



Competency Based Practice Questions

Economics - XII

Co-created by
Board of School Education Haryana
and
Educational Initiatives

HOW TO USE THIS BOOKLET

Dear Teachers and Students,

The **Board of School Education Haryana** is pleased to present the **Competency-Based Practice Questions** booklet. This resource has been thoughtfully designed to help you deepen your understanding of key concepts and enhance your problem-solving skills. It includes **50 exemplar questions** carefully aligned with the curriculum to familiarize students with the format of **Competency-Based Questions**. These questions are intended to support targeted practice and develop the skills necessary to confidently approach a variety of question types in assessments.

Best Ways for Teachers to Utilise This Resource

1. Integrate into Classroom Teaching

- Use these questions to demonstrate how theoretical concepts translate into practical applications.
- Encourage group discussions to explore reasoning and understanding of concepts taught.

2. Scaffold Student Learning

- Start with simpler questions and guide students through the thought process.
- Gradually introduce more complex questions to build confidence and familiarity.

3. Incorporate into Assessments

- Use these questions in classroom quizzes or homework to help students adapt to the format.
- Provide feedback that emphasises reasoning over correctness, encouraging students to refine their understanding.

4. Focus on Skill Development

- Highlight how these questions nurture understanding, analysis and critical thinking.
- Use student responses to identify and address misconceptions effectively.

Best Ways for Students and Parents to Utilise This Resource

1. Focus on Conceptual Understanding

- Approach each question as a way to understand *why* and *how* a concept works, rather than simply finding the correct answer.

2. Practice Purposefully

- Don't rush—break down the question, identify the concept it addresses, and plan your approach before solving it.

3. Use Feedback to Improve

- Treat mistakes as learning opportunities. Review incorrect answers to understand *what went wrong* and *how to improve*.
- Revisit similar questions to build confidence and mastery over the topic.

Best Ways for Parents to Utilise This Resource

1. Encourage Critical Thinking

- Spend time discussing questions and concepts, asking “Why?” and “How?”.

2. Create a Positive Environment

- Celebrate effort and curiosity, not just grades.
- Help your child view mistakes as opportunities to learn and grow.

3. Collaborate with Teachers

- Stay informed about competency-based assessments through school communications.
- Share observations and work with teachers to address any concerns or challenges.

Final Message

These practice questions are an excellent opportunity to strengthen your conceptual understanding and boost your confidence in solving competency-based questions. For students, each question builds skills that will help you tackle similar challenges with ease. For teachers, this is a chance to mentor students in developing their thinking and problem-solving skills.

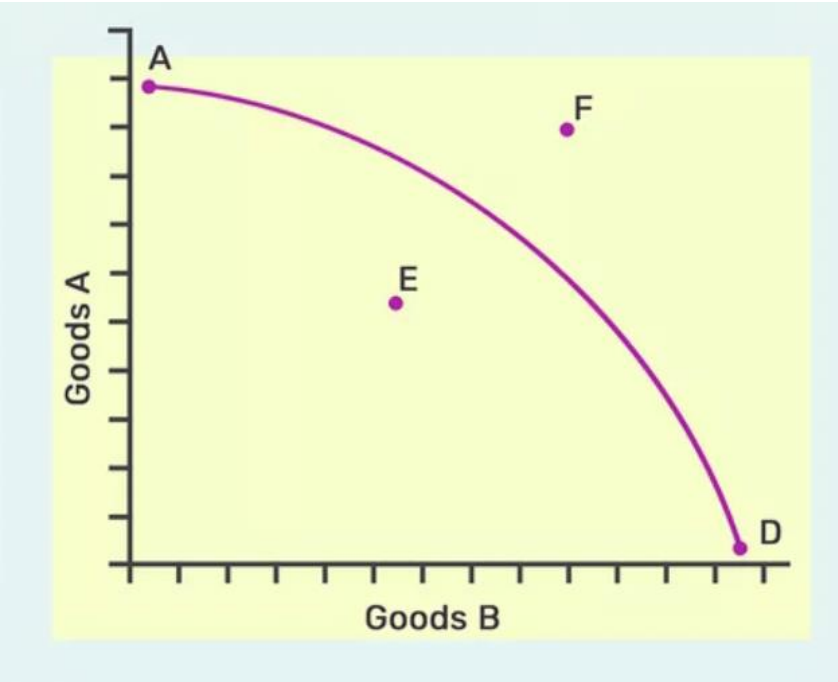
Start today—every effort you invest will prepare you not only for exams but for a lifetime of meaningful learning and success. Let’s make this journey toward competency-based education a meaningful and successful one!

Board of School Education, Haryana

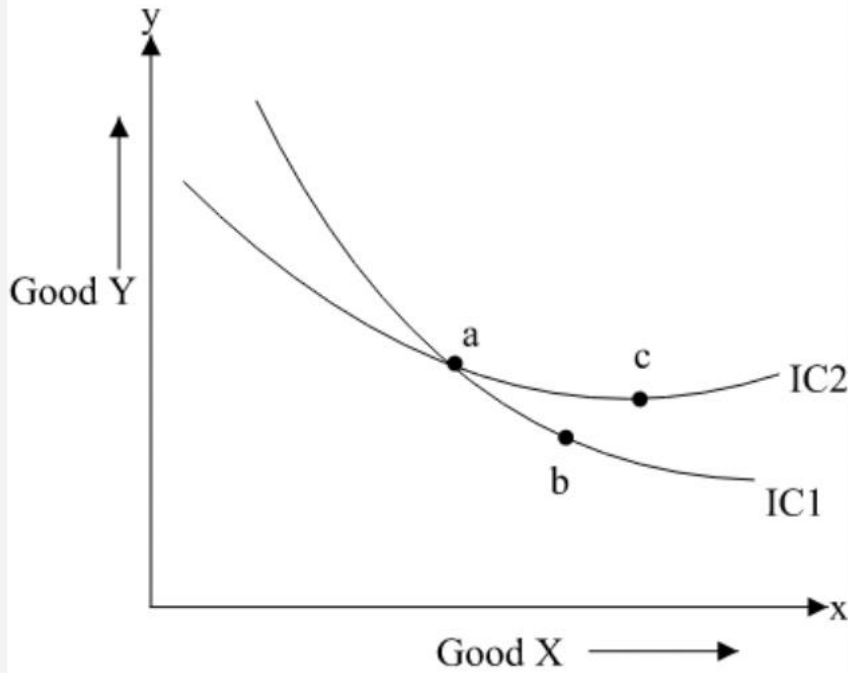
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Introductory Microeconomics

