SENIOR SCHOOL CERTIFICATE EXAMINATION
MARCH-2015

MARKING SCHEME – ECONOMICS (DELHI)

(SET -I)

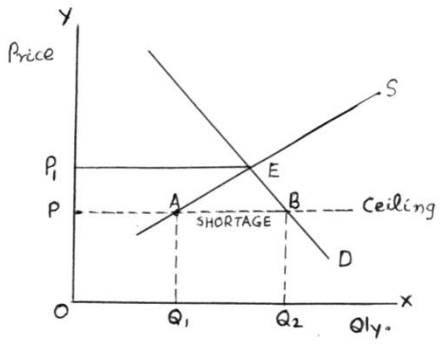
Expected Answers / Value Points

GENERAL INSTRUCTIONS :

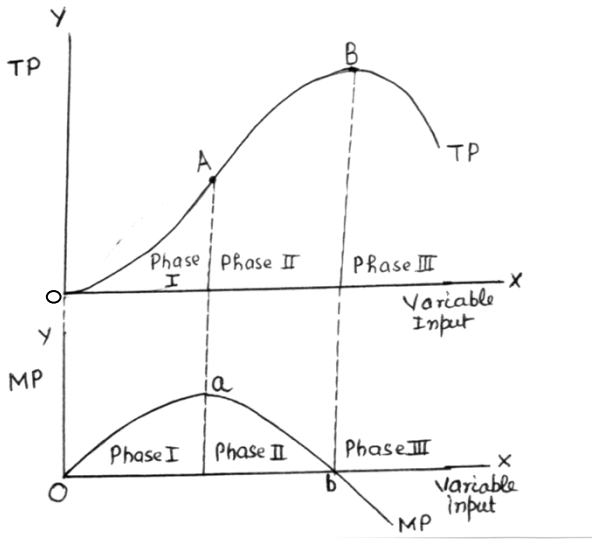
1. Please examine each part of a question carefully and then allocate the marks allotted for the part as given in the marking scheme below. TOTAL MARKS FOR ANY ANSWER MAY BE PUT IN A CIRCLE ON THE LEFT SIDE WHERE THE ANSWER ENDS.
2. Expected suggested answers have been given in the Marking Scheme. To 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 explanation and definition 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.

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

A1	Expected Answer / Value Points	Distribution of Marks
1	$p_1x_1 + p_2x_2 = m$	1
2	**(a)** Shifts to the right.	1
3	**(d)** Downward sloping straight line	1

4	**Good X (Units)** / **Good Y (Units)** / **MRT** 0 / 10 / - 1 / 9 / 1Y:1X 2 / 7 / 2Y:1X 3 / 4 / 3Y:1X 4 / 0 / 4Y:1X Since MRT is increasing, the PP curve is downward sloping and Concave to the origin. **(Diagram not required)**	**1½** **1½**
5	Cleanliness reduces chances of people falling ill and, thus can ensure better health. This in turn will reduce forced absenteeism from work, raise efficiency level and thus raise country's production potential. Rise in this potential shifts PP curve to the right. **(Diagram not required)** **OR** Large scale outflow of foreign capital from the economy will reduce resources and thus production potential of the country will fall. Fall in production potential in turn will shift the PP-Curve downwards. **(Diagram not required)**	**3** **3**
6	The measure of price elasticity of demand has a minus sign because there is inverse relation between price and demand of a normal good, while the measure of price elasticity of supply has plus sign because there is direct relation between price and supply of a good.	**3**
7	The feature signifies that the number of buyers in a perfectly competitive market is so large that any individual buyer is not in a position to influence the market price on its own by purchasing more or less. It is because the individual buyer's share in total purchase in the market is insignificant.	**3**
8	 Maximum price ceiling refers to imposition of upper limit on the price of a good by the government. For example, in the diagram OP is price ceiling while equilibrium price is OP_1. At this price the producers are willing to supply only PA (Or OQ_1) while consumers demand PB (Or OQ_2). The effect of the ceiling is that shortage, equal to AB (Q_1Q_2), is created, which may further lead to black marketing.	**1** **2**

