

Answers to REC/Set-3

1. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
2. (d) Current transfers
3. (c) Both statements 1 and 2 are true
4. (b) credit; current
5. (b) Annual expenditure of a school
6. (d) Assertion (A) is false but Reason (R) is true
7. (c) Unit of account
8. (a) Increase
9. (c) Both statements 1 and 2 are true
10. (a) $C = 30 + 0.75 Y$

Working Note:

Given that, Investment multiplier (k) = 4
and Autonomous consumption (\bar{C}) = ₹ 30 crore
We know that,

$$k = \frac{1}{1 - MPC}$$
$$4 = \frac{1}{1 - MPC}$$
$$MPC = \frac{3}{4} = 0.75$$

Now, for consumption function

$$C = \bar{C} + MPC (Y)$$

$$\therefore C = 30 + 0.75 Y$$

11. (a) The given statement is true, as employer's contribution to social security schemes is a productive income as it is being paid to the employees for their contribution to the current flow of goods and services.
- (b) The given statement is true, as the commission received from the sale of second-hand goods is earned by the agent for rendering productive services.
12. (A) The components of current account of Balance of Payments Account are:
 - (a) Export and import of goods (visible items)
 - (b) Export and import of services (invisible items)
 - (c) Unilateral transfers to and from abroad

Or

- (B) There is a direct relation between foreign exchange rate and supply of foreign exchange. Higher the exchange rate, higher the supply of foreign exchange and lower the exchange rate, lower the supply of foreign exchange. Suppose the price of US dollar in India rises from ₹ 70 to ₹ 84. It means that earlier, USA was buying ₹ 70 worth of goods from India by parting one US dollar. Now, it can buy ₹ 84 worth of goods from India. Indian goods becomes inexpensive for USA. Therefore, USA will buy more of Indian goods. This will rise the supply of US dollars to India. So, higher the foreign exchange (*i.e.* price of US dollar) higher will be its supply and vice-versa.

13. Given, $S = (-) 50 + 0.2 Y$
 $Y = ₹ 2,000$ crores
 Consumption Expenditure = ₹ 1,650 crores
 Autonomous Investment = ₹ 50 crores
 Now, $S = (-) 50 + 0.2 (2,000)$
 $= - 50 + 400 = ₹ 350$ crores

At equilibrium level of income,

$$Y = C + S$$

$$\therefore 2,000 = C + 350$$

$$C = 2,000 - 350$$

$$= ₹ 1,650 \text{ crores}$$

As $MPS = 0.2$

$\therefore MPC = 0.8$

So, all the given values are correct.

14. The function of Central Bank (Reserve Bank of India) indicated here is supervisor to commercial banks. There are usually hundreds of banks in a country. So, there should be some agency to regulate and supervise their proper functioning. 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) When AD is not equal to AS ($AD \neq AS$) two situations are to be assessed.

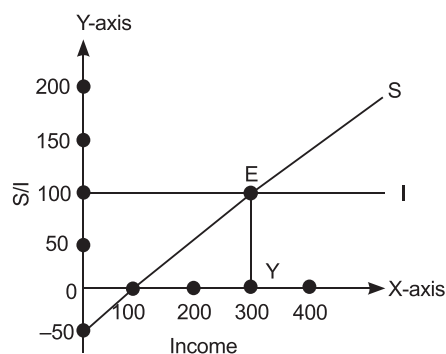
(i) **Suppose $AD > AS$:** As a result, the producers find their inventories falling faster than expected. To maintain the inventory level, producers produce more. Thus, AS starts rising and continues to rise till AD equals AS once again.

(ii) **Suppose $AD < AS$:** As a result, producers find that the inventories start piling up, above the expected level. To bring down the inventories to the expected level, they start producing less. So, AS starts falling and continues to fall till AD equals AS once again.

Or

- (B) The equilibrium level of income is determined at a point where savings and investment are equal, i.e., $S = I$. The given table and diagram illustrates the idea:

Income (Y)	Consumption (C)	Saving (S) = Y - C	Investment (I) (₹ crores)
0	50	-50	100
100	100	0	100
200	150	50	100
300	200	100	100
400	250	150	100



The given table and diagram shows that the equilibrium level of income is ₹ 300 crores and at this point $S = I$, i.e., ₹ 100 = ₹ 100.