Serial No.	Question	Marks
1	<p>In Country D, while many of the economic activities are conducted by the private sector, some important economic decisions are taken by the Government. What kind of an economy does Country D have?</p> <p>(A) Pure economy (B) Mixed economy (C) Market economy (D) Centrally planned economy</p> <p>[Skill: Understanding]</p>	1
2	<p>What does the following diagram depict? What is depicted by points A and D? What economic concepts are illustrated by the movement from point A to point D? What do points E and F indicate?</p> <div style="text-align: center;">  </div> <p>[Skill: Understanding]</p>	6
	<p>During the Covid-19 pandemic, Singapore had to shut its borders during the lockdown. This negatively affected a number of firms and led to shortages of many goods and services. Singapore imports a lot of goods from other countries, from necessities like food grains to luxury items. The Price Elasticity of Demand (PED) is different for different goods and services. This disruption to international trade caused a lot of hardships to the citizens of Singapore especially as the country imports most of the food grains from other countries.</p>	
3	<p>Explain with the help of a diagram what is a shortage of goods and services.</p> <p>[Skill: Mechanical]</p>	3
4	<p>Ravindra loves to eat burgers but one day he eats too many. When he is eating his fifth burger, he starts feeling sick and can eat no more. What has happened to his total utility?</p> <p>(A) It increases</p>	1

	<p>(B) It decreases (C) It falls to zero (D) It stays the same</p> <p>[Skill: Understanding]</p>	
5	<p>Price Elasticity of Demand (PED) for a necessity like salt is</p> <p>(A) infinite. (B) equal to 1. (C) less than 1. (D) greater than 1.</p> <p>[Skill: Understanding]</p>	1
6	<p>Shailesh stopped using buses to travel because he received a raise and bought a new car. Which of these correctly explains Shailesh's situation?</p> <p>(A) Transportation through buses is now a free good for him. (B) Transportation through buses is now a public good for him. (C) Transportation through buses is now a normal good for him. (D) Transportation through buses is now an inferior good for him.</p> <p>[Skill: Application]</p>	1
7	<p>Joginder is facing some financial difficulty because of the rising prices in his country. He has cut down on unnecessary expenses like going to the theatre. Since he cannot cut down on food, he has started buying cheaper varieties of the food items. What conclusion can be drawn about the factors affecting Joginder's Price Elasticity of Demand (PED)?</p> <p>[Skill: Application]</p>	4
8	<p>Consider a scenario where a consumer enjoys eating ice cream, but experiences maximum satisfaction from the first cone. By the fourth cone, they begin feeling unwell. As a student of Class 12 economics, they recognize the connection between their declining satisfaction and their willingness to purchase additional ice cream cones only at reduced prices.</p> <p>Which two laws of consumer behavior does this scenario illustrate, and what is the relationship between them?</p> <p>[Skill: Application]</p>	4
9	<p>Given below is a diagram with two indifference curves. Explain what is wrong with the diagram given below and the reasons behind it with the help of an example.</p>	6



[Skill: Understanding]

10 In the short run, the Marginal Cost is simply the increase in Total Variable Cost (TVC) for one more unit of output produced. Explain the reasons behind this.

3

[Skill: Understanding]

11 When a factory owner doubles both his inputs of machinery and labour, his output of steel more than doubles. What does this represent?

1

- (A) Marginal returns to scale
- (B) Constant returns to scale
- (C) Increasing returns to scale
- (D) Diminishing returns to scale

[Skill: Mechanical]

12 A farmer has a fixed plot of land. In the first year when he works alone his produce is 15 kgs of wheat. The next year, on the same plot of land, he hires one more worker who adds 30kgs to the produce. The year after, he hires one more and he adds 40kgs to the produce. But the year after, when he hires one more worker, this worker adds only 20kgs to the total produce. Explain why this happens and state the law.

4

[Skill: Understanding]

13 Explain what is normal profit for a firm.

3

[Skill: Mechanical]

14 Which condition is true for a price taking firm in perfect competition?

1

- (A) Price = Marginal Revenue = Average Revenue
- (B) Price > Marginal Revenue > Average Revenue
- (C) Price < Marginal Revenue < Average Revenue
- (D) Price = Marginal Revenue < Average Revenue

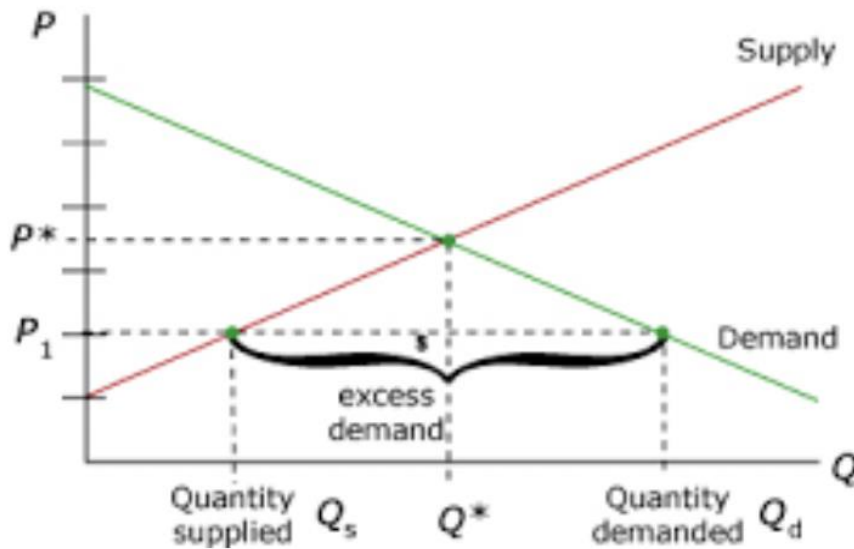
[Skill: Understanding]

15	<p>Shailendra has just started his production unit. What are the three conditions that his firm must satisfy to determine his profit maximizing quantity of output, given that the firm operates in a perfectly competitive market?</p> <p>[Skill: Mechanical]</p>	3
16	<p>Define Price Elasticity of Supply (PES) and explain what does it imply when its value equals zero.</p> <p>[Skill: Mechanical]</p>	3
17	<p>Explain any two factors that would cause a firm's supply curve to shift to the right.</p> <p>[Skill: Understanding]</p>	4
18	<p>The supply of coffee has increased due to fall in the price of raw materials but at the same time the demand for coffee has also declined due to an advertising campaign highlighting the ill effects of drinking coffee on our health. What would be the change in equilibrium price?</p> <p>(A) It increases. (B) It decreases. (C) It remains unchanged. (D) It may increase, decrease or remain unchanged.</p> <p>[Skill: Understanding]</p>	1
19	<p>Using a diagram, explain why the individual labour supply curve tends to bend backwards at higher wage rates.</p> <p>[Skill: Understanding]</p>	6
20	<p>Explain the concept of price ceiling. State one advantage and one disadvantage of imposing a price ceiling.</p> <p>[Skill: Mechanical]</p>	4

