

Answers to REC/Set-2

1. (a) (i) and (ii)
2. (a) capital, decrease in assets
3. (a) A
4. (a) Reduce cash reserve ratio
5. (c) Both statements 1 and 2 are true
6. (c) Assertion (A) is true but Reason (R) is false
7. (a) Statement 1 is true and statement 2 is false
8. (d) None of the above
9. (d) ₹ 800 crores

Working Note:

Given that, $MPC = 0.75$

Change in investment (ΔI) = ₹ 200 crores

$$\text{Multiplier } (k) = \frac{1}{1 - MPC} = \frac{1}{1 - 0.75} = \frac{1}{0.25} = 4$$

$$k = \frac{\Delta Y}{\Delta I}$$

$$\begin{aligned} \therefore \text{Increase in income } (\Delta I) &= 4 \times 200 \\ &= ₹ 800 \text{ crores} \end{aligned}$$

10. (a) National income will fall
11. Government's spending on child immunisation programme is government's final consumption expenditure. Hence, it will raise the Gross Domestic Product (GDP). Such a programme like child immunisation improves the health of the children. It will raise the efficiency level in the long-run, as these children will grow up into healthy adults with a higher efficiency level. This will thereby increase the welfare of the people.
12. (A) (i) Fiscal deficit = Borrowings
= ₹ 15,000 crore
(ii) Revenue deficit = Revenue expenditure – Revenue receipts
= 70,000 – 50,000
= ₹ 20,000 crores
Interest payments = 25% of revenue deficit
= 20,000 × $\frac{25}{100}$
= ₹ 5,000 crore
Primary deficit = Fiscal deficit – Interest payments
= 15,000 – 5,000
= ₹ 10,000 crore

Or

- (B) Taxes and expenditure can be used to alter distribution of income. Taxes can be increased on the income of the rich and also on the commodities consumed by them. The money so collected can be spent on providing free goods and services to the poor. This will reduce the disposable income of the rich and raise that of the poor. Secondly, government can spend more amount on providing free goods and services to the poor like free books, uniforms, medical treatment etc.

Thus by imposing more taxes and utilizing the revenue thus raised for the upliftment of the poor, the government tries to influence better distribution of income in the society. The government tries to bridge the gap between the have-nots (poor) and the haves (rich), through taxes in order to reduce the inequalities in the distribution of income and wealth in the society.

13. (a) False, because when $MPC > MPS$, say $MPC = 0.6$ and $MPS = 0.4$, the value of investment multiplier will be greater than 2 and not greater than 5, as mentioned. This is because

$$k = \frac{1}{MPS} = \frac{1}{0.4} = 2.5$$

Value of k as 2.5 is greater than 2 and not greater than 5 as stated.

- (b) True, as per Keynes psychological law of consumption, there is always positive or direct relationship between additional saving and additional income and it varies between 0 and 1. We know that the sum of MPC and MPS is always 1, *i.e.*, $MPC + MPS = 1$.

For example,

if $MPC = 0.9$, then $MPS = 1 - 0.9 = 0.1$

if $MPC = 0$, then $MPS = 1 - 0 = 1$

\therefore Value of MPS can never be negative.

14. The given text indicates the 'supervisory function' of the Central Bank, under which the Reserve Bank of India regulates and supervises routine functioning of the commercial banks.

Under this function, the RBI may exercise periodic inspections/audits of commercial banks, filing of reports by commercial banks and other statutory compliances. Central bank may take necessary corrective and punitive actions against the banks owing to deficiencies in regulatory compliances.

15. (A) Devaluation and Depreciation of currency are not one and the same thing. This is because devaluation refers to the fall in the value of domestic currency w.r.t. foreign currency as planned by the government (it is fixed by the government) whereas depreciation refers to the fall in the value of domestic currency in relation to foreign currency w.r.t. a situation where exchange rate is determined by the market forces of demand and supply for foreign exchange in the international money market. No matter both cause a fall in the value of domestic currency.

Or

(B) Exports are one of the major source of earning foreign exchange. In other words, exports are the major source of supply of foreign exchange. So, by giving incentives to the exporters, export promotion will take place, which will bring in more foreign exchange which in turn leads to appreciation of domestic currency. This can in turn be utilised for purchasing our import items and also adding to our foreign exchange reserves. Thus, incentives for promoting exports play a very vital role in influencing favourably the foreign exchange situation, *i.e.*, by building our foreign exchange reserves and also footing our import bill.

