

KENDRIYA VIDYALAYA SANGATHAN, CHENNAI
REVISION EXAM 2012 - 13
MARKING SCHEME

STD: XII
SUB: ECONOMICS

Q. No.	Value Points	Marks																												
1.	Budget set consists of all combinations of two goods which a consumer can afford from his given income and price in the market.	1																												
2.	Perfect competition	1																												
3.	Capital for starting business/ Govt policy/patent right/crucial raw material or (any one)	1																												
4.	Product differentiation	1																												
5.	Because water is a very essential commodity	1																												
6.	Decrease in demand	Decrease in quantity demand	1																											
	i)Shift in the demand curve to the left and decrease in demand.	Movement upward in the demand curve and decrease in quantity demanded.	1																											
	ii)Price remains constant	Price rises	1																											
	iii)Other factors change. Income decreases, price of substitute falls, price of complementary goods rise.	Other factors do not change – i.e income, price of substitute of complementary goods remain constant.	1																											
7.	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Output</th> <th style="text-align: center;">1</th> <th style="text-align: center;">2</th> <th style="text-align: center;">3</th> </tr> </thead> <tbody> <tr> <td>AVC</td> <td style="text-align: center;">30</td> <td style="text-align: center;">28</td> <td style="text-align: center;">32</td> </tr> <tr> <td>TFC</td> <td style="text-align: center;">60</td> <td style="text-align: center;">60</td> <td style="text-align: center;">60</td> </tr> <tr> <td>TVC</td> <td style="text-align: center;">30</td> <td style="text-align: center;">56</td> <td style="text-align: center;">96</td> </tr> <tr> <td>TC</td> <td style="text-align: center;">90</td> <td style="text-align: center;">116</td> <td style="text-align: center;">156</td> </tr> <tr> <td>MC</td> <td style="text-align: center;">30</td> <td style="text-align: center;">26</td> <td style="text-align: center;">40</td> </tr> <tr> <td>ATC</td> <td style="text-align: center;">90</td> <td style="text-align: center;">58</td> <td style="text-align: center;">52</td> </tr> </tbody> </table>	Output	1	2	3	AVC	30	28	32	TFC	60	60	60	TVC	30	56	96	TC	90	116	156	MC	30	26	40	ATC	90	58	52	3
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8	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">ORIGINAL</th> <th style="text-align: center;">NEW</th> <th style="text-align: center;">CHANGE</th> </tr> </thead> <tbody> <tr> <td>PRICE</td> <td style="text-align: center;">10</td> <td style="text-align: center;">12</td> <td style="text-align: center;">20%</td> </tr> <tr> <td>REVENUE</td> <td style="text-align: center;">1600</td> <td style="text-align: center;">2400</td> <td style="text-align: center;">800</td> </tr> <tr> <td>QTY SS</td> <td style="text-align: center;">160</td> <td style="text-align: center;">200</td> <td style="text-align: center;">40</td> </tr> </tbody> </table> <p>20% OF 10=2 ;At Rs.12 Therefore new price : 10+2=12 Revenue earned will be 2400 $\frac{\Delta Q}{\Delta P} \times \frac{P}{Q} = \frac{40}{2} \times \frac{10}{160} = \frac{5}{4} = 1.2$ (supply is elastic)</p>		ORIGINAL	NEW	CHANGE	PRICE	10	12	20%	REVENUE	1600	2400	800	QTY SS	160	200	40	1 1 1												
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9.	Under perfect competitions firms produce homogenous products. As a result of this characteristic feature, (i) firms can charge only uniform prices. (ii) firms will have same cost structure (iii) all firms earn same levels of profit.	3																												