Marking Scheme

Q No.	Rubric	Marks
1	<p>Correct Answer: B In a mixed economic system, economic decisions are taken by the Government as well as the private sector that operates through the market forces of demand and supply.</p>	1
	A: There is nothing like a pure economy.	
	C: The economy is entirely controlled by the private sector through the market forces of demand and supply	
	D: All economic decisions are taken by the Government.	
2	<p>Evaluation Criteria: Name of the diagram (1 mark) Points A and D and the economic concepts highlighted by a movement from A to D (3 marks) What is indicated by point E (1 mark) What is indicated by point F (1 mark)</p>	6
	<p>Sample Answer:</p> <ol style="list-style-type: none"> The diagram given is known as the Production Possibility Curve (PPC). Every point on the PPC indicates the maximum amount of a combination of goods A and B that can be produced by utilizing the resources of the economy in the best possible manner with a given state of technology. Point A indicates that if an economy uses all the resources available to it most efficiently to produce maximum possible amount of Good A it will result in zero production of Good B. Point D indicates that if an economy uses all resources available to it most efficiently to produce maximum possible amount of Good B it will result in zero production of Good A. Any other point on the PPC would indicate a combination of the two goods. A movement from point A to point D indicates that the economy would have to stop producing A and use all its resources to produce B. This brings us to the important concepts of scarcity and opportunity cost. Because resources are scarce, an economy has to give up production of one good to be able to produce more of another. This is known as opportunity cost. Point E indicates that the economy is producing at a point where its resources are under-utilised or unemployed. Point F indicates a situation which is not yet attainable by an economy. 	
3	<p>Evaluation Criteria: Neatly labelled diagram (1 mark) Explanation (2 marks)</p>	3
	Sample Answer:	

Excess Demand



At price P_1 , quantity demanded Q_d is greater than quantity supplied Q_s .

Whenever quantity demanded is greater than quantity supplied it gives rise to a shortage or excess demand.

4	<p>Correct Answer: B</p> <p>The total utility decreases as Ravindra's satisfaction from eating additional burgers diminishes due to discomfort, reflecting the principle of diminishing marginal utility.</p>	1
	A: This is wrong as TU will decline when MU turns negative as the total satisfaction of the consumer gets reduced.	
	C: It declines but will not fall to zero.	
	D: It will decline.	
5	<p>Correct Answer: C</p> <p>The price elasticity of demand for necessities like salt is less than 1, as their demand is relatively inelastic and does not change significantly with price variations.</p>	1
	A: This is when PED is unitary elastic.	
	B: The demand for necessities is price inelastic as people need them irrespective of the change in price. For any change in price, the proportionate change in quantity demanded is much lower.	
	D: This is when PED is perfectly elastic.	
6	<p>Correct Answer: D</p> <p>This is the right answer because as income increases, demand for an inferior good or service reduces. That is what is happening for buses as a mode of transportation.</p>	1
	A: Free goods have no opportunity cost. So, this is not the answer.	
	B: Merit goods are education and healthcare.	
	C: For normal goods as income increases, demand also increases. Here demand for buses as a mode of transportation has reduced.	

7	<p>Evaluation Criteria:</p> <p>1st factor affecting PED and explanation (2 marks)</p> <p>2nd factor affecting PED and explanation (2 marks)</p>	4
	<p>Sample Answer:</p> <ol style="list-style-type: none"> 1. Going to the theatre is a luxury and not a necessity and Joginder can do without going to the theatre. There are many others in the economy who behave like him. When the price of the theatre ticket rises, demand falls by a greater percentage as compared to the rise in the price of theatre tickets. Therefore, PED of luxuries is greater than 1 or elastic. 2. Joginder cannot stop eating food but as there are cheaper substitutes available, he starts buying the cheaper substitutes. As prices of the food items consumed by Joginder increase, he stops buying these and starts consuming more of the substitutes. Thus, PED is elastic or greater than 1, the more the availability of substitutes. 	
8	<p>Evaluation Criteria:</p> <p>Law of Demand (1 mark)</p> <p>Law of Diminishing Marginal Utility (1 mark)</p> <p>Relation between the two (2 marks)</p>	4
	<p>Sample Answer:</p> <ol style="list-style-type: none"> 1. The Law of Demand states that the demand curve is downward sloping which means that at lower prices the individual is willing to buy more of that commodity and at higher prices, is willing to buy less of that commodity. 2. The Law of Diminishing Marginal Utility states that the satisfaction or the utility that an individual derives from each additional unit goes on declining. Thus, an individual will be willing to less for each successive unit and this results in a downward sloping demand curve. 3. The Law of Demand and the Law of Diminishing Marginal Utility are connected because both explain why people buy more when prices are low and less when prices are high. As you consume more of a good, the extra satisfaction (marginal utility) from each additional unit gets smaller. To keep buying more, the price must be lower to match the lower satisfaction. This is why demand increases as prices fall and decreases as prices rise. 	
9	<p>Evaluation Criteria:</p> <p>Explanation of what is wrong with the diagram (3 marks)</p> <p>Reasons behind why it is wrong with an example (3 marks)</p>	6
	<p>Sample Answer:</p> <ol style="list-style-type: none"> 1. There are two indifference curves IC1 and IC2. 2. Bundles a and b both lie on the indifference curve IC1 so a consumer is indifferent between the two or derives the same level of satisfaction from both the bundles. 3. Bundles a and c both lie on the indifference curve IC2 so again a consumer is indifferent between the two or derives the same level of satisfaction from both the bundles. 	

	4.If a consumer is indifferent between a and b and also between a and c, then it follows that the consumer will also be indifferent between b and c. But this is clearly not possible as at c, the consumer clearly has more of good X as well as good Y. Thus, the consumer is definitely better off at c than at b. This shows that two indifference curves cannot intersect.	
10	<p>Evaluation Criteria: Stating that fixed costs remain constant (1 mark)</p> <p>Explaining that any increase in total cost therefore must come only from a change in variable costs (1 mark)</p> <p>Making the logical connection that MC must therefore equal the change in TVC/change in output (1 mark)</p>	3
	<p>Sample Answer:</p> <ol style="list-style-type: none"> 1. The short run is defined as a period of time in which at least one factor of production is fixed. Therefore, the cost incurred on this factor is also a fixed cost. 2. When the level of output changes, whatever change in cost occurs, occurs due to a change in the total variable costs (TVC). 3. Therefore, in the short run, marginal cost is nothing but the change in TVC as the total fixed cost does not change. 	
11	<p>Correct Answer: C In increasing returns to scale, as the inputs double, the output should more than double. So, this is the right answer.</p>	1
	A: There is nothing like marginal returns to scale.	
	B: In constant returns to scale, as the inputs double, the output should also double. So, this is not the right answer.	
	D: In diminishing returns to scale, as the inputs double, the output should less than double. So, this is not the right answer.	
12	<p>Evaluation Criteria: Law of Variable Proportions (2 marks)</p> <p>Change of factor proportions (2 marks)</p>	4
	<p>Sample Answer:</p> <ol style="list-style-type: none"> 1. The Law of Variable proportions states that the marginal product of a factor input initially rises with its employment level but after a certain level of employment, it starts falling. As can be seen, the farmer alone produces only 15kgs of wheat. When another worker is added, the total produce rises by 30kgs, the next year with one more worker, it rises by 40kgs but the year after that it rises by only 20kgs when one more worker is added. 2. As one factor, land is kept fixed and the other factor labour goes on increasing, the factor proportions become more suitable and the marginal product of labour rises. This happens till the farmer hires the second worker. 3. But when he hires the third worker, the marginal product declines as his plot of land has now become too crowded. Each worker now has insufficient land to work efficiently. Thus, the marginal product begins to decline. 	
13	<p>Evaluation Criteria: Definition of normal profit (1 mark)</p>	3