16. (a) The economic reforms of 1991 led to an increase in Aggregate Demand through higher investment, high consumer income, increased consumer spending, and trade liberalisation. On the supply side, reforms improved efficiency, technology adoption, and labour market dynamics, leading to an expansion of Aggregate Supply. The combined increase in AD and AS contributed to economic growth and development of the economy.

(b) The challenges include:

- **Inflation control:** Managing inflation while supporting economic growth is difficult, particularly during supply chain disruptions and rising commodity prices.
- **Economic inequality:** Ensuring that the benefits of economic growth are evenly distributed and that lower-income groups are not disproportionately affected by shifts in AD and AS. Addressing inequality to ensure that growth supports all segments of society is crucial.

17. (A) (i) $NDP_{FC} = (ii) + (i) + (iv)$
 $= 3,000 + 700 + 700$
 $= ₹ 4,400 \text{ crore}$

(ii) The statement stands defended as the 'Interest on National Debt' should not be included in the estimation of national income, because it is treated as a transfer payment. It is presumed to be paid for unproductive borrowing. It does not contribute to the current flow of goods and services.

Or

(B) (i) No, as capital goods are those final goods which help in the production of other goods and services. A machine purchased by a firm will be a capital good when it is used for the production of other goods and services. However, if it is purchased by a firm for resale purposes in the same year, it will be considered as an intermediate good and not a capital good.

(ii) The precautions that should be taken while estimating national income by expenditure method are:

- (i) Do not include intermediate expenditure, in the national income as it is already included in the final expenditure. In case, intermediate expenditure is included, it will lead to double counting of expenditure, which may result in overestimation of national income.
- (ii) Do not include expenditure on second hand goods, as it has already been included in the national income of the year, when these goods were bought/sold for the first time. In case of any commission/brokerage paid to the intermediary, it should be treated as final expenditure and included in National Income.
- (iii) Imputed expenditure on own-account production should be included such as production for self-consumption, self-consumed services of owner-occupied houses, free services from general government and private non-profit making organisations serving households.
- (iv) Exclude the expenditure on transfer payments as they are unilateral transfers against which no good/service is provided in return such as old age pension, donations, scholarships, taxes etc.
- (v) Exclude the expenditure on shares/bonds etc, as buying and selling of these only leads to transfer of money from one person/institution to another. In case of any brokerage or commission paid to the agent, it should be included in final expenditure. *(any three)*

- 18. (c) Moneylenders
- 19. (c) Both statements 1 and 2 are true
- 20. (d) Only (ii)
- 21. (a) Karve
- 22. (d) BRICS
- 23. (d) Self-Help Groups
- 24. (c) Temporary inconvenience and economic disruption
- 25. (a) Mao Zedong
- 26. (b) Statement 1 is false and Statement 2 is true
- 27. (b) Liberty indicator

28. (A) Promoting women's education in India is imperative for societal progress and gender equality. Educated women contribute to economic growth by entering the workforce and making informed decisions about their lives. Moreover, educating women makes a favourable impact on the fertility rate and health care of women and children. Hence, investing in women's education uplifts communities and drives sustainable development across India.

Or

- (B) Rapid expansion of the banking system had positive effect on rural farm and non-farm output, income and employment. In spite of it, following problems have been faced in the rural banking:

- The volume of rural credit in the country is still insufficient in comparison to its demand and institutional sources have failed to cover the entire rural farmers of the country.
- Less attention has been given on the credit requirements of needy (small and marginal farmers) and the problem of overdue in agricultural credit continues.

(or any other relevant point)

29. The causes of stagnation in the agricultural sector in India are:

(a) Stagnation in the agricultural sector was caused mainly because of the various systems of land settlement that were introduced by the colonial government. Particularly, under the *zamindari* system which was implemented in the, then Bengal Presidency comprising parts of India's present-day eastern states, the profit accruing out of the agriculture sector went to the *zamindars* instead of the cultivators.

(b) Low levels of technology, lack of irrigation facilities and negligible use of fertilisers, all added up to aggravate the plight of the farmers and contributed to the dismal level of agricultural productivity.

