

Answers to REC–DS2/Set-3

- (c) The value of the rupee against one dollar must be rising before the intervention.
- (a) Demand deposits with the commercial banks
- (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 = $1800 \times 10 = 18000$

- (c) Both statements 1 and 2 are true
- (c) Distribution
- (b) increase
- (b) Only (ii)
- (b) zero
- (d) ₹ 40,600

Working Note:

Equilibrium level of income (Y) is attained when,

$$S = I$$

$$-60 + 0.1Y = 4000$$

$$0.1Y = 4060$$

$$Y = \frac{4,060}{0.1} = 40,600$$

∴ Equilibrium level of income in the economy will be ₹ 40,600 crore.

- (c) Insurance
- The sources of supply of foreign exchange are:
 - Foreigners purchasing domestic goods, in terms of exports.
 - Foreigners buying the assets of the home country.
 - Foreign direct investment and portfolio investment in domestic country.
 - Foreign exchange speculative buying, that will lead to inflow of the foreign exchange.
 - Foreign tourists visiting various locations in domestic country. (any three)

12. (A) Value of Output = Sales + Change in Stock
 = 300 + (-10)
 = ₹ 290 crores

Gross Value Added at MP = Value of output – Purchase of intermediate goods
 = 290 – 150
 = ₹ 140 crores

Net Value Added at MP = GVP_{MP} – Depreciation
 = 140 – 20
 = ₹ 120 crores

Or

- (B) (i) Stock variable refers to any economic variable which is measured at a point of time. It does not call for a time dimension. For example, capital, money supply etc.
- (ii) Capital goods are those durable goods which are used for producing other goods. For example, building, machines, equipment etc.
- (iii) Negative externalities are the activities resulting in harm to others in the society. Thus, they decrease the welfare of the people. For example, industries produce goods but at the same time they create air and water pollution like Yamuna river.

13. (a) We know that,

$$Y = C + I \text{ where}$$

$$C = \bar{C} + MPC \cdot Y + I$$

$$\therefore Y = 500 + (0.4 \times 5,000) + I$$

$$5,000 = (500 + 2,000) + I$$

$$5,000 = 2,500 + I$$

$$\therefore I = 5,000 - 2,500 = ₹ 2,500$$

Therefore, Investment Expenditure (I) = ₹ 2,500

(b) We know that,

$$C = Y - I$$

$$= 5,000 - 2,500 = ₹ 2,500$$

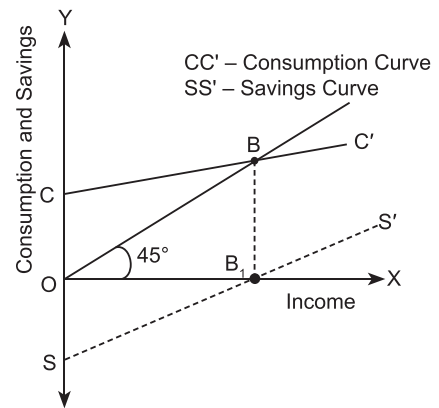
Therefore, Consumption Expenditure (C) = ₹ 2,500

14. The central bank adopts the bank rate policy as a quantitative technique to control credit in an economy. It is the rate at which commercial banks can borrow funds from Central Bank for a period of more than 90 days.

It works accordingly, when the bank rate is increased by RBI, it discourages commercial banks and people from taking loans. Thus, it decreases the credit multiplier and the money/credit flow is controlled in the economy. On the other hand, at times of credit crunch, RBI decreases the bank rate and this encourages commercial banks and people to take more loans due to low interest payments. This enhances the flow of credit in the economy.

15. (A) The steps involved in the derivation of the savings curve from the given consumption curve are:

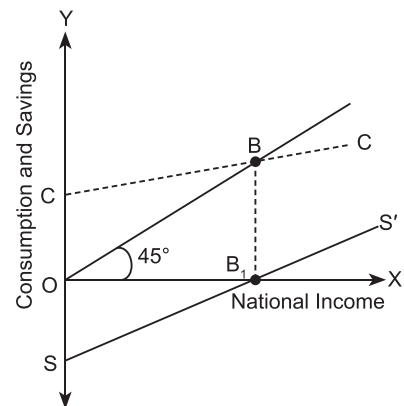
- (i) Take OS equals to OC on the OY axis.
- (ii) Draw a 45° line on OX axis from point O intersecting CC' at point B.
- (iii) Draw a perpendicular from point B to intersect the OX axis at point B₁.
- (iv) Join the points S and B₁ and extend the straight line upwards to derive the savings curve SS'.



Or

- (B) The steps involved in deriving a consumption curve from the saving curve are:

- (i) Draw a 45° line from the point of origin.
- (ii) SS' is the given savings curve.
- (iii) Take distance OC equal to OS on Y axis.
- (iv) Draw a perpendicular from point B₁ till it intersects the 45° line at point B.
- (v) Join points C and B and extend the same upwards to obtain the consumption curve CBC.