	Explanation of the situation in the short run (1 mark) Explanation of the situation in the long run (1 mark)	
	Sample Answer: 1. Normal profit is the minimum profit needed to keep an existing firm in business in a perfectly competitive market. TR=TC. 2. In the long run, a firm does not produce if it earns anything less than the normal profit. 3. In the short run, it may produce even if the profit is less than the normal profit.	
14	Correct Answer: A Since firms in perfect competition are price takers, every additional unit sells at the market price and thus this is the right answer.	1
	B: This is not the right answer as every firm in perfect competition is a price taker.	
	C: This is not the right answer as every firm in perfect competition is a price taker.	
	D: This is not the right answer as every firm in perfect competition is a price taker.	
15	Evaluation Criteria: Explaining the three relevant conditions (3 marks)	3
	Sample Answer: 1. The price p, must equal MC. 2. Marginal cost must be non-decreasing at this quantity. 3. For the firm to continue to produce, in the short run, price must be greater than the Average Variable Cost ($p > AVC$); in the long run, price must be greater than the Average Cost ($p > AC$).	
16	Evaluation Criteria: Definition of PES. (1 mark) Formula (1 mark) Implication of PES equal to zero (1 mark)	3
	Sample Answer: 1. PES measures the responsiveness of quantity supplied to changes in the price of a good. Price elasticity of supply, $e_s = \frac{\text{Percentage change in quantity supplied}}{\text{Percentage change in price}}$ $= \frac{\frac{\Delta Q}{Q} \times 100}{\frac{\Delta P}{P} \times 100} = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P}$ 2. 3. A PES equal to zero means that supply is completely inelastic or unresponsive to any change in price and the supply curve is vertical.	
17	Evaluation Criteria: Stating the first factor: Input prices (1 mark) Explanation (1 mark)	4

	Stating the second factor: Technological Innovation. (1 mark) Explanation (1 mark)	
	<p>Sample Answer:</p> <ol style="list-style-type: none"> 1. Input prices: A change in input prices will cause the supply curve to shift. If the price of an input, for example wage rate for labour decreases, the cost of production will fall. The consequent fall in the firm's average cost at any level of output will also lead to a fall in the marginal cost at any level of output. This will cause the MC curve to shift to the right or downwards. This means that the supply curve will shift to the right. At any given market price, the firm now supplies a larger number of units. 2. Technological progress: With the help of technological innovation, the same units of labour and capital can now produce more units of output than before. This lowers a firm's marginal cost at any level of output and the MC curve shifts to the right or downward. As the supply curve is the upward sloping segment of the MC curve, the supply curve too shifts to the right. 	
18	<p>Correct Answer: B</p> <p>This is the correct answer as a leftward shift of the demand curve implies a decrease in demand leading to a lower price and a rightward shift of the supply curve implies an increase in supply again leading to a lower price.</p>	1
	A: It cannot increase.	
	C: It cannot remain unchanged.	
	D: The result is a reduction in price.	
19	<p>Evaluation Criteria:</p> <p>Neatly labelled diagram (3 marks)</p> <p>Reason why it slopes upwards up to a point. (1.5 marks)</p> <p>Reason why it slopes downwards after that. (1.5 marks)</p>	6
	<p>Sample Answer:</p> <p>The diagram is a coordinate system with 'Wage rate' on the vertical axis and 'Hours worked' on the horizontal axis. A green curve starts at a low wage rate and low hours, rises to a peak at wage rate W2 and hours L2, and then curves downwards. Three specific points are marked: (L1, W1) on the initial upward slope, (L3, W3) on the upper part of the upward slope, and (L2, W2) at the peak of the curve. Dashed lines connect these points to their respective labels on the axes.</p>	

	<ol style="list-style-type: none"> 1. At wage w_1, L_1 hours of labour are supplied. When the wage rate increases, there are two effects that take place. At a higher wage rate, the opportunity cost of leisure increases. This makes leisure costlier. This will make the workers want to enjoy less leisure and as a result they will work for longer hours. The second effect is that because of the increase in wage rate, the purchasing power of the worker increases. So, he would now want to spend more on leisure. 2. At lower wage rates, the first effect will be more dominant. So in the above diagram, when the wage increases from w_1 to w_2, the number of hours worked increases from L_1 to L_2. 3. When the wage rate increases even further to w_3, the second effect becomes dominant. The workers now want to enjoy more leisure activities and hence the number of hours drops from L_2 to L_3. <p>This is the reason why the individual supply curve for labour is backward bending.</p>	
20	<p>Evaluation Criteria: Explanation of price ceiling. (2 marks)</p> <p>Advantage (1 mark)</p> <p>Disadvantage (1 mark)</p>	4
	<p>Sample Answer:</p> <ol style="list-style-type: none"> 1. A price ceiling also known as the maximum price is imposed by the government when the government feels the market determined equilibrium price is too high. The price ceiling is fixed below the equilibrium price for it to be effective. The government normally imposes a price ceiling on essential items like basic food so that it remains affordable for the poor. The government can also fix the maximum rent that homeowners can charge to make housing more affordable. 2. One benefit: Essential food items become affordable for the poor. 3. One disadvantage: Since this creates a situation of excess demand, it can lead to an illegal market or black market as demand is greater than supply. 	

