

SENIOR SCHOOL CERTIFICATE EXAMINATION MARCH-2018

MARKING SCHEME – ECONOMICS (FOREIGN)

Expected Answers / Value Points

GENERAL INSTRUCTIONS :

- 1 The Marking Scheme carries only suggested value points for the answers. These are only guidelines and do not constitute the complete answers. Students can have their own expression and if the expression is correct, marks should be awarded accordingly.
- 2 As per orders of the Hon'ble Supreme Court, a candidate would now be permitted to obtain a photocopy of his/her Answer Book on payment of the prescribed fee. Examiners/Head Examiners are, therefore, once again reminded that they must ensure that evaluation is carried out strictly as per value points for each answer as given in the Marking Scheme.
- 3 Head Examiners/Examiners are hereby instructed that while evaluating the answer books, if the answer is found to be totally incorrect, the (X) should be marked on the incorrect answer and awarded '0' mark.
- 4 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.
- 5 Expected/suggested answers have been given in the 'Marking Scheme'. To evaluate the answers, the value points indicated in the marking scheme should be followed.
- 6 For questions asking the candidate to explain or define, the detailed explanations and definitions have been indicated along with the value points.
- 7 For mere arithmetical errors, there should be minimal deduction. Only ½ mark should be deducted for such an error.
- 8 Where 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.
- 9 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.
- 10 Higher order thinking ability questions are for assessing a student's understanding / analytical ability.

General Note: In case of a numerical question, no marks should be awarded if only the final answer has been given, even if it is correct.

Expected Answer / Value Points

Question No. (Setwise)			SECTION - A	Marks Distribution
1.	2	3	Any correct relevant example of a positive statement.	1
2.	3	4	Fixed cost is the cost which does not change with the change in output of a good.	1
3.	4	2	(a) Equal to AP	1
4.	1	1	(d) ₹ 330	1
5.	6	5 (OR UP DOWN)	<p>Goods and services are produced for those who have the purchasing power or income to buy them. Therefore, the problem of “for whom to produce” amounts to the problem of distribution of income in the society.</p> <p style="text-align: center;">OR</p> <p>“Choice of technique” refers to the central problem of ‘HOW TO PRODUCE’ that relates to the central issue of which technique of production should be employed to produce a good.</p> <p>The problem is to use capital intensive technique or labour intensive technique for the production of goods in the economy.</p> <p style="text-align: right;">(to be marked as a whole)</p>	3
6.	5	6	<p>When percentage change in quantity demanded is less than percentage change in price, demand is said to be inelastic.</p> <p>Whereas, when quantity demanded does not change at all, in response to a given change in price of the commodity, the demand is said to be perfectly inelastic.</p>	1½ 1½
7.	8	9	<p>The consumer decides how much quantity of the commodity is to be purchased by comparing its marginal utility (MU) with price to be paid (P). The consumer buys as long as MU is greater or at least equal to Price i.e. $MU \geq P$.</p> <p>As the consumer consumes more units of the good, Marginal Utility declines due to the operation of the Law of Diminishing Marginal Utility.</p> <p>If the consumer consumes even after, $MU = P$, Marginal Utility will become lesser than Price, i.e. $MU < P$.</p> <p style="text-align: right;">(to be marked as a whole)</p> <p style="text-align: center;">OR</p> <p>Indifference Curve is locus of points representing different combinations of the only two goods the consumer consumes with each combination having same utility level.</p> <p>Properties of Indifference Curve are -</p> <p>i) Indifference Curve slopes downward from left to right. ii) Indifference Curve is convex to the origin iii) Higher Indifference Curve represents higher utility.</p> <p style="text-align: center;">(Or any other relevant property)</p>	4 1 1x3=3
8.	9	7	$E_s = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$ $\frac{20}{1} \times \frac{4}{100} = 0.8$ <p>Supply is inelastic, as E_s is less than one.</p>	1 2 1