16. (a) The two types of taxes are:

(i) **Direct tax:** Direct taxes are the ones whose burden falls on the person or entities who earns income or wealth. They are also called progressive taxes. For example, income tax, wealth tax etc.

(ii) **Indirect tax:** Indirect tax is the tax whose burden falls on the person who consumes certain goods and services. It is not directly levied on the income of person. They are also known as regressive taxes as the burden of this is not borne by the person who is supposed to be paying the tax. For example, Good and Services Tax, Value added tax etc.

(b) Sin taxes are taxes which are implemented to stop the consumption of those goods which are socially undesirable. It is because they are harmful goods and may later lead to healthcare expenditure. For example, taxes on tobacco goods.

$$\begin{aligned}
 17. (A) (i) \text{ GNP}_{FC} \text{ by Income Method} &= (iii) + (iv) + (v) + (viii) + (vii) + (x) \\
 &= 400 + 800 + 250 + 150 + 60 + (-10) \\
 &= ₹ 1650 \text{ crores}
 \end{aligned}$$

(ii) The three precautions to be taken while estimating National Income by Expenditure Method are:

- Expenditure on intermediate goods should not be included
- Expenditure on purchase of second-hand goods should not be included
- Expenditure on purchase of financial instruments (shares, bonds, debentures etc.) should not be included *(or any other valid point)*

Or

$$\begin{aligned}
 (B) (i) \text{ National Income/NNP}_{FC} &= (ii) + (iv) + (vii) - (viii) + (x) - (ix) \\
 &= 900 + 200 + 120 - 10 + (-10) - 150 \\
 &= ₹ 1,050 \text{ crores}
 \end{aligned}$$

(ii) Non-monetary exchanges refer to activities like services of family members provided to each other. These activities are not evaluated in monetary terms, i.e., are not paid for. So, they may be left out from estimate of national income due to non-availability of data. But the fact is that these activities do contribute to the welfare of the people. Since GDP may not account for such activities, it may be underestimated. As a result welfare of the people is also underestimated. This is thus a limitation of GDP, as an index of welfare.

18. (d) (i), (ii) and (iii)

19. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

20. (a) A – (i)

21. (b) Pisciculture

22. (c) Montreal

23. (c) India generated large export surplus during the British rule.

24. (a) Purchasing seeds

25. (b) Organic

26. (b) Statement 1 is false and statement 2 is true

27. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

28. (A) In India, Information Technology (IT) plays a crucial role as government can predict areas of food insecurity and vulnerability using appropriate information and software tools. It helps in disseminating information regarding emerging technologies and their applications, prices, weather and soil conditions for growing different crops etc. Hence, IT plays a vital role in achieving sustainable development and food security in a nation like India.

Or

- (B) It is not denying the fact that education is an important means of reducing inequality of income. Education enhances productive capacities of the labour force, which in turns induces greater employment. Further, education increases the rate of participation (percentage of employment of the existing labour force). Increase in the rate of participation would lead to increase in the share of wages in GDP. Accordingly, inequality would reduce. However, while education can be seen as a potential eliminator of inequality, there are other factors which tend to promote inequality world-wide. Oligopolistic ownership of the global markets is one such factor which has tended to compound inequality despite the spread of education.
29. (A) The given statement is not true to perfection. These two may sound similar but are not exactly same. Human capital considers education and health as a means to increase labour productivity, whereas, human development is based on the idea that education and health are integral to human well-being.
- (B) The given statement is not true. India has a rich stock of scientific and technical manpower in the world. Also, India has taken a number of steps to improve it qualitatively and ensure that they are optimally utilised.
30. (A) In the first seven plans, the trade in India was characterised by an ‘inward looking trade strategy’. It is the strategy based upon ‘**import substitution**’. Under it, the imports were to be substituted with domestic products. This way the government protected the domestic industries from competition from abroad. Protection from imports was carried out in two forms – tariffs and quotas.

‘**Tariffs**’ referred to the tax imposed on goods imported. Due to this, the imported goods became more costly, thereby their consumption got discouraged.

‘**Quotas**’ referred to the quantity of goods that could be imported.

In a nutshell, the effect of tariffs and quotas was import restriction on one hand and protecting the domestic producers from competition from abroad. Protection was based on the assumption that the domestic industries protected will learn to compete with the foreign industries in the course of time.