	For blind Candidates Only : Price ceiling means putting the upper limit by the government on the price that can be charged by the producers of a good from the buyers. Maximum price ceiling, is lower than equilibrium price, leads to rise in demand and fall in supply. This creates shortage of the good in the market. This may lead to black marketing.	**1** **2**
9	**Price** **Exp.** **Demand** 8 1000 125 10 1000 100 $E_p = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$ $= \frac{8}{125} \times \frac{-25}{2}$ $= -0.8$	**1½** **1** **1** **½**
10	Cost in economics refers to the sum of actual money expenditure on inputs and the imputed expenditure in the form of inputs supplied by the owners including normal profit. If MC < AVC , then AVC falls If MC = AVC, then AVC is constant If MC > AVC, then AVC rises **(Diagram not required)** **OR** Revenue in Economics refers to the market value of output produced **Or** receipts from sale of output produced. If MR > AR, AR rises If MR = AR, AR is constant If MR < AR, AR Falls. **(Diagram not required)**	**1** **3** **1** **3**
11	Given Px = 3 , Py = 3 and MRS = 3, A consumer is said to be in equilibrium when MRS = $\frac{P_x}{P_y}$ Substituting values we find that 3 > $\frac{3}{3}$ i.e. MRS > $\frac{P_x}{P_y}$ Therefore consumer is not in equilibrium. MRS > $\frac{P_x}{P_y}$ means that consumer is willing to pay more for one more unit of X as compared to what market demands. - The consumer will buy more units of X. - As a result MRS will fall due to the Law of Diminishing Marginal Utility - This will continue till MRS = $\frac{P_x}{P_y}$ and consumer is in equilibrium **(Diagram not required)**	**3** **3**

	OR Given P_x = 4 , P_y = 5 and $MU_x = 5$, $MU_y = 4$,a consumer will be in equilibrium when $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$ Substituting values, we find that $\frac{5}{4}$ > $\frac{4}{5}$ Or $\frac{MU_x}{P_x} > \frac{MU_y}{P_y}$ Since per rupee MU_x is higher than per rupee MU_y , consumer is not in equilibrium. The consumer will buy more of X and less of Y. As a result MU_x will fall and MU_y will rise. The reaction will continue till $\frac{MU_x}{P_x}$ and $\frac{MU_y}{P_y}$ are equal and consumer is in equilibrium.	**3** **3**
12	The Phases are : **Phase : I** TP rises at increasing rate i.e. upto A in diagram. MP rises i.e. upto 'a' **Phase : II** TP rises at decreasing rate i.e. between A and B. MP falls and remains positive between 'a' and 'b'. **Phase : III** TP falls i.e. after B. MP falls and is negative i.e. after 'b'  **(Diagram on single axis is also correct)**	**1x3** **3**

	For blind Candidates Only : **Variable input (Units) / TP (Units) / MP (Units)** 1 / 6 / 6 2 / 20 / 14 3 / 32 / 12 4 / 40 / 8 5 / 40 / 0 6 / 37 / -3 **Or any other relevant numerical example** **Phases :** **(1)** TP increases at increasing rate and MP rises upto 2 units. **(2)** TP increases at decreasing rate and MP falls but remains positive from 3 to 5 units. **(3)** TP falls and MP becomes negative from 6 unit onwards.	**3** **3**
13	**The producer's equilibrium conditions are : (i)** MC = MR and **(ii)** MC > MR after equilibrium. Suppose MC > MR. In this situation it will be profitable for the firm to produce more or less depending upon relative changes in MC and MR till MC = MR. Suppose MC < MR. It will be profitable for the producer to produce more till MC = MR. MC= MR is not a sufficient condition to ensure equilibrium. Given MC = MR, suppose the behaviour of MC and MR is such that if one more unit is produced. MC becomes less than MR. Then in this case it will be profitable for the firm to produce more. Therefore, in this case though MC = MR the producer is not in equilibrium. However, if after MC = MR output MC becomes greater than MR, it will be most advantageous for the firm to produce only upto MC = MR. **(Diagram not required)**	**3** **3**
14	- Given equilibrium, demand increases. - Price remaining unchanged, excess demand emerges. - This leads to competition among buyers causing price to rise. - Rise in price causes fall (contraction) in demand and rise (expansion) in supply . - The price continues to rise till the market is in equilibrium again at a higher price **(Diagram not required)**	**6**

