

Answers to REC–DS1/Set-1

1. (b) Measure of value
2. (b) Market Price – Net Indirect Taxes
3. (c) credit; capital
4. (a) Statement 1 is true and statement 2 is false
5. (a) It ensures price stability in the economy.
6. (a) 81, 10000, 1000, 9000

Working Note:

Legal Reserve Ratio = 10% or 0.1 and Money Multiplier = $1/\text{LRR} = 1/0.1 = 10$

(i) Cash Reserves = $810 \times 10/100 = 81$

(ii) Deposits = $1000 \times 10 = 10000$

(iii) Cash Reserves = $100 \times 10 = 1000$

(iv) Loans = $900 \times 10 = 9000$

7. (a) 10,500

Working Note:

If MPS = 0.5, then

$$\begin{aligned} \text{MPC} &= 1 - \text{MPS} \\ &= 1 - 0.5 = 0.5 \end{aligned}$$

Consumption Function is $C = 500 + 0.5 Y$.

Therefore, at equilibrium level of income of ₹ 20,000 crore, consumption is

$$\begin{aligned} C &= 500 + (0.5) 20,000 \\ &= 500 + 10,000 \\ &= ₹ 10,500 \end{aligned}$$

8. (a) Donations
9. (d) (i), (ii) and (iii)
10. (d) saving; investment
11.
 - ‘Borrowings from abroad’ is recorded on the credit side of capital account in the Balance of Payments account.
 - It is recorded in capital account of BoP because it increases the international liability of the country.
 - It is recorded on the credit side because it brings foreign exchange into the country.
12. (A) Domestic income = $(i) + (ii) + (iii) + (iv) + (v) + (vi) + (vii) + (ix)$
= $10,000 + 5,000 + 400 + 3,000 + 400 + 200 + 400 + 400$
= ₹ 19,800 crores

Or

- (B) (i) Depreciation is an expected decrease in the value of fixed capital assets due to its general use.
- (ii) If a single transaction is recorded twice or more than twice in the calculation of national income, then it is known as double counting.
- (iii) The amount earned by employees from their employer, whether in cash or in kind or through any other social security scheme is known as compensation of employees.

13. Given that, MPC = 0.75 and change in investment = ₹ 20,000 crore

$$\begin{aligned}\text{We know that, Multiplier } (k) &= \frac{1}{1 - \text{MPC}} \\ &= \frac{1}{1 - 0.75} = \frac{1}{0.25} = 4\end{aligned}$$

$$\begin{aligned}\text{or, Multiplier } (k) &= \frac{\text{Change in income}}{\text{Change in investment}} \\ 4 &= \frac{\text{Change in income}}{20,000}\end{aligned}$$

$$\text{Change in Income} = ₹ 80,000$$

∴ Change in income = ₹ 80,000 crore

14. Legal Reserve Ratio is the minimum ratio of deposits legally required to be kept by the commercial banks with themselves. It is fixed by the Central Bank.

The components of Legal Reserve Ratio are:

(a) **Cash Reserve Ratio:** Cash Reserve Ratio (CRR) refers to the percentage of deposits with the commercial banks, which they are legally required to keep as reserve with the central bank. It is decided by the central bank which has power to change it. If there is fall in the CRR, it will increase the lending capacity of the banks so as to create more credit, to boost up demand and vice-versa. It is an important credit control measure of the central bank.

(b) **Statutory Liquidity Ratio:** Statutory Liquidity Ratio (SLR) refers to the minimum percentage of deposits with the commercial banks which they are legally required to keep in the form of specified liquid assets as reserves with themselves. It is the central bank which has the legal power to determine it and change it, if required. Lowering SLR raises the lending capacity of the commercial banks and raising SLR reduces funds for credit creation.

15. (A) When planned saving is greater than planned investment, it indicates that expenditure on buying goods and services in the economy is less than what the producers had expected. This would result in unplanned addition in the inventories of unsold stock. Consequently, AD falls short of AS. The producers will cut down the employment and will produce less. National income will fall and as a result planned saving will start falling until it becomes equal to planned investment. Thus, economy achieves equilibrium level of national income.

Or

(B) The steps taken by the Central bank to boost the falling demand in the economy are justified as the reduction in the repo rate and reserve repo rate will increase the availability of funds in the market through the commercial banks.

