipts that either reduce an asset or create a liability. Example : investment.	3 1 $\frac{1}{2}$ 1 $\frac{1}{2}$
26	Depreciation of foreign currency means fall in exchange rate. It means that foreign buyers will now get less amount of goods from the domestic economy by paying the same amount of foreign exchange. It makes exports costlier. Demand for exports falls.	3
27	$GVA_{fc} = i + ii - v + iii$ $= 8000 + 100 - 5500 + 200$ $= Rs. 2800 \text{ Crore}$	2 $1\frac{1}{2}$ $\frac{1}{2}$
28	(i) It will be included in domestic product as it is factor income earned within domestic territory. (ii) It will not be included in domestic product as Russian Embassy is not a part of domestic territory of India. (No marks if the reason is not given)	2 2

	<p><u>OR</u></p>	
	<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><i>(Explanation without the use of diagram must be awarded)</i></p>	4
29	<p>Commercial banks are required to keep a certain minimum percentage of deposits as cash reserves with the central bank. Central banks uses these reserves to give loans to the commercial banks to meet their emergent needs. It is called the <u>bankers' bank function</u> of the central bank.</p> <p>Central bank supervises the functioning of commercial banks by making rules regarding licensing, management branch expansion etc.</p>	3  1
30	$N.I. = ii + iii + vii + x - viii$ $= 6000 + 400 + 800 + 500 - (-80)$ $= \text{Rs. } 7780 \text{ Crore}$ <p><i>(No marks if only the final answer is given)</i></p>	3 2 1
31	<p>(i) <math>Y = C + I</math></p> $Y = 400 + 0.75Y + 2000$ $0.25Y = 2400$ $Y = 9600$ <p>(ii) <math>C = 400 + 0.75Y</math> (given)</p> $= 400 + (0.75 \times 9600)$ $= 400 + 7200$ $= 7600$ <p><i>(No marks if only the final answer is given)</i></p>	1 1 $\frac{1}{2}$ $\frac{1}{2}$  2 $\frac{1}{2}$ $\frac{1}{2}$

32	<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 = <math>\frac{1}{1-MPC}</math> or <math>\frac{1}{MPS}</math></p> <p>Suppose increase in investment is Rs. 1000 and <math>MPC = 0.8</math>. The increase in national income is in the following sequence.</p> <ul style="list-style-type: none"> <li>• Increase in investment raises income of those who supply investment goods by Rs. 1000. This is first round increase.</li> <li>• Since <math>MPC = 0.8</math>, 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.</li> <li>• In the similar way the third round increase is <math>Rs. 640 = 800 \times 0.8</math>. In this way national income goes on increasing round after round.</li> <li>• The total increase in income is Rs. 5000 which equals</li> </ul> $\Delta Y = \Delta I \times \frac{1}{1 - MPC}$ $\Delta Y = 1000 \times \frac{1}{1 - 0.8} = Rs. 5000$ <p>(Working based on table must be awarded).</p>	<p>3</p> <p>3</p> <p>2</p> <p>4</p>
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