

Answers to REC–DS1/Set-3

1. (b) rise
2. (a) Store of value
3. (d) Both statements 1 and 2 are false
4. (a) 162, 20000, 2000, 18000

Working Note:

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

(i) Cash Reserves = $1620 \times 10/100 = 162$

(ii) Deposits = $2000 \times 10 = 20000$

(iii) Cash Reserves = $200 \times 10 = 2000$

(iv) Loans = $1800 \times 10 = 18000$

5. (a) only (i)
6. (d) Difference between gross and net investment
7. (a) Visible trade
8. (a) $C = 30 + 0.75Y$
9. (b) Errors and omissions
10. (c) ₹ 48,000

Working Note:

We know that, $Y = C + I$

$$Y = 2,000 + 0.75 Y + 10,000$$

$$Y - 0.75Y = 12,000$$

$$0.25Y = 12,000$$

$$Y = \frac{12,000}{0.25}$$

$$Y = ₹ 48,000 \text{ crores}$$

Therefore, equilibrium level of national income is ₹ 48,000 crore.

11. 'Sale of machinery to abroad' will be recorded in current account of Balance of Payments Account due to the following reasons:
 - (a) Current account records imports and exports of goods and services and unilateral transfers.
 - (b) Sale of machinery to abroad leads to inflow of foreign currency and receipt from exports is shown on the positive side (credit items).
12. (A)
 - (i) **Payment of corporate tax** by a firm should not be included in the estimation of national income because it is a transfer payment by the firm. It is paid out of income and therefore, it is not to be separately added in the national income.
 - (ii) **Purchase of uniforms for nurses by a hospital** will not be included in the estimation of national income, because uniform is provided by the hospital at the time of work. It is also to be treated as an intermediate consumption.

Or

- (B) There are many goods and services which are left out of estimation of national income on account of practical estimation difficulties. For example, services of housewives and other members, own account production, etc. These are left on account of non-availability of data and problem in valuation. It is generally agreed that these items contribute to economic welfare. So, if we depend only on GDP, we would be underestimating economic welfare. Thus, non-monetary exchanges are a limitation of GDP as an index of welfare.
13. (A) Aggregate demand implies the total demand of final goods and services by all the people in an economy. The components of aggregate demand are:
- (i) **Consumption expenditure (C):** It refers to the total expenditure incurred by all the households in an economy on different types of final goods and services in order to satisfy their wants. It can be further divided in two categories, *i.e.*, autonomous consumption expenditure and induced consumption expenditure. Autonomous consumption expenditure is independent of the levels of disposable income whereas, induced consumption expenditure varies directly with the level of disposable income.
 - (ii) **Investment expenditure (I):** It refers to the planned (ex-ante) total expenditure incurred by all the private investors on creation of capital goods such as expenditure incurred on new machinery, tools, buildings, raw materials etc. Broadly, it can be categorised into two types, *i.e.*, autonomous investment expenditure and induced investment expenditure. The autonomous investment expenditure is independent of the rates of interest and levels of income whereas, the induced investment expenditure varies inversely with the rate of interest and directly with the levels of income.
 - (iii) **Government expenditure (G):** It refers to the total planned expenditure incurred by the government on consumption and investment purposes to enhance the welfare of the society and to achieve higher economic growth rates. It comprises of both investment expenditure as well as consumption expenditure.
 - (iv) **Net exports (X – M):** It refers to the difference between exports and imports of an economy. It shows the effect of domestic spending on foreign goods and services (imports) and foreign spending on domestic goods and services (exports).

Or

- (B) Deflationary gap refers to a situation where aggregate demand is less than aggregate supply at full employment level of income. It is called deflationary because it sets in motion the forces that cause fall in price level.

Open market operations refer to the buying and selling of government securities by the Central Bank in the open market to the public. The Central Bank can reduce deflationary gap by purchasing securities from the public and it makes money payments to the public. As a result, money flows out of the Central Bank and finds its way into the

commercial banks through the buyers of these securities, who have accounts in these banks. Deposits with commercial banks increase which in turn raises their lending capacity. This brings about a rise in the borrowings for consumption and investment purposes. Consequently aggregate demand rises and the deflationary gap gets reduced.