Rationale: A decrease in repo rate or reserve repo rate will push the commercial banks to reduce the lending rate and will eventually make the borrowings cheaper for the general public. As a result, the consumption and investment demand in the economy may increase.

16. (A) (i) Fiscal deficit = Revenue Expenditure + Capital Expenditure – Revenue Receipts
– Capital Receipts (Net of Borrowings)

$$= 22,250 + 28,000 - 17,750 - 20,000$$

$$= ₹ 12,500 \text{ crores}$$

(ii) Primary deficit = Fiscal Deficit – Interest Payments

$$= 12,500 - 5,000$$

$$= ₹ 7,500 \text{ crores}$$

(B) The two sources of non-tax revenue receipts are:

- Commercial revenue (profit and interest)
- Administrative revenues (fines and penalties, escheats)

(or any other relevant point)

Or

(C) Public goods are those goods which are once provided, they are available for everyone to use and consume without diminishing their availability to others. For example, parks, roads, water, bridges, national defense etc. These goods are non-rival and non-excludable in nature. People receives benefits from public goods but do not pay for them. Therefore, such goods can only be prepared by the government.

(D) A budgetary deficit is the excess of total government expenditure over total government revenue. Thus,

$$\text{Budgetary Deficit} = \text{Total Government Expenditure} - \text{Total Government Receipts}$$

Budgetary deficit is financed by the following ways:

- (a) It may be financed by borrowings both from internal and external sources.
- (b) It may be financed by deficit financing.

17. (a) (i) Purchase of taxi by a taxi driver will be included in the estimation of national income because it is an investment expenditure. A taxi will be used by the taxi driver for several years to earn his living.

(ii) Expenditure on providing police services by the government should be included in the estimation of national income because expenditure incurred by the government is a part of government's final consumption expenditure.

- (b) • The given statement is incorrect.
- When factor income from abroad is greater than factor income to abroad, national income exceeds domestic income.
- Exports and imports have nothing to do with net factor income from abroad.

18. (b) Both Assertion (A) and Reason (R) are true but Reason (R) is not the correct explanation of Assertion (A)
19. (a) Free flow of foreign capital
20. (a) Commune system
21. (c) C – (iii)
22. (a) Private sector firms
23. (a) Widespread industrialisation
24. (d) Operation Flood
25. (c) (i) and (iii)
26. (d) (i), (ii) and (iii)
27. (c) Both statements 1 and 2 are true
28. In view of the present scenario, the following should be the objectives of education in India:
- The first and foremost objective should be that of ensuring hundred per cent literacy in the country, as even after nearly 70 years of independence, around 26% of the population is illiterate.
 - Vocationalisation of education should be encouraged.
 - Higher education should be brought within the reach of all.
 - Adult and female education should be encouraged.

Yes, it will help in human capital formation by making them ready with skills and knowledge which are the requisite for a developing country like India.

29. (A) The Britishers exploited India in every possible way. Raw material from India was exported and expensive finished goods were imported to India. Also, the heavy administrative costs related to running of the colonial rule in India, in the form of wages and salaries of the administrative staff and the expenses borne by Britishers in fighting wars, were borne by revenues generated in India. All this led to drain of India's wealth during the colonial period.

Or

- (B) According to the Industrial Policy Resolution, 1956, industries were classified into three categories on the basis of ownership, *i.e.*,
- The first category consisted of industries which could be established and developed exclusively as public sector enterprises.
 - The second category consisted of industries which could be established both as public sector enterprises and private sector enterprises, with private sector being given a secondary role.
 - The third category consisted of all industries other than those specified in the above categories and was open for private sector.

30. (A) (i) False, under cooperative marketing, marketing societies are formed by farmers to sell the output collectively and to advantage of collective bargaining. Co-operative marketing is a measure to ensure a fair price to farmers. Member farmers sell their surplus to the co-operative society which substitutes collective bargaining in place of individual bargaining. It links rural credit farming marketing processes to the best advantage of the farmers.
- (ii) False, as organic farming generates more employment opportunities as it requires more labour input than conventional farming. It has the potential to increase productivity, reduce input costs, improve soil health, provide access to niche markets. Agriculture is a significant contributor to India's economy, providing employment to over 50 per cent of the population and contributing 18 per cent of the country's gross domestic product.