10.	<p>Law of diminishing marginal utility states that when more and more units of same commodity is consumed, the marginal utility of the addition unit consumed diminishes.</p> <p>Schedule:</p> <table border="1" data-bbox="308 192 1295 376"> <thead> <tr> <th>Units</th> <th>TU</th> <th>MU</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>10</td> <td>-</td> </tr> <tr> <td>2</td> <td>15</td> <td>5</td> </tr> <tr> <td>3</td> <td>13</td> <td>2</td> </tr> <tr> <td>4</td> <td>12</td> <td>-1</td> </tr> </tbody> </table> <p>i) when utility increases as more units of the commodity is consumed but MU diminishes ii) when total utility starts falling MU becomes negative.</p> <p style="text-align: center;">Or</p> <p>i) the price of Y and demand for X are directly related when X and Y are substitute goods. ii) when the price of Y increases, demand for X rises. iii) when the price of Y falls, demand for X falls.</p>	Units	TU	MU	1	10	-	2	15	5	3	13	2	4	12	-1	1 1 1 3
Units	TU	MU															
1	10	-															
2	15	5															
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11	<p>Value based- problem solving question is subjective in nature, hence student's problem solving skills can be given due credit</p> <p>The student can approach the problem as an individual by suggesting alternate sources of energy consumption technique.</p> <p>Suggestive techniques adopted to create awareness in society for energy conservation</p> <p>And Govt strategies for solving the problem could also be suggested</p> <p>Or any relevant points brought out by students may be considered</p> <p>Marks to be awarded on the whole</p>	4															
12	<p>When Income of the consumers increases, there will be an increase in the purchasing power. Hence, the demand for normal goods will increase. And demand curve of goods will shift rightwards. As a result, equilibrium price and quantity will increase. It may be shown as under</p> <div data-bbox="320 1115 956 1518" style="text-align: center;"> </div> <p>In the given diagram, the initial equilibrium point is E where the market demand curve DD0 and the market supply curve SS0 intersect so that q0 and p0 are the equilibrium quantity and price respectively. When demand increases from P0 to P1 and equilibrium quantity increases from q0 to q1.</p>	2 1 1															
13	<p>Problem of what to produce relates (i) the problem of allocation of resources (ii) decision of the different type of goods with the limited resources available (iii) decision about the quantities of the different goods to be produced. (iv) decision varies according to the needs of the people and the Govt. policies for the economy.</p> <p style="text-align: center;">(Or)</p> <p>(i) Unemployment refers to inability to provide employment to the available labor resources. (ii) When resources are not fully utilized PPC moves to the left. (iii) Diagram. With leftward shift in PPC. (iv) Any point on the PPC shows full employment and any point inside PPC shows under utilization of resources.</p>	1 1 1 1 4															