Introductory Macroeconomics

Serial No.	Question	Marks
21	<p>The Great Depression of 1929 served as a catalyst in the emergence of macroeconomics as a separate branch. Explain.</p> <p>[Skill: Mechanical]</p>	4
22	<p>Tea leaves used to make tea at home are final goods but if the same tea leaves are used to make tea in a restaurant, they are not considered as final goods. Explain the reasons behind this.</p> <p>[Skill: Understanding]</p>	4
23	<p>Saudi Arabia has a higher Gross National Product (GNP) than Gross Domestic Product (GDP). What are the economic implications of this?</p> <p>[Skill: Understanding]</p>	4
24	<p>In many poor countries a number of activities take place in the informal and unorganized sector. What is the impact of such activities on the GDP of these countries?</p> <p>[Skill: Understanding]</p>	4

25	<p>An economy produces a combination of capital goods and consumer goods. If it devotes more of its resources to the production of capital goods, people will have less of consumer goods and their standard of living will fall. Does this mean that an economy should devote more of its resources to producing consumer goods today to maintain its standard of living? Discuss the trade-off involved in the short run, the impact on the economy in the long run, and the broader implications of this trade-off.</p> <p>[Skill: Understanding]</p>	4
26	<p>A firm invests certain amount in capital goods in a year. But this is the firm's gross investment figure. The net investment of the firm is less than the gross investment. Why is there a difference and what is it known as?</p> <p>[Skill: Understanding]</p>	4
27	<p>What were the positive impacts of the demonetisation drive undertaken by the Government of India?</p> <p>[Skill: Mechanical]</p>	4
	<p>Country X, is one of Asia's low-income economies. The Government of Country X is very keen to invest in its infrastructure so that Country X becomes a more attractive place for foreign investors to invest their money. But the government has limited funds and has to decide between building better roads or an airport. This will help the country to develop. The Government would also like the private sector to take part in the country's development. The Government is also concerned that the economy is facing a recession which will reduce the amount of revenue it can collect as taxes. If the Government decides to go ahead with the investment in infrastructure, it will need to borrow.</p>	
28	<p>Explain opportunity cost with the help of the given information. What is the decision that the government of Country X has to take in the given scenario?</p> <p>[Skill: Application]</p>	3
29	<p>The Government of Country X wants the private sector also to play a role in the development of the country. What kind of an economy system does Country X have and state one of its features.</p> <p>[Skill: Understanding]</p>	2
30	<p>Which of the following economic activities leads to the creation of a negative externality?</p> <p>(A) A paint factory causing pollution (B) Charitable work done by individuals (C) A teacher providing free tutoring to students (D) A community garden growing vegetables for the local food bank</p> <p>[Skill: Understanding]</p>	1
31	<p>What is a characteristic of the currency notes and coins issued by the Reserve Bank of India?</p> <p>(A) They are not liquid (B) They are legal tenders (C) They have intrinsic value (D) They increase in value over time</p> <p>[Skill: Mechanical]</p>	1

32	<p>Saumya tried to exchange her box of chocolates with a cake but she could not find anyone with a cake who wanted her chocolates. She is also worried that the expiry date of the chocolates is next week. What challenges is Saumya facing while trying to trade her box of chocolates for a cake? Explain how the concept of barter applies to her situation, the issue of double coincidence of wants she encounters, the limitation of chocolates as a store of value, and how using money as a medium of exchange could have helped her.</p> <p>[Skill: Application]</p>	6
33	<p>The Reserve Bank of India has stepped in a number of times to get troubled commercial banks out of a difficult situation. Explain the role that the central bank is fulfilling in this case. Discuss the circumstances that require the central bank's intervention, the functions it performs in such situations, and how its actions help stabilize the banking system.</p> <p>[Skill: Understanding]</p>	4
34	<p>There is a limit to the amount of money that commercial banks can create. What limits the amount of money that commercial banks can create? Explain how commercial banks create money and discuss the key limitations imposed on them that restrict this process.</p> <p>[Skill: Understanding]</p>	4
35	<p>The change in consumption per unit change in income is known as</p> <p>(A) Average propensity to save (B) Marginal propensity to save (C) Average propensity to consume (D) Marginal propensity to consume</p> <p>[Skill: Mechanical]</p>	1
36	<p>Ramesh has a Marginal Propensity to Consume (MPC) of 1. Discuss the implications of this.</p> <p>[Skill: Understanding]</p>	3
37	<p>Explain two factors that influence the investment component of aggregate demand in an economy.</p> <p>[Skill: Mechanical]</p>	4
38	<p>If every individual in an economy increases his savings, it should increase the overall savings in the economy but the overall level of savings actually declines. What is this paradox called and why does it happen?</p> <p>[Skill: Understanding]</p>	4
39	<p>All the ships need a lighthouse to guide them during the night when they are sailing as it benefits all. Despite the importance, no sailor needs to pay for the lighthouse. What kind of a good is it?</p> <p>(A) Free good (B) Merit good (C) Public good (D) Private good</p> <p>[Skill: Understanding]</p>	1
40	<p>Why does the market mechanism fail to provide public goods, requiring government intervention? In your explanation, define public goods and private goods, describe the</p>	6

	<p>key characteristics of public goods, and explain why the market mechanism is unable to supply them effectively.</p> <p>[Skill: Understanding]</p>	
41	<p>Tax revenue collected by the Government is expected to _____ during a recession.</p> <p>(A) increase (B) decrease (C) become zero (D) stay the same</p> <p>[Skill: Understanding]</p>	1
42	<p>The government of Country X aims to achieve its objective of redistributing wealth through the use of progressive taxation. Explain progressive taxation and how will it help the government to achieve its objective.</p> <p>[Skill: Understanding]</p>	4
43	<p>How does an increasing revenue deficit eventually lead to lower economic growth and adverse welfare implications? Also, explain how revenue deficit is financed.</p> <p>[Skill: Understanding]</p>	4
44	<p>How do welfare payments function as automatic stabilisers in an economy?</p> <p>[Skill: Mechanical]</p>	4
45	<p>In a flexible exchange rate system, when the price of a domestic currency in terms of a foreign currency increases, it is known as</p> <p>(A) Devaluation of the domestic currency (B) Revaluation of the domestic currency (C) Appreciation of the domestic currency (D) Depreciation of the domestic currency</p> <p>[Skill: Mechanical]</p>	1
46	<p>_____ represents all transactions related to international trade in physical goods between a country and the rest of the world during a given period.</p> <p>(A) Current account (B) Capital account (C) Balance of Trade (D) Balance on Invisibles</p> <p>[Skill: Mechanical]</p>	1
47	<p>Why is the falling value of the Indian rupee against the US dollar good for Indian exporters exporting goods to the US?</p> <p>[Skill: Understanding]</p>	4
48	<p>With Donald Trump coming back to power in America, Indian investors are of the firm opinion that the US economy will again do very well. They expect the US dollar to appreciate against the India rupee. With the help of this information, define speculation, explain how it influences the exchange rate, and discuss its role in a flexible exchange rate regime.</p> <p>[Skill: Understanding]</p>	4