Or

- (B) Yes, it is necessary to generate employment in the formal sector rather than in the informal sector because those who work in the informal sector do not get any regular income and do not get protection from the government. Workers are dismissed without any compensation. Technology used is outdated and they also do not maintain any accounts. Workers live in slums or badly built houses.

Those who work in the formal sector, on the other hand, earn more than those in the informal sector and also enjoy social benefits. It is thus, necessary to generate more employment in the formal sector.

31. The situation depicted in the given image is unemployment. Unemployment is both an economic and a social problem. It is an economic problem in the sense that unemployed persons will be consumers only without being a producer. Non-utilisation of human resources due to unemployment involves double cost of maintenance and loss of output. It is a social problem in the sense that it causes enormous sufferings to unemployed workers due to their reduced or nil income. Many social evils like dishonesty, immorality, drinking, gambling, robbery, etc. are the outcome of unemployment. It causes social disruption in the society and the government has to incur a heavy unproductive expenditure on law and order.
32. The development of India, China and Pakistan with respect to some salient human development indicators can be assessed and compared with the help of following points:
- (i) In most areas of human development, China has performed better than India and Pakistan. China's HDI rank in the world is 87, contrasting with 130 and 154 for India and Pakistan respectively. However, India may attain a higher ranking if some liberty parameters are included in HDI.
 - (ii) GDP per capita is higher in China compared with India and Pakistan.
 - (iii) Besides higher GDP per capita, China has performed better (than India and Pakistan) in the area of nourishment.
 - (iv) China has also performed better with regard to infant mortality rate and maternal mortality rate.
 - (v) As regards access to improved sanitation, again China shows better performance than India and Pakistan.

33. (A) In India, the use of modern technology, extensive use of fertilizers, pesticides and high yielding variety seeds which together formed the Green Revolution led to an impressive rise in food grain production. The agricultural productivity and average yield also increased considerably. The other major measures are development of marketing system, abolition of intermediaries and subsidised credit for farm investment provided greater portion of marketable surplus to farmers.

All these factors contributed to high crop yield which enabled the government to procure sufficient food grain to build the buffer stock to be used in time of shortages due to scanty rainfall, delayed monsoon, drought and other natural calamities.

- (B) An economy can progress only if it has a good industrial sector, providing a sound capital base. Industrial development is important for an overall growth of a country due to following reasons:
- (i) It provides a stronger base for rapid and continuous increase in the income of the people.
 - (ii) It leads to higher savings, investments and capital formation, thereby creating a solid foundation for self-sustaining development.
 - (iii) It provides employment opportunities.
 - (iv) It makes available to the consumer capital goods in the country, thus providing a higher standard of living.

Or

- (C) The main cause of exploitation of traditional handicraft industries was de-industrialisation introduced by British rulers in India. They got raw material from India at cheap rates and reduced India to a mere exporter of raw material to the British industries. They sold British manufactured goods in Indian market at higher prices. It resulted in decline of world famous traditional handicrafts. Britishers followed discriminatory tariff policy. It allowed free export of raw material from India and free import of British final goods to India, but placed heavy duty on the export of Indian handicrafts. In this way, Indian markets were full of manufactured goods from Britain which were low priced. Indian handicrafts started losing both domestic market and international market. Ultimately, the handicraft industry declined.
- (D) Both growth and equity are the two important objectives of Indian planning. While growth refers to the increase in national income over a long period of time, equity refers to an equitable distribution of this income so that the benefits of higher economic growth can be passed on to all sections of population to bring about social justice. Growth is desirable but growth in itself does not guarantee the welfare of society. Growth is assessed by the market value of goods and services produced in the economy and it does not guarantee an equitable distribution of income. In other words, the major share of Gross Domestic Product (GDP) might be owned by a small proportion of population, which may result in exploitation of weaker sections of society. Hence, growth with equity is a rational and desirable objective of planning.

34. (a) Sustainable development in itself makes it obligatory for the development process to be such that the basic needs of not only the present generation, but also of the future generations are taken care of. It becomes the moral duty of this generation to handover the Earth to the future generation in good form.

(b) The strategies for sustainable development in India are:

- Use of non-conventional sources of energy
 - Use of LPG and gobar gas in rural areas
 - Use of CNG as fuel in urban areas
 - Use of wind power in the areas where speed of wind is usually high
 - Use of solar power through photovoltaic cells
 - Use of compost made from organic wastes
 - Use of traditional knowledge and practices
 - Biopest control
- (or any other relevant point)*