14	<p>Meaning of consumer equilibrium</p> <p>Following are the main conditions of consumer equilibrium:</p> <p>1. Budget Line must be tangent to the Indifference Curve. For the consumer's equilibrium the given budget line must be tangent to the indifference curve.</p> <p>Diagram with brief explanation i.e. $MRS_{XY} = \frac{P_X}{P_Y}$</p> <p>2. MRS continuously falls The second condition must also be fulfilled. At the point of equilibrium indifference curve must be convex to the origin, or the marginal rate of substitution of X and Y must be falling after the point of equilibrium.</p>	1 2 1 2																																																	
15	<p>(a) True, because in diminishing returns to a factor, MP is diminishing which means TP increases but at diminishing rate and finally falls.</p> <p>(b) False, because when MP is zero TP is constant and Average Product is falling. This means AP has reached its maximum before this stage.</p> <p>(c) False, because the difference between TC and TVC is TFC. Since TFC is constant the distance between TC and TVC should also be constant and not falling.</p> <p>Marks should not to be awarded if only True/False is correct and the reason is not correct</p>	2 2 2																																																	
16	<p>Law of variable proportion schedule, diagram</p> <p>Three stages of production explained through TP and MP curves or Producer's equilibrium with the help of a marginal cost and marginal revenue schedule: Meaning of producer equilibrium Conditions: (i) $MR = MC$ (ii) after equilibrium MC is greater than MR Table:</p> <table border="1" data-bbox="308 1552 1294 1877"> <thead> <tr> <th>Output (Units)</th> <th>Price (Rs)</th> <th>TR (Rs)</th> <th>TC (Rs)</th> <th>MR (Rs)</th> <th>MC (Rs)</th> <th>Profit (TR – TC) (Rs)</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>5</td> <td>5</td> <td>6</td> <td>5</td> <td>6</td> <td>-1</td> </tr> <tr> <td>2</td> <td>5</td> <td>10</td> <td>11</td> <td>5</td> <td>5</td> <td>-1</td> </tr> <tr> <td>3</td> <td>5</td> <td>15</td> <td>15</td> <td>5</td> <td>4</td> <td>0</td> </tr> <tr> <td>4</td> <td>5</td> <td>20</td> <td>18</td> <td>5</td> <td>3</td> <td>2</td> </tr> <tr> <td>5</td> <td>5</td> <td>25</td> <td>23</td> <td>5</td> <td>5</td> <td>2 Producer's</td> </tr> <tr> <td>6</td> <td>5</td> <td>30</td> <td>29</td> <td>5</td> <td>6</td> <td>1 Equilibrium</td> </tr> </tbody> </table> <p>It is clear from the schedule that producer is in equilibrium at 5th unit of output. Because at this level of output conditions of producer's equilibrium i.e. $MR = MC$ and profit is maximum are fulfilled. At 2nd unit of output MR is also equal to MC but here profit is (-) 1 but at 5th unit of output $MR = MC$ and profit is also maximum which is equal to 2. The second condition is, after equilibrium MC is greater than MR</p>	Output (Units)	Price (Rs)	TR (Rs)	TC (Rs)	MR (Rs)	MC (Rs)	Profit (TR – TC) (Rs)	1	5	5	6	5	6	-1	2	5	10	11	5	5	-1	3	5	15	15	5	4	0	4	5	20	18	5	3	2	5	5	25	23	5	5	2 Producer's	6	5	30	29	5	6	1 Equilibrium	1 1 1 3 1 1 1 2 1
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17	Ex. Ante investment is planned investment.	1
18	The Components of money supply are currently held by the public and demand deposit	1
19	From authorized banks at fixed rate or in the open market at any money changer outlets at market rate (any relevant answer from the point of view of student may be given credit with full marks)	$\frac{1}{2}$ $\frac{1}{2}$
20	It is that state in which aggregate demand is less than aggregate supply at full employment level of production.	1
21	Primary deficit= Fiscal deficit – payments of interests	1
22	Real gross domestic product refers to the total volume of goods and services produced in the economy expressed in physical quantity. It is not affected by price changes. Nominal gross domestic product refers to the value of goods and services produced in the economy expressed in money terms. It is affected by changing prices. Or consumer goods are goods demanded and used by the consumers. They include both durable goods and non durable goods and services Capital goods are goods demanded and used by producers for producing goods and services. They include both durable capital goods and non durable intermediary goods. Car used by the consumer is consumer good car used by producer for carrying out production activity is a producer good	1 $\frac{1}{2}$ 1 $\frac{1}{2}$ 1 $\frac{1}{2}$ 1 $\frac{1}{2}$
23	During crisis central bank discounts the bills of member banks and gives temporary financial assistance to them. That is why central bank is also known as 'Banker's Bank'. In fact, it is the responsibility of central bank to fulfill directly or indirectly proper financial requirements of the commercial banks and as a result of it central bank is known as lender to the last resort.	3
24	DEPRECIATION (i) When the value of the domestic currency falls in terms of the foreign currency due to less international demand for it for various external transaction purposes it is called depreciation of domestic currency. (ii) It takes place in the open due to market forces. (iii) It takes place automatically DEVALUATION: (i)When the Govt deliberately lowers the value of its currency for increasing its external transaction it is called devaluation of domestic currency (ii) It takes place due to the deliberate effort of Govt. (iii) It is deliberately done to achieve some ends of national interests	3
25	-Govt uses budget as a tool to distribute income in the economy through its spending and taxing policies. -Govt tries to reduce the disposable income of the rich by imposing taxes on their incomes and on the goods consumed by them. -On the other hand, spends more in providing welfare schemes for the poor and thereby raising their disposable income.	1 1 1