- 14.** Money creation (or deposit creation or credit creation) by the commercial banks is determined by the amount of initial fresh deposits and the Legal Reserve Ratio (LRR) which is the minimum ratio of deposit legally required to be kept as cash by the banks. It is assumed that all the money that goes out of banks is redeposited into the banks.

Let the LRR be 20% and there is a fresh deposit of ₹ 10,000. As required, the banks keep 20%, i.e., ₹ 2,000 as cash. Suppose, the banks lend the remaining ₹ 8,000 to the borrowers. As assumed, those who receive payment put the money back into the bank. In this way, bank receives fresh deposits of ₹ 8,000. The bank again keep 20%, i.e., ₹ 1,600 as cash and lend ₹ 6,400, which is also 80% of the last deposit. The money again comes back into the bank leading to a fresh deposit of ₹ 6,400.

In this way, the money goes on multiplying and ultimately total money creation is ₹ 50,000, i.e., five times the initial deposit.

$$\text{Total money creation} = \text{Initial deposit} \times \frac{1}{\text{LRR}}$$

- 15.** Given that, MPC = 0.8 and change in investment = ₹ 1,000 crore

$$\begin{aligned} \text{We know that, Multiplier } (k) &= \frac{1}{1 - \text{MPC}} \\ &= \frac{1}{1 - 0.8} = \frac{1}{0.2} = 5 \end{aligned}$$

$$\begin{aligned} \text{or, Multiplier } (k) &= \frac{\text{Change in income}}{\text{Change in investment}} \\ 5 &= \frac{\text{Change in income}}{5,000} \end{aligned}$$

$$\text{Change in income} = ₹ 25,000 \text{ crore}$$

16. National Income by Income Method:

$$\begin{aligned} \text{NDP at FC} &= (iii) + [(iv) + (v) + (vi)] + (viii) \\ &= 500 + [150 + 200 + 150] + 1,100 \\ &= ₹ 2,100 \text{ crores} \end{aligned}$$

$$\begin{aligned} \text{NNP at FC} &= \text{NDP at FC} + \text{NFIA} \\ &= 2,100 + 40 \\ &= ₹ 2,140 \text{ crores} \end{aligned}$$

National Income by Expenditure Method:

$$\begin{aligned} \text{GDP at MP} &= (i) + (ii) + (vii) + [(xiii) - (xii)] \\ &= 1,200 + 400 + 500 + [200 - 100] \\ &= ₹ 2,200 \text{ crores} \end{aligned}$$

$$\begin{aligned}
 \text{NNP at FC} &= \text{GDP at MP} - (ix) - [(xv) - (xvi)] + (xiv) \\
 &= 2,200 - 20 - [100 - 20] + 40 \\
 &= ₹ 2,140 \text{ crores}
 \end{aligned}$$

17. (A) (i) Revenue deficit = Revenue expenditure – Revenue receipts (Tax revenue + Non-tax Revenue)

$$\begin{aligned}
 &= 80 - (47+10) \\
 &= ₹ 23 \text{ crores}
 \end{aligned}$$

(ii) Fiscal deficit = Total expenditure (Revenue expenditure + Capital expenditure) – Revenue receipts (Tax revenue + Non-tax revenue) – Non-debt Capital Receipt (Capital receipts – borrowings)

$$\begin{aligned}
 &= (80 + 0) - (47 + 10) - (34 - 32) \\
 &= ₹ 21 \text{ crores}
 \end{aligned}$$

(B) Subsidies are treated as revenue expenditure because they neither create any asset nor cause a reduction in any liability of the government.

Or

(C) Fiscal deficit may not necessarily be inflationary. It is the difference between the government's total expenditure and total receipts other than borrowings. Fiscal discipline is essentially required, otherwise it will cause excessive expenditure in relation to amount of output in the economy. This will culminate in inflationary spiral where wages catch prices and prices catch wages.