49	If Reliance Industries Ltd. sells shares to foreign investors, how would this transaction be recorded in India's Balance of Payments (BOP)? In your answer, define BOP, explain the components of the BOP, and discuss how such a transaction would be recorded as a debit or credit entry in the capital account. [Skill: Application]	4
50	Explain any two disadvantages that a country may face when engaging in international trade. [Skill: Mechanical]	2

Marking Scheme

Q No.	Rubric	Marks
21	Evaluation Criteria: Role of the Great Depression of 1929 in Macroeconomics (4 marks)	4
	Sample Answer: <ol style="list-style-type: none"> Before the Great Depression, the dominant economic thought was based on classical economics, which assumed that anyone willing to work could find a job and that factories would operate at full capacity. The Great Depression of 1929 lasted for several years, causing widespread hardship. The unemployment rate soared, and many factories were forced to shut down. Economists and governments realised that government intervention was necessary to address the economic issues. This led to a shift in focus, and economists began to examine the economy as a whole (macro-level analysis), giving rise to macroeconomics. It emerged as a separate field of study, particularly after John Maynard Keynes published his book, "The General Theory of Employment, Interest, and Money" 	
22	Evaluation Criteria: Definition of final goods (2 marks) Difference between goods being used at home for final consumption and elsewhere (2 marks)	4
	Sample Answer: <ol style="list-style-type: none"> Final goods are those goods that will not pass through any further stages of transformation or production. They have exited the active economic flow. However, they can undergo transformation at the hands of the ultimate consumer when he makes tea at home for consumption using the tea leaves. The tea leaves get transformed but tea consumption at home is not considered an economic activity. However, the same tea leaves, when used to make tea in a restaurant, become inputs to the final activity of tea making. They are no longer final goods but inputs to which value is added. 	
23	Evaluation Criteria: Definition of GDP and GNP (1 mark) Relation between the two and implication in case of Saudi Arabia (3 marks)	4

	<p>Sample Answer:</p> <ol style="list-style-type: none"> 1. GDP measures the total value of the aggregate production of final goods and services taking place within the domestic economy during a year. 2. GNP is the total value of all goods and services produced by a country's residents during a specific period of time, usually a year. 3. $GNP = GDP + \text{Factor income earned by the domestic factors of production employed in the rest of the world} - \text{Factor income earned by the factors of production of the rest of the world employed in the domestic economy.}$ <p>So, $GNP = GDP + \text{Net factor income from abroad}$</p> <p>For Saudi Arabia, since net factor income from abroad is positive, its GNP is higher than its GDP.</p>	
24	<p>Evaluation Criteria:</p> <p>Definition of informal and unorganized sectors (2 marks)</p> <p>Barter exchange (1 mark)</p> <p>Underreporting of GDP (1 mark)</p>	4
	<p>Sample Answer:</p> <p>In many poor countries, a significant portion of economic activities occurs in the informal and unorganised sector. The impact of these activities on the GDP of these countries is as follows:</p> <ol style="list-style-type: none"> 1. Many activities, such as domestic work, are not accounted for in the official GDP calculations. For example, household chores and caregiving performed by women in homes are not included, leading to an underestimation of the total economic activity in the country. 2. In many poor countries, workers in the informal sector, such as street vendors, casual labourers, and domestic workers, are not formally registered. Their work is often not recognised in official GDP figures, which leads to a gap in the measurement of actual economic output. 3. A large number of transactions in the informal sector are conducted through barter or non-monetary exchanges (goods or services exchanged without money). These exchanges are not captured in GDP calculations, leading to further underreporting of the country's economic activity. 4. Informal sector activities are often outside the scope of government regulation and official data collection systems. This makes it difficult for these activities to be measured and included in the GDP, further reducing the accuracy of GDP as a reflection of the total economic activity. <p>As a result of these factors, the actual production and exchange of goods and services are likely higher than what official GDP figures indicate.</p>	
25	<p>Evaluation Criteria:</p> <p>Implication of the decision (1 mark)</p> <p>Trade-off in the short-run (1 mark)</p> <p>Impact in the long-run (1 mark)</p> <p>Implications of the trade-off (1 mark)</p>	4

	<p>Sample Answer:</p> <ol style="list-style-type: none"> 1. In the short run, it is true that consumers will face a trade-off in terms of fewer consumer goods and services available, as more resources are devoted to the production of capital goods. 2. However, in the long run, the economy, and consequently consumers, will benefit from this trade-off. With better tools and machinery, labour productivity will increase, enhancing the economy's productive potential. 3. As the productive potential of labour and other resources, such as land, improves, the output of consumer goods and services will rise. This will lead to an increase in the standard of living for the population. 	
26	<p>Evaluation Criteria:</p> <p>Reason for the difference (3 marks)</p> <p>Explanation of depreciation (1 mark)</p>	4
	<p>Sample Answer:</p> <ol style="list-style-type: none"> 1. Not all the investment made by a firm adds to the capital stock it already possesses. 2. A portion of the current investment is used to maintain or replace the machinery that the firm already owns. This is necessary because the machinery suffers from wear and tear over time and requires maintenance or replacement. 3. Therefore, part of the investment made in capital goods is allocated to the replacement or maintenance of existing machinery. This value needs to be subtracted from the total investment the firm makes. This subtraction is known as depreciation. 4. $\text{Net Investment} = \text{Gross Investment} - \text{Depreciation}$ 	
27	<p>Evaluation Criteria:</p> <p>Explanation of any four relevant positive impacts (4 marks)</p>	4
	<p>Sample Answer:</p> <p>Demonetisation took place in India in November 2016, when currency notes of ₹500 and ₹1000 denominations were no longer considered legal tender. The public was given a period to deposit these notes in banks. This move had several benefits:</p> <ol style="list-style-type: none"> 1. It brought individuals' savings into the formal financial system. As banks received more deposits, they could lend more at lower interest rates, stimulating economic growth. 2. It shifted transactions from the informal cash economy to the formal system, improving tax compliance. 3. It helped the government reduce the volume of transactions involving black money. 4. It also demonstrated the government's commitment to curbing tax evasion and improving transparency. 	
28	<p>Evaluation Criteria:</p> <p>Definition of opportunity cost (2 marks)</p> <p>Decision the government has to take (1 mark)</p>	3
	<p>Sample Answer:</p> <ol style="list-style-type: none"> 1. Opportunity cost can be defined as the next best alternative foregone. It arises due to a scarcity of resources because of which a choice needs to be made. 	

