SENIOR SCHOOL CERTIFICATE EXAMINATION
MARCH-2013

MARKING SCHEME – ECONOMICS (OUTSIDE DELHI)
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 ½ 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.
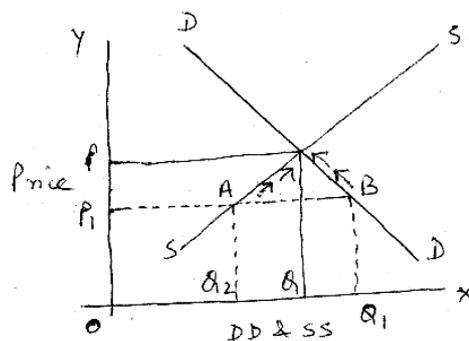
    Every Examiner should acquaint himself / herself with the marking schemes of all the sets.

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

	Expected Answer / Value Points	Distribution of Marks
	SECTION-A	
1	Perfect competition	1
2	When demand remains constant at all prices	1
3	It is the addition to total revenue when sales are increased by one unit.	1
4	It indicates increase in demand at the same price.	1
5	Rise in prices of other goods etc. (any one)	1
6	Under perfect competition there is freedom of entry to firms into industry. When there are abnormal profits, new firms will enter. This will increase supply and price will fall. This process will continue till abnormal profits are wiped out. OR Under monopoly there are no close substitutes of the good but under monopolistic competition there are close substitutes of the good in market. Therefore, monopoly consumers have no choice other than buying the product whereas in monopolistic competition, Close substitution provide a variety of options for the consumer. It makes the demand under monopolistic competition more elastic than under monopoly.	3 3
7	$$E_5 = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P}$$ $$2 = \frac{50}{200} \times \frac{8}{\Delta P}$$ $\Delta P = 1$ It will supply 250 units at a price of Rs. 9/- per unit.	1 1 1
8	Budget line is the locus of points that show such combinations of two goods that the consumer can buy with his given income and at given prices. It is downward sloping because when consumer purchase more of one good he must reduce the purchase of other good with his given income and at given prices.	1½ 1½

9	(a) <u>Substitute goods</u>
	
	    When prices of substitute goods rise the demand for the given good will rise as it will be substituted for other goods.
	
	(b) <u>Complementary goods</u>
	
	    When price of complementary good rises the demand for the given good will fall due to fall in demand for complementary good.
		1½
		
		1½

10	The producer will be in equilibrium at 4 units of output because at this level of output	1
	(a) $MC = MR$, and	1
	(b) Beyond this, $MC > MR$	1
	These are the two conditions of producers equilibrium which are satisfied when 4 units are produced.	
11	One possible step can be to reduce tax on medicine (or alternatively give subsidy). This will bring down cost and in turn 'increase' supply. Demand remaining unchanged, a situation of 'excess supply' will emerge which will lead to competition between sellers. This will lead to fall in price of the medicine.	
	(Any other individual response with suitable justification should also be accepted even if there is no reference to the text)	4
12	There is always a cost of having an additional unit of one good in terms of the amount of other good. This is called opportunity cost of an additional unit of the good.	1
	Production possibilities Schedule	

	Possibilities Good X Good Y
	                (Units) (Units)
	
	     A 1 10
	
	     B 2 8
		2

	For producing an additional unit of X, 2 units of good Y are sacrificed. Therefore the opportunity cost is 2 units of Y	1
	OR	
	Goods and Services are produced for those who have the purchasing power or income to buy those goods and services. Therefore, the problem of 'for whom to produce' amount to the problem of distribution of income in the society.	4
13	$$E_d = \frac{\text{Percentage change in demand}}{\text{Percentage change in price}}$$	1½
	$$= \frac{\frac{100}{400} \times 100}{-20}$$	1½
	$$= -1.25$$	1

14	OP is the equilibrium price and OP$_1$ is the market price. At OP$_1$ price there is excess demand equal to AB. This will result in competition among buyers. Price will rise, supply will rise, demand will fall. Arrows along DD and SS curves indicates this. These changes will continue till price rises to OP, the equilibrium price.	2
		4
	For blind candidates	
	Price DD SS 2 40 5 3 30 10 4 20 20 5 10 25	2
	Equilibrium price in Rs 4 and market price is Rs 3. At market price demand is greater than supply. This will result in competition among buyers resulting rise in price. When price rises to Rs 4 DD and SS are equal.	4
15	(i) False. Average product will increase only when marginal product is greater than average product whether MP is rising or falling.	2
	(ii) False. $AFC = \dfrac{TFC}{Output}$. TFC is constant and positive. So with increase in output AFC will fall but can never be zero.	2
	(iii) True. Under diminishing returns MP falls. TP increase till MR is positive.	2
	(No marks if reason is not given)	