Such borrowings are generally financed by issuing new currency which may lead to inflation, but if the borrowings are for infrastructural development purposes, it may lead to capacity building in the economy.

- (D)
- The given statement is refuted as a national highway is a public good.
 - Even though money is collected from taxes, highways are non-rivalrous; one person consuming the service does not exclude another person from availing of its benefits.
 - Highways are also non-excludable. Even if there are citizens who do not pay, it is difficult to stop them from using it.

18. (b) 1951 and 1956

19. (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

20. (a) NITI Aayog

21. (b) Fertility rate

22. (d) (i), (ii), (iii) and (iv)

23. (c) Tertiary sector

24. (b) B – (ii)

25. (c) MS Swaminathan
26. (d) (i) and (iii)
27. (b) Statement 1 is false and statement 2 is true
28. (A) Occupational structure means the distribution of work-force among different sectors of an economy. The state of occupational structure on the eve of independence was as follows:
- (i) **Pre-dominance of agriculture sector:** The agricultural sector accounted for the largest share of work-force, which was 72 per cent. The manufacturing and service sectors accounted for 10 per cent and 18 per cent respectively.
 - (ii) **Growing regional variations:** There was growing regional variation. In the states of Tamil Nadu, Andhra Pradesh, Kerala, Karnataka, Maharashtra and West Bengal, the dependence of the workforce on the agricultural sector declined. On the other hand, there was increase in the share of work force in the agriculture sector in the states of Odisha, Rajasthan and Punjab. Thus, India's occupational structure was imbalanced.

Or

- (B) Self-reliance implies discouraging the imports of those goods that could be produced domestically. Achieving self-reliance is of prime importance for a developing country like India, as otherwise, it would increase the country's dependence on foreign products. Dependence on foreign goods and services can promote economic growth of India but this would not contribute to the development of domestic productive resources. Dependence on foreign goods and services provides impetus to foreign country's industries at the cost of domestic infant industries. Further, imports drain away the scarce foreign reserves that are of prime importance to any developing and underdeveloped economy. Therefore, achieving self-reliance is an important objective for developing countries in order to avoid themselves from being acquiescent to the developed nations.
29. Education is considered to be an important input for the development of a nation due to following reasons:
- **Earning capacity:** Education confers higher earning capacity of people. As a result, poverty will come down.
 - **Innovation and scientific outlook:** Education enables the people to have scientific outlook. It facilitates adoption of new technologies and stimulates innovation.
 - **Better life:** Education gives better social standing and pride. It enables people to make better choices in life. It makes people to understand the changes taking place in a society. *(or any other relevant point)*
30. The situation depicted in the given image is unemployment. It is one of the primary concerns in the present world. A lot of people are dealing with unemployment. Some of the measures to solve unemployment problems are as follows:

- (a) **Population control:** Population is one of the major concerns associated with the unemployment rate. Therefore, the population rate must be checked, especially in rural areas where birth control methods and family planning considerations must be discussed more.
- (b) **Dealing with seasonal unemployment:** As agro-based and agriculture sectors provide only seasonal employment. Measures like multi-cropping, animal husbandry, horticulture and plantation should be adopted. Also, industries like the cotton industry should be promoted.
- (c) **Changes in the education system:** There is a need to change the present education system. It should emphasize vocational education rather than imparting static knowledge.
(or any other relevant point)

31. Some notable changes in regard to slowing down of Chinese GDP rate are:

- Slowdown in the global economies has dampened the demand for Chinese products.
- Growth of domestic demand is slowing down due to rising propensity to save in the Chinese economy.
- Corruption and economic crisis have tended to rise over time.
- Chinese people are now exploring higher wage opportunities of employment in the rest of the world where government intervention is minimum. (or any other relevant point)

32. (A) (i) False, as human capital and human development are different terms. Human capital and human development are inter-related concepts but they are not identical. While human capital refers to the stock of a nation's human skills and expertise at a particular point of time, human development refers to holistic development and well-being of a nation's human capital.
- (ii) False, as in India, elementary education takes a major share of total expenditure on education. Elementary education takes the highest major share of total expenditure and higher education is the least. Elementary education/primary education is the basic or the first level of education and hence, government emphasises on it more.