26	<p>When net balance in balance of all receipts and payments is negative, it is known as deficit in balance.</p> <p>Deficit in balance of payments indicates that all receipts are less than all payments. These receipts and payments include visible and invisible items.</p>	3
27	<p>a) False, because when marginal propensity to consume is greater than marginal propensity to save, the value of investment multiplier will be greater than 2 to infinity.</p> <p>b) True, Because MPS is the ratio between additional saving (ΔS) and additional income (ΔY). This ratio ($\Delta S/\Delta Y$) is always positive, because of positive relationship between saving and income.</p>	2 2
28	<p>Money creation Process : commercial banks perform two important functions namely (i) collecting deposits/ savings from public (ii) lending money to investors/borrowers. In the process money is created in the commercial banks.</p> <p>It's because when money is lent new deposits are opened in the name of borrowers. After retaining a minimum legal requirement, the banks give rest of the money to the borrowers. The money is spent either on consumption or investment which becomes income for another person who deposits it with some commercial bank. On this deposit LRR is maintained and the rest of the money is used for lending. This process goes on until the lending is reduced to zero. By this time the money created in the commercial banks have multiplied.</p> <p>The amount of money created depends on the ratio of LRR required to be kept by the banks before lending.</p> <p style="text-align: center;">Or</p> <p>Changes in bank rate affect money creation by commercial bank The rate at which the central bank of a country, lends to the commercial banks is called bank rate.</p> <p>When the bank rate is high it discourages commercial banks from borrowing. When borrowing is less by the commercial banks, the lending rate/credit creation by the commercial bank is decreased.</p> <p>On the other hand when the bank rate is low it discourages commercial banks to borrow. With more borrowings the lending rate/credit creation of the commercial bank increases.</p>	4
29	<p>a) Wealth tax is a direct tax because (i) it is imposed directly on the wealth of the person (ii) the incidence of the tax is on the payer (iii) the burden of the tax is not shifted to others.</p> <p>b) Value added tax is a tax on commodities paid by the producers at different stages of production.</p> <p>It is an indirect tax because the incidence of the tax is on the producer but the burden of the tax is shifted to the consumer</p>	2 2
30	<p>(a)When in an economy 75 per cent of increase in income is spent on consumption then</p> <p>The value of marginal propensity to consume (MPC) will be equal to 0.75.</p> <p>Thus the value of marginal propensity to save (MPS) = $1 - 0.75 = 0.25$.</p> <p>The value of investment multiplier.</p> <p>$(K) = 1/MPS = 1/0.25 = 4$</p> <p>$K = \Delta Y/\Delta I$</p> <p>$\Delta Y = K.\Delta I$</p>	1 1

	<p>When $K = 4, \Delta I = 1000$ Then, $\Delta Y = 4 \times 1000 = \text{Rs } 4000 \text{ crore.}$ Total increase in income (ΔY) will be Rs. 4,000 crore.</p> <p>(b) $MPC = \Delta C / \Delta Y$ $\Delta C = MPC \cdot \Delta Y$ Here $MPC = 0.75, \Delta Y = 4000$ So total increase in consumption expenditure $\Delta C = 0.75 \times 4000 = \text{Rs. } 3000 \text{ crore.}$</p>	<p>1</p> <p>1</p> <p>1</p> <p>1</p>
31(a)	<p>a) Gross Domestic Product at Factor Cost (GDP_{FC}) = Compensation of employees + Profits + Rent + Interest + Gross Domestic Capital Formation – Net fixed capital formation – Change in stock. $GDP_{FC} = 200 + 300 + 1600 + 400 + 600 - [400 + 100].$ = Rs. 2600 thousand crores.</p> <p>b) Factor Income to Abroad = Factor Income from Abroad – Net factor Income from Abroad. Net factor Income from Abroad = $GNP_{MP} - GDP_{MP}$ $GDP_{MP} = GDP_{FC} + \text{Net Indirect Taxes.}$ $GDP_{MP} = 2600 + 240 = 2840.$ Net factor Income from Abroad = $2800 - 2840 = (-) 40$ Factor Income to Abroad = $50 - (-) 40 = 90$ = Rs. 90 thousand crores</p>	<p>1 ½</p> <p>1</p> <p>½</p> <p>1 ½</p> <p>1</p> <p>½</p>
31(b)	<p>(i) Net National Product at Factor Cost (NNP_{FC}) = Personal disposable income + Personal tax + Retained earning of private corporate sector + Corporation tax + Saving of non-departmental enterprises + Income from property and entrepreneurship accruing to the government administrative departments – National debt interest – Current transfer payments by government – Net current transfers from rest of the world. $NNP_{FC} = 1100 + 100 + 10 + 40 + 60 + 80 - 30 - 50 - 10$ = Rs. 1300 crores.</p> <p>(ii) Gross National Disposable Income (GNDI) = $NNP_{FC} + \text{Net Indirect Tax} + \text{Net current transfers from rest of the world} + \text{Consumption of fixed capital.}$ $GNDI = 1300 + 90 + 10 + 70$ = Rs. 1470 crores</p>	<p>1 ½</p> <p>1</p> <p>½</p> <p>1 ½</p> <p>1</p> <p>½</p>
32	<p>a) Dividend received by an Indian from his investment in shares of foreign company will be included in the estimation of national income of India. Because it is a part of factor income.</p> <p>b) Money received by a family in India from relatives working abroad will not be included in the estimation of national income of India. Because there is no any value addition. This money is already a part of foreign country's national income. In Indian case it is only a part of transfer income. So it is not included in national income of India.</p> <p>c) Interest received on loans given to a friend for purchasing a car is a part of factor income. So it will be included in the estimation of national income of India.</p>	<p>2</p> <p>2</p> <p>2</p>