	2. Since the Government of Country X has limited funds, it has to decide between building more roads or an airport.	
29	Evaluation Criteria: For stating mixed economy (1 mark) Stating the feature (1 mark)	2
	Sample Answer: 1. Country X has a mixed economy. 2. In a mixed economy, the resources or factors of production are owned both by the private sector and the Government.	
30	Correct Answer: A This particular activity will create a negative externality as it imposes costs on those who are not a part of this activity.	1
	B: This is not an economic activity.	
	C: This is not counted as an economic activity.	
	D: This particular activity will create a positive externality as it provides benefits to the workers like skills which will increase their employability.	
31	Correct Answer: B This means that they cannot be refused by any citizen for settlement of any kind of transactions within the country. This is the right answer.	1
	A: Currency notes and coins are the most liquid form of money.	
	C: They have no intrinsic value like a gold coin or silver coin.	
	D: This is not relevant.	
32	Evaluation Criteria: Challenges Saumya is facing (1 mark) Definition of barter (1 mark) Problem with double coincidence of wants (1 mark) Problem with chocolates as a store of value (1 mark) How money as a medium of exchange would have helped Saumya (2 marks)	6
	Sample Answer: 1. A barter exchange is one where a good or service is exchanged for another good or service. 2. The first problem that Saumya encounters is 'double coincidence of wants'. This means that if a person wants to exchange say item X for item Y, there should be someone with item Y who wants item X. This is not easy and can be very time consuming. 3. The other problem is of storage. Chocolates can be stored but they are perishable food items and after some time will get spoilt. 4. Money as a medium of exchange overcomes both these issues. Saumya can sell her chocolates for money and then use it to buy the cake. Money can also be stored.	
33	Evaluation Criteria:	4

	<p>Role- Lender of last resort (1 mark)</p> <p>Explaining the role (1 mark)</p> <p>When does RBI step in? (1 mark)</p> <p>How does it stabilize the banking system (1 mark)</p>	
	<p>Sample Answer:</p> <ol style="list-style-type: none"> 1. The RBI is fulfilling its role of being 'The Lender of Last Resort' when it steps in to help out commercial banks in a difficult situation. 2. The RBI steps in when commercial banks are facing a liquidity crunch or when they need more funds to lend. 3. The RBI steps in so that depositors do not lose faith in the banking system. They will lose faith if commercial banks are not able to fulfil their obligations or if they lose their money because of a bank failure. This has a negative impact on the entire banking system. 	
34	<p>Evaluation Criteria:</p> <p>How do commercial banks create money (2 marks)</p> <p>Limitations imposed on them (2 marks)</p>	4
	<p>Sample Answer:</p> <ol style="list-style-type: none"> 1. When depositors place their money in banks, the banks can lend out a portion of it because they don't expect all depositors to withdraw their funds at the same time. When banks lend money, a new deposit is created in the borrower's account, thereby increasing the total money supply. The money supply then becomes the sum of the old deposits and the new ones. 2. However, there is a limit to how much credit banks can create, and this limit is set by the Central Bank. Banks are required to keep a certain percentage of their deposits as cash reserves, ensuring they can meet withdrawal demands from depositors. This percentage is known as the Cash Reserve Ratio (CRR). The CRR regulates the amount of money banks can lend out, thus controlling the extent of credit creation 	
35	<p>Correct Answer: D</p> <p>It is the change in consumption per unit change in income.</p>	1
	A: It is the savings per unit of income.	
	B: It is the change in savings per unit change in income.	
	C: It is the consumption per unit of income.	
36	<p>Evaluation Criteria:</p> <p>What is MPC (1 mark)</p> <p>Implications (2 marks)</p>	3
	<p>Sample Answer:</p> <ol style="list-style-type: none"> 1. The most important determinant of consumption demand is household income. MPC is the unit change in consumption for a unit change in income. 	

	$MPC = \frac{\Delta C}{\Delta Y} = c$ <p>2. 3. When MPC = 1, it means that for every unit change in income, consumption also changes by the same amount. If income changes by Rs. 100.00, consumption too would change by the same amount. 1 is the maximum value for MPC.</p>	
37	<p>Evaluation Criteria: Availability of credit (2 marks) Rate of interest (2 marks)</p>	4
	<p>Sample Answer: 1. A very important factor that influences investment is availability of credit. If credit is easily available, it encourages more investment. 2. Another factor is the rate of interest. The rate of interest is the cost of borrowing funds. If the rate of interest is on the higher side, firms tend to reduce investment or postpone their plans of expansion. A lower rate of interest reduces the cost of borrowing and thus encourages investment.</p>	
38	<p>Evaluation Criteria: Paradox of Thrift (1 mark) Why does it result in a paradox (3 marks)</p>	4
	<p>Sample Answer: 1. The paradox is called The Paradox of Thrift. A paradox is a situation that seems to contradict itself. Thrift means to be carefully in spending thus increasing savings. 2. It is a situation where people save more money in an economy but the overall level of savings in the economy actually falls instead of increasing. 3. This happens because as every individual increases their Marginal Propensity to Save (MPS), the aggregate demand (AD) falls as the consumption component of AD decreases. This, in turn, leads to a decrease in the level of employment and income, leading to a fall in the total savings for the economy. 4. This concept was suggested John Maynard Keynes.</p>	
39	<p>Correct Answer: C Public goods display the characteristics of being non-rival and non-excludable. Hence, this is the right answer.</p>	1
	A: Such goods have no opportunity cost and hence this is not the right answer.	
	B: Goods like education and healthcare have merit for the entire population and hence are provided by the government. This is not the answer.	
	D: Such goods are rival and excludable. Hence, this is not the right answer.	
40	<p>Evaluation Criteria: Explanation of why government intervention is necessary (1 mark) Definition of public goods (1 mark) Definition of private goods (1 mark) Characteristics of public goods (2 marks)</p>	6

	Why does the market mechanism fail (1 mark)	
	<p>Sample Answer:</p> <ol style="list-style-type: none"> 1. A public good is good or service that is available for use for everyone and one person's use of it does not diminish the benefit to others. For example: Street lighting. Everyone can avail the benefit at night and the use by one person does not reduce the benefit to others. 2. A private good on the other hand is one whose ownership or benefit is restricted to the one who purchased it for their own consumption. For eg: a cake. It can be enjoyed only by the person who has paid for it, so others are excluded. Once a piece of cake has been eaten, it reduces what is left so the benefit becomes less. 3. This brings us to the two characteristics possessed by capital goods: non-rival and non-excludable. Non-rival means consumption of a good by one person does not reduce its benefit for others. Non-excludable means that no one can be excluded from using it whether they have paid for it or not. Since people can get away without paying for it, no one wants to pay and gives rise to the problem of free rider. 4. Because people do not want to pay, the market mechanism breaks down. The government has to step in to provide these goods. 	
41	<p>Correct Answer: B As the level of activity declines during a recession, tax revenue is expected to fall.</p> <p>A: Tax revenue is expected to increase when the economy is booming as more people are employed and businesses are doing well.</p> <p>C: Even during a recession, some people have jobs and some businesses are still making a profit so taxes collected will not fall to zero.</p> <p>D: It does not stay the same as more and more people become unemployed during a recession.</p>	1
42	<p>Evaluation Criteria: Definition of progressive taxation (2 marks) How it helps to achieve the objective (2 marks)</p> <p>Sample Answer:</p> <ol style="list-style-type: none"> 1. In progressive income taxation, the higher the income, the higher the tax rate. This serves the purpose of imposing a higher tax rate on those who are richer. The tax thus collected can be used to provide free or cheaper medical and or health services to the poor or make transfer payments to the poor. This results in a redistribution of wealth. 2. As far as excise duty is concerned, luxuries are taxed at a higher rate while necessities are taxed at a lower rate or exempted completely. This again results in a redistribution of wealth. 	4
43	<p>Evaluation Criteria: Definition of revenue deficit (1 mark) Implications (2 marks) How is it financed (1 mark)</p> <p>Sample Answer:</p> <ol style="list-style-type: none"> 1. Revenue deficit is the excess of the government's revenue expenditure over revenue receipts. 	4