Or

- (B) The given statement is refuted. In rural areas, non-farm job opportunities are limited. People generally do not show preference to acquire skill and training for non-farm occupation. They prefer to stay on family farms and fields as self-employed. In rural areas, since majority of those depending on farming own plots of land and cultivate independently, the share of self-employed is greater. According to 2017-18 data, the share of self-employed in rural areas is 58% whereas casual ways workers account for just 29%.
33. (A) Prior to liberalisation, RBI used to regulate and control the financial sector that includes financial institutions like commercial banks, investment banks, stock exchange operations and foreign exchange market. With the economic liberalisation and financial sector reforms, RBI needed to shift its role from a controller to facilitator of the financial sector. This implies that the financial organisations were free to make

their own decisions on many matters without consulting the RBI. This opened up the gates of financial sectors for the private players. The main objective behind the financial reforms was to encourage private sector participation, increase competition and allowing market forces to operate in the financial sector. Thus, it can be said that before liberalisation, RBI was controlling the financial sector operations whereas in the post-liberalisation period, the financial sector operations were mostly based on the market forces.

(B) The points that qualify India to be the favourite spot for outsourcing by various MNCs are:

- (i) **Easy availability of cheap labour:** As the wage rates in India are comparatively lower than that of in the developed countries, MNCs find it economically feasible to outsource their business in India.
- (ii) **Cheap and abundant availability of raw material:** India is well enriched in natural resources. This ensures the MNCs cheap availability of raw material and undisturbed and perennial supply of raw materials. This enables proper and smooth operation of MNCs.
- (iii) **Favourable government policies:** The most important point that makes India as the most favourite spot for outsourcing is the favourable government and tax policies. MNCs gets various types of lucrative offers from the Indian government like tax holidays, low rate of tax, easy tax policies, etc. All these policies enable the MNCs to retain a major portion of their earnings in the form of savings that they can invest to grow and expand their business.
- (iv) **Reasonable degree of infrastructural investment:** Indian government has invested heavily in the past two decades in the infrastructural sector. Various steps have been taken for connecting remote and rural areas to the metropolitan and other major cities. This has not only reduced the cost of production of the MNCs but also helped them operate efficiently and effectively. (any three)

Or

(C) The principal components of IPR 1956 were:

- **Three fold classification of industries :** (a) Industries exclusively owned by the state. (b) Industries in which private sector could supplement the efforts of the state sector (c) remaining industries were to be in the private sector.
- **Industrial licensing:** This policy was used to promote industry in backward regions, i.e., to promote regional equality. No new industry could operate without a license obtained from the government.
- **Private entrepreneurs were offered many incentive** like tax relief, electricity at a lower tariff, etc., to establish their industry in the backward regions of the country.

(D) One cannot deny the fact that under the British rule, there was significant change in the infrastructural development in the country. But the bonafide motive of the British behind the infrastructure development was only to serve their own colonial interests.

There was infrastructural development in the fields of transport and communication. The roads served the purpose of facilitating transportation of raw materials from different parts of the country to ports, and ports were developed for easy and fast exports to and imports from Britain. Similarly, railways were introduced and developed for the transportation of finished goods of British industries to the interiors of India. Railways assisted British industries to widen the market for their finished products. Post and telegraphs were developed to enhance the efficiency and effectiveness of the British administration. Hence, the aim of infrastructural development was not the growth and development of the Indian economy but to serve their own interest.

34. (a) Ozone depletion refers to the phenomenon of reductions in the amount of ozone in the stratosphere. The problem of ozone depletion is caused by high levels of chlorine and bromine compounds in the stratosphere.
- (b) As a result of depletion of the ozone layer, more ultraviolet (UV) radiation comes to Earth and causes damage to living organisms. UV radiation seems responsible for skin cancer in humans; it also lowers production of phytoplankton and thus affects other aquatic organisms. It can also influence the growth of terrestrial plants.