Or

- (B) Yes, it is accepted that the elimination of subsidies will definitely violate the goal of equity. In other words, it will increase the inequality between the rich and the poor farmers. This is because most of the farmers in India are poor and it will be very difficult for them to afford the required inputs without subsidies. Rather they will become further poor.
- Instead of eliminating subsidies it should be ensured that their benefit reaches the right hands, *i.e.*, the poor farmers. It should be strictly and seriously seen that the subsidies should not benefit fertilizer industry and the big farmers only, but the poor farmers should enjoy the benefit of subsidies exclusively as they are intended to be meant for them.
31. The Central Pollution Control Board (CPCB) investigate, collect and disseminate information relating to water, air and land pollution, lay down standards for sewage/trade effluent and emissions. These boards provide technical assistance to governments in promoting cleanliness of streams and wells by prevention, control and abatement of water pollution, and improve the quality of air and to prevent, control or abate air pollution in the country. These boards also carry out and sponsor investigation and research relating to problems of water and air pollution and for their prevention, control or abatement. They organise, through mass media, a comprehensive mass awareness programme for the same. The PCBs prepare manuals, codes and guidelines relating to treatment and disposal of sewage and trade effluents.

32. • We know that in 2011-12, there were about 473 million workers in India. There were about 30 million workers in formal sectors.
- Out of 30 million formal sector workers, only 6 million, *i.e.*, only about 21% were women and rest 24 millions were men.
 - Similarly in informal sector, 310 million workers were men and 133 million workers were women.
 - So in both formal and informal sector women were in disadvantageous situation as compare to men.
33. (a) During the second half of the nineteenth century, modern industry began to take root in India but its progress remained very slow. Initially, this development was confined to the setting up of cotton and jute textile mills. The cotton textile mills, mainly dominated by Indians, were located in the western parts of the country, namely, Maharashtra and Gujarat, while the jute mills dominated by the foreigners were mainly concentrated in Bengal.
- (b) The western parts had several advantages as a cotton textile manufacturing centre. It had cotton producing areas of Gujarat and Maharashtra. Raw cotton used to be brought to Mumbai port to be transported to England. Therefore, cotton was available in Mumbai city itself. Moreover, Mumbai even then was the financial centre and the capital needed to start an industry was available there. As a large town, providing employment opportunities attracted labour in large numbers. Hence, cheap and abundant labour too was available locally.
34. (A) (i) The Great Leap Forward (GLF) was a campaign initiated in 1958 in China. The aim of the campaign was to initiate large scale industrialisation in the country concentrating not only in the urban areas but also in the rural ones. The people in the urban areas were motivated to set up industries in their backyards. In the rural areas, Commune System was implemented. Under this system, people were engaged in collective farming.
- (ii) • With the aim of economic development, Pakistan adopted the pattern of mixed economy where both private and public sectors coexist.
- Pakistan introduced a variety of regulated policy frameworks for import substitution, industrialisation during 1950s and 1960s. This implies producing goods domestically to substitute imports, thereby, discouraging imports and simultaneously encouraging and developing domestic industries.
 - In order to protect domestic industries producing consumer goods, policy measures were initiated to create tariff barriers.
 - The introduction of Green Revolution mechanised agriculture leading to the increase in the production of food grains.
 - The mechanisation of agriculture was followed by the nationalisation of capital goods industries in 1970s.
 - In the late 1970s and early 1980s, Pakistan shifted its policy orientation by denationalising the thrust areas, thereby, encouraging the private sector.

All these above measures created an environment conducive to initiate the economic reforms that were ultimately initiated in 1988.

Or

- (B) (i) Liberty indicators may be defined as the measure of the extent of demographic participation in the social and political decision-making. In other words, it is an index used to measure the participation of the people in taking decisions. Some examples of liberty indicators are the measures of the extent of the Constitutional Protection Rights given to the citizens and the extent of the Constitutional Protection of the independence of the Judiciary and Rule of Law.

(ii) India, with democratic institutions, performed moderately, but the majority of its people still depend on agriculture. Infrastructure is lacking in many parts of the country. It is yet to raise the standard of living of more than one-fourth of its population that lives below the poverty line.

On the other hand, the lack of political freedom and its implications in China are the major concern in the last two decades. The country used the market system without losing political commitment and succeeded in raising the level of growth along with poverty alleviation. China used the market mechanism to create additional social and economic opportunities. It has also ensured social security in the rural areas by retaining collective farming known as Commune System.