	SECTION - B	
15	Aggregate supply is the value of total quantity of final goods and services planned to be produced in an economy during a period.	**1**
16	**(b)** $\frac{1}{MPS}$	**1**
17	**(b)** Fiscal deficit	**1**
18	**(c)** Dividends	**1**
19	**(a)** Likely to rise	**1**
20	$Real\ GDP = \frac{Nominal\ GDP}{Price\ Index} \times 100$ $200 = \frac{Nominal\ GDP}{110} \times 100$ $Nominal\ GDP = \frac{200 \times 110}{100} = 220$ **(No marks if only the final answer is given)**	**1½** **1** **½**
21	**(1)** Borrowings from and to abroad **(2)** Investments from and to abroad. **(3)** Decreases and increases in foreign exchange reserves. **OR** **(1)** Exports and imports of goods **(2)** Exports and imports of services **(3)** Factor income receipts from abroad and payments to abroad. **(4)** Transfers from and to abroad. **(Any Three)**	**1x3** **1x3**
22	Sale of machinery to abroad is export of goods and thus recorded in the Current Account. Sale of machinery to abroad brings in foreign exchange and thus recorded on the credit side. **(No marks if the reasons are not given)**	**1½** **1½**
23	The central bank is the sole authority for the issue of currency in the country. It promotes efficiency in the financial system. Firstly, because it leads to uniformity in the issue of currency, Secondly, because it gives Central Bank control over money supply. **OR** The Central Bank acts as a banker to the government. The central bank accepts receipts and makes payments for the government and carries out exchange, remittance and other normal banking operations for the government. The central bank manages public debt and also lends to government. **(To be marked as a whole)**	**4** **4**

24	- Opening more bank accounts means more bank deposits. - More deposits means increase in the lending capacity of the commercial banks. - More lending by banks means more investment in the country. - More investment means more national income.	**4**
25	$Y = \bar{C} + MPC(Y) + I$ $Y = 100 + (1 - 0.2)Y + 200$ $0.2Y = 300$ $Y = 1500$ **(No marks if only the final answer is given)**	**1½** **2** **½**
26	**(i)** Payment of fees to chartered accountant by a firm is intermediate cost to the firm and, therefore not included. **(ii)** Payment of corporate tax by a firm is a transfer payment and thus not included. **(iii)** Purchase of a refrigerator by a firm for own use is investment expenditure and thus included. **(No marks if reason is not given)**	**2** **2** **2**
27	**<u>The Inflationary Gap</u>** is the amount by which the aggregate demand exceeds aggregate supply at the full employment level. It is called inflationary because it leads to rise in price level. **<u>Repo Rate</u>** is the rate of interest at which central bank lends to commercial banks for a short period. When central bank raises Repo Rate, the borrowings by the commercial banks become costly. This forces the commercial banks to raise their lending rates. People borrow less, and therefore spend less. This helps in reducing inflationary gap. **(Diagram not required)** **OR** **<u>Deflationary Gap</u>** is the amount by which the aggregate demand falls short of aggregate supply at the full employment level. It is called deflationary because it leads to a fall in price level. **(Diagram not required)** **<u>Open Market Operations</u>** refer to buying and selling of government securities by the central bank in the open market. Central bank can reduce deflationary gap by buying securities. Those who sell receive payments by cheques from the central bank. The money flows out from Central bank into the commercial banks. This raises lending capacity of commercial banks. Banks lend more. Spending rises which reduces deflationary gap.	**2** **4** **2** **4**
28	Government can influence allocation of resources by influencing market mechanism through taxes, subsidies and direct participation in production. Heavy taxes can be imposed on production units engaged in producing harmful products like liquor, cigarettes etc. Tax concessions and subsidies can be given to encourage production of products useful for the masses. Government can directly produce goods and services normally ignored by the private sector due to lack of enough profits. **(To be marked as a whole)**	**6**

29	$N.I. = ii + v + (vii + x) - xi — viii - xii$	**1½**
	$= 600 + 100 + 70 + (-10) - 20 - 60 - 10$	**1**
	$= Rs.670$ Crore.	**½**
	$PDI = iv - vi - iii - i$	**1½**
	$= 650 - 50 - 30 - 80$	**1**
	$= Rs.490$ Crore	**½**
	(No marks if only the final answer is given)	