9.	7	8	<p>'Price Ceiling' is the maximum price that sellers can legally charge for a product or a service fixed by the government.</p> <p>Since the price ceiling level is normally below equilibrium price, there would be <u>excess demand</u> for the good, in the market leading to shortage of good. Such shortages, could lead to <u>black marketing</u> of the good.</p> <p align="right">(Diagram not required)</p>	1 3
10.	12	11	<p>Let the two goods consumed be X and Y. A consumer attains equilibrium when :</p> <p>1) $MRS_{xy} = \frac{P_x}{P_y}$</p> <p>2) MRS_{xy} must be decreasing due to the assumption of diminishing marginal rate of substitution to ensure, $MRS_{xy} = \frac{P_x}{P_y}$</p> <p>Explanation to the conditions of consumer's equilibrium:</p> <p>Condition 1: Suppose $MRS_{xy} > \frac{P_x}{P_y}$</p> <ul style="list-style-type: none"> It means that the consumer is willing to sacrifice more of Good Y than he needs to give up actually in the market for an extra unit of Good X. The consumer gains and increases consumption of good X. As consumption of good X increases, satisfaction derived from Good X falls and satisfaction derived from Good Y rises. Thus, MRS_{xy} falls till $MRS_{xy} = \frac{P_x}{P_y}$ <p>Note:- Answer based on $MRS_{xy} < \frac{P_x}{P_y}$ is also acceptable.</p> <p>Condition 2: Unless MRS_{xy} is declining consumer may not be able to attain equilibrium.</p> <p align="right">(Diagram not required).</p>	1 1 3 1
11.	10	12	<p>A producer is said to be in equilibrium when he produces that level of output at which :</p> <p>(a) $MC = MR$</p> <p>(b) $MC > MR$ after the $MC = MR$ output level</p> <p>Explanation to the conditions:</p> <p>Condition – 1 $MC=MR$</p> <p>Suppose when a producer starts producing a good, with the given factors and finds $MR > MC$ he goes on producing because every new unit produced adds to profits.</p> <p>As he goes on producing he may face the output level when $MC = MR$ and this output satisfies $MC = MR$ condition of equilibrium.</p> <p>Condition - 2 $MC>MR$ after the $MC=MR$ output level</p> <p>After $MC = MR$ level, if $MC > MR$, every new unit produced is sold at a loss. So, he would not like to produce more units.</p> <p>Therefore, only that output level at which $MC = MR$, and beyond which $MC > MR$, is the producer's equilibrium.</p> <p align="right">(Diagram not required).</p>	1 1 2 2

12.	11	10	<p>Characteristics of monopolistic competition –</p> <p>i) A large number of sellers and buyers. ii) Firms produce differentiated products. iii) Freedom of entry and exit from the market.</p> <p>• Differentiated Product: Under monopolistic competition firms produce differentiated products, which are close substitutes of each other. If buyers prefer the product of a particular producer, that producer is in a position to influence the price. Whereas, in a perfectly competitive market products are homogenous and firm is the price-taker. This makes monopolistic competition different from perfect competition.</p> <p style="text-align: center;">OR</p> <p>(a) Under perfect competition there are no barriers to entry and exit of firms into/from industry. When in short run there are abnormal profits, new firms enter. This will increase market supply and price will fall. This process continues till abnormal profits reduce to normal profits. Similarly if firms are incurring losses, firms will start leaving. This reduces market supply and price will rise till losses are wiped out.</p> <p>(b) As there are few firms in oligopoly, firms try to avoid price competition for the fear of price war. They use non-price methods price like advertising, free gifts etc. to compete with others.</p>	<p>1 1 1 3 3 3</p>
SECTION-B				
13.	16	14	(c) Subsidies.	1
14.	15	13	Money Supply constitutes money held by the public (or outside the banks) and demand deposits.	1
15.	14	16	(c) Buying government securities.	1
16.	13	15	Consumption curve does not start from origin because of the assumption that there is some minimum level of consumption even at zero level of income.	1
17.	18	17 <small>(OR UP DOWN)</small>	<p>(a) Milk purchased by a tea stall is <u>intermediate good</u> because it is purchased from another production unit for resale indirectly.</p> <p>(b) Bus purchased by a school is a final product because expenditure on school bus is <u>investment expenditure</u>.</p> <p>(c) Juice purchased by a student from the school canteen is a <u>final good</u> because purchased by consumer for own use and not for resale.</p> <p>(No marks to be awarded if the reason is not given or incorrect reason is given)</p> <p style="text-align: center;">OR</p> <p>Given nominal income other than base year we can find real income by eliminating changes in price index. The effect of change in prices on the nominal income of current year can be eliminated in the following way :</p> $\text{Real income} = \frac{\text{Nominal Income}}{\text{Price index}} \times 100$ <p>Price index plays the role of deflator deflating current price estimates into constant price estimate.</p> <p style="text-align: right;">(To be marked as a whole)</p>	<p>1 1 1 3</p>