	<p>2. A revenue deficit implies that the government is dissaving and is using a part of the savings of the other sectors of the economy to finance a part of its consumption expenditure. Hence, the government will have to borrow to finance its consumption expenditure. This will increase the government's debt and interest liabilities. The government will eventually have to cut its expenditure.</p> <p>3. Since it cannot cut its committed expenditure, its forced to cut productive capital expenditure and expenditure on welfare.</p> <p>4. This reduces future economic growth and also has an adverse welfare implication.</p>	
44	<p>Evaluation Criteria:</p> <p>What are automatic stabilisers (1 mark)</p> <p>What are welfare payments (1 mark)</p> <p>How do they stabilize the economy (2 marks)</p>	4
	<p>Sample Answer:</p> <p>1. Automatic stabilisers are a type of fiscal policy measures. They are designed to offset fluctuations in a country's economic activity and they are automatically triggered without additional government action.</p> <p>2. Welfare payments are transfer payments given to the unemployed so that they can survive while they are looking for work.</p> <p>3. During periods of boom when the economy is overheating, these welfare payments automatically decline as more and more people are employed. This reduces government spending and thus aggregate demand and helps to cool down the economy.</p> <p>4. During slowdowns when the number of jobless people increases, the amount of welfare payments automatically increase thus increasing consumption expenditure and aggregate demand. This helps to revive the economy.</p>	
45	<p>Correct Answer: C</p> <p>The value of the domestic currency has increased. When this is under a flexible exchange rate regime, it is referred to as appreciation. Hence, this is the right answer.</p>	1
	<p>A: This happens when the value of the domestic currency against a foreign currency falls under a fixed exchange rate regime. Hence, this is not the right answer.</p>	
	<p>B: This happens when the value of the domestic currency rises against a foreign currency under a fixed exchange rate regime. Hence, this is not the right answer.</p>	
	<p>D: The value of the domestic currency decreases. When this is under a flexible exchange rate regime, it is referred to as depreciation. Hence, this is not the right answer.</p>	
46	<p>Correct Answer: C</p> <p>The Balance of Trade represents all transactions related to international trade in physical goods (exports and imports) between a country and the rest of the world during a given period.</p>	1
	<p>A: The current account is the record of trade in goods and services and transfer payments that one country maintains with the rest of the world. Hence, this is not the right answer.</p>	
	<p>B: This records all international transactions of assets. Hence, this is not the right answer.</p>	
	<p>D: This is the difference in value of exports and value of imports of invisibles of a country in a given period of time. Hence, this is not the right answer.</p>	
47	<p>Evaluation Criteria:</p>	4

	<p>Meaning of depreciation (1 mark)</p> <p>How is depreciation of the rupee against the US dollar good news for Indian exporters to the US (3 marks)</p>	
	<p>Sample Answer:</p> <ol style="list-style-type: none"> 1. In a flexible exchange rate regime, when the price of a domestic currency (Here the Indian Rs.) decreases against a foreign currency (here the US dollar), it is known as depreciation of the home currency. 2. This means that the value of the Indian rupee relative to the US dollar has fallen and when an exporter exports his goods to the US, consumers in the US have to pay less for every unit of good that they buy. This results in an increase in demand for the goods exported and hence would be happy. The PED (Price Elasticity Demand) for the good exported is also important. If $PED > 1$, the benefit to exporters is tremendous. 	
48	<p>Evaluation Criteria:</p> <p>Definition of speculation (1 mark)</p> <p>How it influences exchange rate (1 marks)</p> <p>Role in flexible exchange rate regimes (2 marks)</p>	4
	<p>Sample Answer:</p> <ol style="list-style-type: none"> 1. Speculation in the foreign exchange market involves buying or selling foreign currencies in the hope that a profit can be made from these price fluctuations. 2. Speculation can significantly impact exchange rates in a flexible exchange rate regime. In the given example, if Indian investors believe the US dollar will appreciate against the Indian rupee, they may start buying dollars or converting rupees into dollars in anticipation of future gains. This increased demand for dollars strengthens the US dollar while putting downward pressure on the rupee. 3. In a flexible exchange rate regime, the exchange rate is determined by market forces of supply and demand. In some cases, speculation can help correct temporary imbalances. For example, if a currency is undervalued, speculators may buy it, pushing its value up to equilibrium. Speculation can also create volatility. For example, if many speculators expect a currency to fall, their selling activity can lead to excessive depreciation, regardless of actual economic conditions. 	
49	<p>Evaluation Criteria:</p> <p>How would it be recorded (1 mark)</p> <p>What is BOP (1 mark)</p> <p>Components of BOP (1 mark)</p> <p>Debit and credit transactions on the capital account (1 mark)</p>	4
	<ol style="list-style-type: none"> 1. The BOP (Balance of Payments) records the transactions in goods, services, and assets between residents of a country and the rest of the world for a time period, usually a year. 2. The capital account of the BOP records all international transactions of assets such as currency, bonds, stocks, government debt, etc. 	

	<p>3. The purchase of assets is a debit item on the capital account, as foreign exchange is flowing out of India. For example, an Indian investor buying stocks in a foreign company.</p> <p>4. When Reliance Industries Ltd. sells some of its shares to foreign investors, it is a credit item on the capital account, as foreign exchange is coming into the country.</p>	
50	<p>Evaluation Criteria: Explanation of two disadvantages (2 marks)</p>	2
	<p>Sample Answer:</p> <ol style="list-style-type: none"> 1. Relying heavily on international trade can make a country vulnerable to changes in global demand, supply disruptions, or political issues. For example, if a country's economy depends on exporting a specific product, a sudden drop in global demand for that product could severely impact its economy. 2. Increased imports of cheaper foreign goods can lead to the decline of local industries that cannot compete on price or efficiency. This may result in job losses and reduced economic self-sufficiency. 	



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