SENIOR SCHOOL CERTIFICATE EXAMINATION
MARCH-2015

MARKING SCHEME – ECONOMICS (OUTSIDE DELHI)

(SET-III)

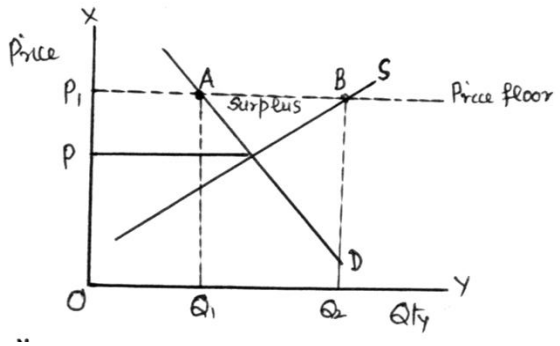
Expected Answers / Value Points

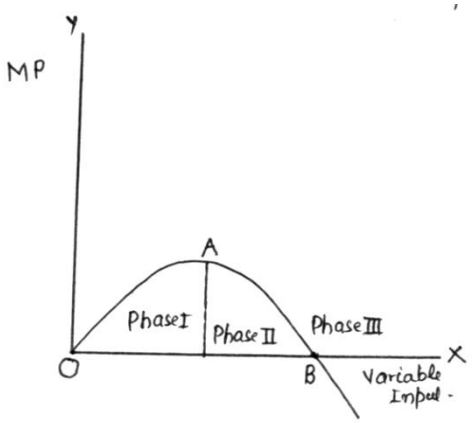
GENERAL INSTRUCTIONS :

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.

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

B3	Expected Answer / Value Points	Distribution of Marks
1	**(b)** Complements	**1**
2	**(b)** Downward sloping concave.	**1**
3	A set of indifference curves of a consumer is called indifference map.	**1**
4	'Make in India' appeal signifies invitation to foreign producers to produce in India. This will lead to increase in resources thus raising production potential of the country. As a result PP curve will shift upwards. **(Diagram not required)**	**3**

	OR Reducing unemployment has no effect on the production potential of the country. It is because production potential is determined assuming full employment. Unemployment indicated that the country is operating below potential. Reducing unemployment simply helps in reaching potential. **(Diagram not required)**	**3**
5	When firms in an oligopoly market co-operate with each other in determining price or output or both, it is called co-operative oligopoly. When the firms compete with each other it is called non-co-operative oligopoly.	**3**
6	When government imposes lower limit on a price that may be charged for a particular good or service, it is called minimum price ceiling e.g. price OP_1. At this price the producers are willing to supply P_1B or (OQ_2) While consumers demand only P_1A (=OQ_1). Unable to sell all they want to sell, the producers may try to illegally sell below the minimum price. (Answer based on minimum wages is also correct)  **For blind Candidates Only :** When government imposes a lower limit on a price that may be charged by the producers of a good or service, it is called price floor. Since this price is above the equilibrium price, at this price producers are willing to supply more but the buyers are willing to buy less. This creates surplus in the market. Due to this producers may adopt illegal ways and sell the product or service at a lower price.	**2** **1** **1** **2**
7	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**
8	**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 will be downward sloping concave to the origin. **(Diagram not required)**	**1½** **1½**

9	**Price** **Exp.** **Demand** 8 400 50 10 500 50 $E_p = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$ $= \frac{8}{50} \times \frac{0}{2}$ $= 0$ **(No marks if only the final answer is given)**	**1½** **1** **1** **½**
10	**(a)** AFC falls continuously as more and more output is produced. **(b)** AVC falls initially and after a level of output, starts rising as more and more output is produced. **OR** Average revenue equals Total Revenue divided by the output produced. $TR = P \times Q$ $AR = \frac{TR}{Q}$ And $AR = \frac{P \times Q}{Q} = P$	**2** **2** **1** **3**
11	**The Phases are :** **Phase : I** MP rises upto A **Phase : II** MP falls but is positive i.e. between A and B. **Phase : III** MP falls and is negative i.e. after B **Reasons** **Phase I :** Initially variable input is too small as compared to the fixed input, As production is increased there is specialization of variable inputs and efficient use of the fixed input leading to rise in productivity of the variable input. As a result MP rises. **Phase II :** After a level of output a pressure on fixed input leads to fall in productivity of the variable input. MP starts falling but remains positive. **Phase III :** The amount of variable input becomes too large in comparison to the fixed input causing decline in total product. MP becomes negative.  	**1½** **3** **1½**

For blind Candidates Only :

Variable input (Units)	TP (Unit)	MP (Unit)
1	6	6
2	20	14
3	32	12
4	40	8
5	40	0
6	37	-3

1½

Phases :

(1) TP increases at increasing rate upto 2 units.
(2) TP increases at decreasing rate upto 5 units.
(3) TP falls from 6 unit onwards.

½x3

Causes :

Same as above

3

12

- Given equilibrium, demand increases.
- Price remaining unchanged, excess demand emerges.
- This leads to competition between 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.