30. The given image indicates towards the environmental challenge of 'global warming'. It is the gradual increase in the earth's temperature due to the greenhouse effect caused by increased levels of carbon dioxide, CFCs, and other pollutants. CFCs stand for chlorofluorocarbons. Ozone layer is responsible for protecting the surface of the earth from the sun's harmful radiations. CFCs destroy the ozone layer of the atmosphere. This makes the way for the ultraviolet rays to reach the earth, thus, increasing the temperature which leads to global warming. The release of carbon dioxide and other greenhouse gases into the atmosphere is the major cause of global warming. It can be reduced by increasing the biofuels production from organic waste, use of renewable energy like solar and wind power, safeguarding forests and improving energy efficiency and vehicle fuel economy.

31. China is the most populous country in the world. Its annual population growth rate was very high. The one-child norm introduced in China in the late 1970s is the major reason for fall in the population growth rate. However, this measure led to a decline in the sex ratio. The number of females per 1000 males in China is approximately 949. One-child policy and prevalent son-preference is the prime reason behind the skewed sex ratio.

32. (A) The following are the various steps initiated by the Indian government to develop the rural markets:

(a) **Regulated Markets:** The government came up with the concept of regulated markets where the sale and purchase of the products are monitored by the Market Committee. This Market Committee consists of farmers, government agents and traders. This practice infuses greater transparency in the marketing system through the use of proper scales and weights. Such committees ensure the farmers and the consumers in receiving fair price in exchange of their products.

- (b) **Infrastructure Development:** The present infrastructure is not sufficient to meet the growing demands of the farmers. Indian government provided cold storages and warehouses that help the farmers to sell their product at the time when the price is attractive. Also, railways offer subsidised transport facilities to the farmers. This enables the farmers to bring their product to urban areas where they can earn huge profits.
- (c) **Co-operative Agricultural Marketing Societies:** The government also started co-operative marketing under which the farmers get access to fair prices. This is due to the better and enhanced bargaining power of the farmers via collective sale in the market.
- (d) **MSP Policy:** Minimum Support Price is a minimum legislated price that a farmer may charge in exchange for his products. This enables them to sell their products in the open market at a higher price. The MSP insulates the farmers in case of price fall as this is the minimum price that they can receive. The need of such assurance to the farmers is of immense importance as farming in India is subject to many uncertainties.

(or any other relevant point)

Or

(B) 'Organic farming' is a whole system of farming that restores, maintains and enhances the ecological balance. It promotes sustainable development by offering a means to substitute costlier agricultural inputs with locally produced organic inputs that are cheaper and thereby fetch good returns on investment.

- It generates income, by way of exports, on account of rising demand for organically grown crops.
- It provides people with healthy foods.
- Since it requires more labour input than conventional farming, so it turns out to be an attractive proposition.
- The organic produce is pesticide-free and produced in an environmentally sustainable way.

33. (A) (i) Yes, in order to improve efficiency, infuse professionalism and enable Public Sector Undertakings (PSUs) to compete more effectively in the liberalised global environment, the government identified profit making PSUs. Government declared them as Maharatnas, Navratnas and Miniratnas. PSUs were given greater managerial and operational autonomy, in taking various decisions. As a result, over the years these Maharathas, Navratnas and Miniratnas have performed exceedingly well and established themselves as market leaders.

(ii) Land reforms were inevitable in the post-independence era. The policy makers of independent India introduced land reforms such as land ceiling, abolition of intermediaries etc.

Land ceiling means fixing up the maximum size of landholding which could be owned by an individual. This step was essential to promote equity in the agricultural sector so as to reduce the concentration of land ownership in a few hands.

Or

(B) (i) In order to protect domestic industries, India followed the import substitution policy. This policy aimed at substituting imports with domestic production. The domestic industries were protected from foreign competition by using the following tools:

- **Tariffs:** Tariffs are a tax on imported goods that make imported goods dearer and discourage their usage.
- **Quotas:** Quotas specify the quantity of goods that can be imported.

(ii) Before the advent of Green Revolution, a large proportion of agricultural produce was consumed by the farmers themselves instead of being sold in the market. Green Revolution led to an increase in the growth of agricultural output.

After the Green Revolution, a greater proportion of the agro-produce (wheat and rice) was sold by the farmers in the market. That led to the attainment of marketed surplus and converted India into a food surplus economy from the food scarce one.

34. (a) Human capital considers education and health as a means to increase labour productivity. On the other hand, human development considers education and health as being integral to human well-being because only when people are educated and healthy, they will be able to make better choices.
- (b) Enlarging the range of people's choices, increasing their opportunities for education, health care, income and empowerment and covering the full range of human choices from a sound physical environment to economic, social and political freedom are the significant aspects of human development.