18.	17	18	<p>Multiplier (investment multiplier) is a measure of the effect of change in initial investment on change in final income.</p> <p>There exist a direct relation between MPC and multiplier. Higher the value of MPC, the higher is the value of multiplier.</p> $K = \frac{1}{1 - MPC}$ $4 = \frac{1}{1 - MPC}$ <p>MPC = 0.75</p>	<p>1</p> <p>1/2</p> <p>1/2</p> <p>1/2</p> <p>1/2</p>
19.	20	21	Award four marks to all students.	4
20.	21	19	<p>Inflationary gap is the situation when AD exceeds AS corresponding to the full employment income level of income/output.</p> <p>Measures to reduce the inflationary gap are :</p> <p>(i) Decrease in government spending</p> <p>(ii) Increase in the level of taxes.</p> <p>(iii) Increase in bank rate (or any other relevant measure)</p> <p style="text-align: center;">OR</p> <p>Aggregate Demand refers to the value of final goods and services which all sectors of an economy are planning to buy during a year.</p> <p>Components :</p> <p>(a) Private consumption expenditure</p> <p>(b) Government consumption expenditure</p> <p>(c) Investment expenditure</p> <p>(d) Net Exports</p>	<p>1</p> <p>1x3</p> <p>2</p> <p>1/2 x 4 = 2</p>
21.	19	20	The answer based on any assumption about autonomous consumption should be awarded marks.	4
22.	23	24	<p>(a) Revenue Deficit refers to the excess of total revenue expenditure over total revenue receipts.</p> <p>It means that govt. will not be able to meet its revenue expenditure from its revenue receipts</p> <p>(b) Fiscal Deficit refers to the excess of total expenditure over total receipts excluding borrowings.</p> <p>It indicates borrowing requirements of the government.</p> <p>(c) Primary Deficit is defined as fiscal deficit less interest payments.</p> <p>It indicates borrowing requirements of the govt. to meet fiscal deficit net of interest payments.</p> <p style="text-align: center;">OR</p> <p>(a) Government can influence allocation of resources through budget in many ways. It can encourage or discourage production of selected goods through taxes and subsidies. For discouraging, it can impose taxes and for encouraging it can give subsidies.</p> <p>Government can also directly participate in production of goods and services like water supply, sanitation etc.</p> <p style="text-align: right;">(To be marked as a whole)</p> <p>(b) Government can influence inequalities of income through taxes and public expenditure. It can impose taxes on the rich reducing their disposable income. The amount so collected can be spent to provide free services like education, health etc. to the poor for raising their standard of living.</p> <p style="text-align: right;">(To be marked as a whole)</p>	<p>2</p> <p>2</p> <p>2</p> <p>3</p> <p>3</p>

23.	24	22	<p>(a) Rise in foreign exchange rate means appreciation in the value of foreign currency in relation to the domestic currency, i.e. one unit of foreign currency can buy more goods and services from India. It makes exports cheaper to foreign buyers and imports costlier to Indian buyers. As a result exports rise and imports fall leading to rise in net exports. A rise in net exports may lead to rise in national income. (to be marked as a whole)</p> <p>(b) A deficit in Balance of Payment occurs when during the year autonomous inflows of foreign exchange fall short of autonomous outflows of foreign exchange. Autonomous transactions are the transactions which are independent of other transactions in the Balance of Payments. (to be marked as a whole)</p>	<p>3</p> <p>3</p>
24.	22	23	<p>(a) $NNP_{MP} = [(ii) + (x)] + (i) + [(iii) + (vi) + (viii)] + (xi) + (iv) - (vii)$ $= (1,800 + 200) + 6,000 + (400 + 120 + 80) + 1000 + 100 - 70$ $= ₹ 9,630 \text{ Crores}$</p> <p>(b) $GDP_{FC} = (ii + x) + i + (iii + vi + viii) + xi + ix$ $= (1800 + 200) + 6000 + (400 + 120 + 80) + 1000 + 50$ $= ₹ 9,650 \text{ Crores}$</p> <p style="text-align: center;">Alternative solution of 24(b)</p> <p>$GDP_{FC} = NNP_{mp} + vii - iv + ix$ $= 9630 + 70 - 100 + 50$ $= ₹ 9,650 \text{ Crores}$</p>	<p>2</p> <p>1½</p> <p>½</p> <p>1</p> <p>½</p> <p>½</p> <p>1</p> <p>½</p> <p>½</p>