(Diagram not required)

6

13

Given Px = 2 , Py = 2 and MRS = 2, A consumer is said to be in equilibrium when

MRS = $\frac{P_x}{P_y}$

Substituting the values we find that

2 > $\frac{2}{2}$

i.e. MRS > $\frac{P_x}{P_y}$

3

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 the market demands. The consumer will buy more and more 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

	OR Given P_x = 5 , P_y = 4 and MU_x=4 , $MU_y = 5$, the consumer will be in equilibrium when $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$ Substituting values, we find that $\frac{4}{5} < \frac{5}{4}$ Or $\frac{MU_x}{P_x} < \frac{MU_y}{P_y}$ The consumer is not in equilibrium. Since per rupee MU_x is lower than per rupee MU_y , the consumer will buy less of x and more of y. As a result due to Law of Diminishing Marginal Utility, MU_x will rise and MU_y will fall till $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$ **(Diagram not required)**	**3** **3**
14	The equilibrium conditions are : **(i)** MC = MR and **(ii)** MC > MR after equilibrium **Suppose MC = MR condition is not met.** Let MC > MR. In this it will l be profitable for the firm to produce more or less depending upon the relative changes in MC and MR till MC = MR. Similarly, if MC < MR it will also be profitable to produce more till MC = MR. **Now Suppose 'MC > MR after equilibrium condition is not met'** and MC < MR after equilibrium. In this case the firm will not be in equilibrium, because it can increase its profits by producing more. **(Diagram not required)**	**3** **3**
	SECTION - B	
15	**(b)** to fall	**1**
16	**(d)** Fiscal deficit *Minus* interest payment	**1**
17	**(d)** the income earners	**1**
18	Value of final products the buyers are planning to buy during a given period at a given level of income.	**1**
19	**(d)** infinity	**1**
20	Fixed Exchange Rate is the exchange rate fixed by the government / central bank and is not influenced by the demand and supply of foreign exchange. Flexible exchange rate is the exchange rate determined by the forces of demand and supply of foreign exchange in the market and is influenced by the market forces.	**1½** **1½**

	OR Managed floating exchange rate is the flexible exchange rate with intervention by the central bank through the market for foreign exchange to reduce fluctuations in the rate. When foreign exchange rate is too high, the central bank starts selling the foreign currency from its reserves. When it is too low central bank starts buying foreign currency in the market.	**3**
21	'Borrowings from abroad' is recorded in the 'capital account' of BOP account because it increases international liability of the country. It is recorded on the credits side because it brings in foreign exchange into the country.	**1½** **1½**
22	$Real\ GDP = \frac{Nominal\ GDP}{Price\ Index} \times 100$ $Real\ GDP = \frac{600}{120} \times 100$ $= 500$ **(No marks if only the final answer is given)**	**1½** **1** **½**
23	Money supply has two components: Currency and demand deposits with commercial banks. Currency is issued by the central bank while deposits are created by commercial banks by lending money to the people. In this way commercial banks also create money. Commercial banks lend money mainly to investors. The rise in investment in the economy leads to rise in national income through the multiplier effect.	**2** **2**
24	$Y = \bar{C} + MPC(Y) + I$ $= 120 + (1 - 0.2)Y + 150$ $0.2Y = 270$ $Y = 1350$ **(No marks if only the final answer is given)**	**2** **1½** **½**
25	As the banker to the banks, the Central Bank holds a part of the cash reserves of commercial banks. From these reserves it lends to commercial banks when they are in need of funds. Central bank also provides cheque clearing and remittance facilities to the commercial banks. **OR** The central bank is the sole authority for the issue of currency in the country. It promotes efficiency in the financial system. It leads to uniformity in the issue of currency, and it gives Central Bank control over money supply.	**4** **4**

26	**Deficient Demand:** is the amount by which the aggregated demand falls short of aggregate supply at full employment level. It causes fall in price level. **Bank Rate:** is the rate of interest at which central bank lends to commercial banks for long term. The central bank can reduce deficient demand by lowering Bank Rate. When central bank lowers bank rate. Commercial banks also lower their lending rates. Since borrowing becomes cheaper, people borrow more. This leads to rise in aggregate demand and thus helps in reducing deficient demand. **OR** **Excess Demand:** is the amount by which the aggregated demand exceeds aggregate supply at full employment level. It causes inflation. **Reverse Repo Rate:** is the rate of interest paid by the central bank on deposits by commercial banks. Central Bank can reduce excess demand by raising the Reverse Repo Rate. When the rate is raised, it encourages the commercial banks to park their funds with the central bank. This reduces lending capacity of the commercial banks. Lending by the commercial banks to public declines leading to fall in aggregate demand.	**2** **4** **2** **4**
27	Government can reduce inequalities through its tax and expenditure policy. Government can charge higher rate of tax from higher income groups by imposing higher rate of income tax and higher rate on goods and services purchased by the rich. The money so collected can be spent on the poor in the form of free education, free medical facilities, cheaper housing etc. in order to raise their disposable income.	**6**
28	**(i)** Payment of interest by a firm to bank is treated as a factor payment by the firm because the firm borrows money for carrying out production and therefore included in national income. **(ii)** Payment of interest by bank to an individual is a factor payment because bank borrows for carrying out banking services and therefore included in national income. **(iii)** Payment of interest by an individual to bank is not included in national income because the individual borrows for consumption and not for production. **(No marks if reason is not given)**	**2** **2** **2**
29	$NDP_{mp} = i + v + (vii + viii - ii) + (ix - iv) - iii$ $= 400 + 90 + 80 + 20 - 10 + 10 - 15 - 25$ $= Rs.\,550$ Crore $GNDI = NDP_{mp} + iii - x - vi$ $= 550 + 25 - (-5) - (5)$ $= Rs.\,575$ Crore	**1½** **1** **½** **1½** **1** **1½**