16	1) <u>Slopes downward from left to right</u> : to consume more of one good, the consumer must give up some quantity of the other good so that satisfaction level remains the same. 2) <u>Convex to the origin</u> : MRS declines continuously due to the operation of law of diminishing marginal utility. Consumer is willing to sacrifice less and less of good Y in order to obtain an additional unit of the good X. 3) <u>Higher IC represents higher utility</u> : Higher IC represents more goods and more goods mean more utility because of the assumption of monotonic preferences. OR There are two condition (i) MRS = Ratio of prices (ii) MRS continuously falls <u>Explanation</u> : (i) Let the two goods be X and Y. The first condition for consumer's equilibrium is that $= Px/Py$. Now suppose MRS is greater than Px/Py. It means that the consumer is willing to pay more for X than the price prevailing in the market. He will start buying more of X. As a result MRS continues to fall it becomes equal to the ratio of prices and the equilibrium is established. (Or, alternatively in terms of when $MRS < Px/Py$) (ii) Unless MRS continuously falls, the equilibrium cannot be established.	½ 1½ ½ 1½ ½ 1½ 1 1 2 2
	SECTION-B	
17	The excess of revenue expenditure over revenue receipts is called revenue deficit.	1
18	It can increase the supply of foreign exchange by selling foreign exchange from its reserves.	1
19	Impose heavy tax to make it costlier so that demand comes down (or any other relevant economic step) **(Any other individual response with suitable justification should also be accepted even if there is no reference to the text)**	1
20	Currency with the public and demand deposits with the banks.	1
21	(i) Raw material purchased for use in a factory. (ii) Machine purchased for resale etc. (any two)	½×2

22	Depreciation of domestic currency means higher price of foreign currency in terms of domestic currency. This reduces the price of domestic goods for foreign buyers. This means exports become cheaper. As a result the demand for exports may rise.	3
23	Revenue expenditure neither creates an asset nor reduces a liability whereas capital expenditure either creates an asset or reduces a liability. Example : Revenue Expenditure : Payment of salary etc. Capital Expenditure : Expenditure on Road construction etc.	2 ½ ½
24	It is determined by the forces of demand supply of foreign exchange. The price and demand for foreign exchange are inversely related and supply and price of foreign exchange are directly related. The price at which demand and supply are equal is the price determined by the market. (*Diagram not necessary*)	3
25	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. <u>OR</u> When commercial banks are in need of funds in emergency they approach the central bank for giving them loans. Such a lending facility to the commercial banks by the central bank is referred to as the lender of last resort function of central bank.	3 3
26	Higher rates of taxes can be levied on higher incomes and lower rates of taxes can be levied on lower incomes. More expenditure can be incurred on providing free services like education, health etc. to the poor.	3
27	When domestic product is valued at current prices it is called nominal domestic product and when it is valued at base year prices it is called real domestic product. Real domestic product is a better index of welfare of the people because it indicates the change in quantity of goods and services available to the people. <u>OR</u> Stocks are variables measured at a point of time whereas flows are variables measured over a period of time. Example : Stocks : Wealth and capital etc. Flows : Income, savings, etc.	3 1 2 1 1
28	$Sales = (vii) - [(iii) - (ii)] + (iv) + (v) - (i)$ $= 2000 - [600 - 100] + 3000 + 700 - 200$ $= Rs. 5000$ Lakh.	2 1½ ½

29	Open market operations refer 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 to the central bank when people make payment by cheques. This reduces deposits with the banks leading to decline in their lending capacity.	4
30	Gross National Product @$MP = (i) + (ii) + (iii) + (iv) + (vii) + (viii) - (x) + (xi)$ $\qquad\qquad\qquad\qquad = 2000 + 500 + 700 + 800 + 100 + 250 - 150 + 1500$ $\qquad\qquad\qquad\qquad = Rs. 5700$ Crores OR Gross National Disposable income $= (i) + (vi) + (ii) - (vii) - v + (iii)$ $\qquad\qquad\qquad\qquad = 3000 + 200 + 300 - 100 - 150 + 250$ $\qquad\qquad\qquad\qquad = Rs. 3500$ Crores	2 3 1 2 3 1
31	When aggregate demand is less than aggregate supply at full employment, it is a situation of deflationary gap. When aggregate demand is greater than aggregate supply at full employment, it is a situation of inflationary gap. Measures of correction : (i) Change in govt., expenditure. $\qquad\qquad\qquad$ (ii) Change in Bank Rate $\qquad\qquad\qquad$ (iii) Open Market Operations etc.$\qquad$ (Any two) $\qquad\qquad\qquad\qquad\qquad\qquad\qquad\qquad\qquad$ Explanation	2 1×2 1×2
32	$\qquad Y = C + I$ $\qquad Y = 200 + 0.75Y + 4000$ $0.25Y = 4200$ $\qquad Y = 16800$ $\qquad C = 200 + (0.75 \times 16800)$ $\qquad\quad = 12800$ (No marks to be awarded if final answer given)	1 2 1 1 1