16. (A) (i) Fiscal deficit = Borrowings

$$= ₹ 15,000 \text{ crore}$$

(ii) Revenue deficit = Revenue expenditure – Revenue receipts

$$= 70,000 - 50,000$$

$$= ₹ 20,000 \text{ crores}$$

Interest payments = 25% of revenue deficit

$$= 20,000 \times \frac{25}{100}$$

$$= ₹ 5,000 \text{ crore}$$

Primary deficit = Fiscal deficit – Interest payments

$$= 15,000 - 5,000$$

$$= ₹ 10,000 \text{ crore}$$

(B) When the burden of tax and its liability to pay falls on the same person, it is known as direct tax. For example income tax.

Or

(C) 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.

(D) A fiscal deficit will not always result in inflation. If a situation arises when government expenditure increases and tax reduction is seen, it will cause a deficit in the government, which leads to an increase in aggregate demand. Firms will not be able to meet the demand thus generated, which will result in a price increase. Therefore, fiscal deficits can become inflationary, but they will not be inflationary in the case when resources are less utilised due

to insufficient demand and less output. Then, if the government is spending more also, more resources will be employed in order to meet the growing demand, and there will be no pressure on price rise. In such a situation, a high fiscal deficit, along with high demand and greater output, will not create an inflationary situation.

17. (a) (i) Payment of interest by a firm to a bank is included in the National Income because it is a factor payment.
- (ii) Payment of interest paid by a bank to an individual is included in National Income because it is a factor payment.
- (iii) Interest paid by an individual to a bank is not included in National Income as it is assumed that loan is taken for consumption purpose and therefore treated as transfer income.
- (b) 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. (b) Self-help Groups
19. (b) industries
20. (c) (i) and (iii)
21. (b) Pisciculture
22. (d) (ii) and (iii)
23. (b) India
24. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
25. (a) Mao Zedong
26. (c) Both statements 1 and 2 are true
27. (c) C – (iii)
28. (A) The condition of the industrial sector in India at the time of independence was as follows:
 - The handicraft industries were declining.
 - The colonial government wanted to systematically deindustrialise India to reduce to the status of a mere exporter of raw materials for the industries in Britain and turn India into a sprawling market for the finished products of those industries.
 - A few industries came up like cotton and jute textile mills, iron, and steel apart from manufacturing units.
 - Poor contribution of the industrial sector to the GDP.
 - Limited expansion of public sector industries. This sector was confined only to the railways, power generation, communications, ports, and some other departments.

Or

- (B) The year 1921 is regarded as the ‘Year of the Great Divide’. The significance of this year is as follows:
- Before 1921, India was in the first stage of demographic transition (*i.e.*, both the birth rate and death rate remained very high).
 - After 1921, India entered into the second stage of demographic transition characterised by a high birth rate but decreasing death rate.

29. 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.
30. It is true that the structure of growth is more complementary with the GDP growth in China than India. Historically, the structure of growth has shown a shift from the predominance of agriculture to the predominance of industry in GDP growth of the country. This process of transformation has seen a very effective absorption of the surplus labour force (in agricultural sector) by the industrial sector of the economy. China's growth story reveals a similar process of transformation. On the contrary, Indian growth story reveals that the predominance of agricultural sector (in GDP growth) has given way to the predominance of tertiary sector, rather than the industrial sector. While the percentage share of agriculture in GDP has tended to fall, the percentage share of tertiary sector has risen more significantly than the percentage share of the industrial sector. Thus, the structure of growth has been less complementary with the GDP growth in India (compared with China).
31. (A) (i) True, expenditure on health is an important determinant of human capital formation because the healthy population is always an asset for the country. Health facilities and services affect life expectancy, strength, stamina, and utility of the people. Expenditure on health directly increases the supply of healthy labour force.
- (ii) False, as vocationalisation is the core element of skill formation. Education continues to be largely degree-oriented throwing millions of educated youths down to the corridors of employment exchanges. Vocationalisation of education is still a far cry.

Or

(B) Economic growth implies growth in the GDP, *i.e.*, growth in the aggregate output produced during an accounting period within the domestic territory of an economy. During the recent past, India has witnessed jobless economic growth that raised the aggregate output level without the proportionate rise in the employment opportunities and, consequently, unemployment continued to exist. The reason is that the rise in GDP is caused by employing modern and improved technology that substituted labour for machines. This failed to generate new employment opportunities in the industrial and the tertiary sectors. As a result, disguised unemployment in the agricultural sector continued along with low levels of productivity and massive poverty. In addition to this MNCs aimed at achieving higher output levels by employing better technology rather than generating greater employment opportunities. Thus, employment generated in the country does not commensurate with the growth of GDP in India.

32. The given image depicts the situation of Unemployment in the economy. The following are the detrimental effects of unemployment over an economy:

- Leads to wastage of manpower resources
- Tends to increase economic overload
- Dependence of the unemployed on working population increases
- Quality of life adversely affected
- Unemployed turns into a liability
- There is feeling of hopelessness and despair among youth. (any three)

33. (A) Subsidy is an economic benefit, direct or indirect, granted by a government to domestic producers of goods or services, often to strengthen their competitive position against foreign companies. It helps farmers to buy HYV seeds, fertilizers and other inputs. The burden of granting subsidies falls on the government. The government has to bear the burden of financing subsidies. There is scope for improving the resource use efficiency by reducing subsidies and aiming them better to small farmers and regions lagging behind.

(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.

Or

(C) Though many public sector undertakings are incurring huge losses, they are still very useful in the areas of strategic concerns and hazardous chemicals. Public sector undertaking are required for:

- Creating a strong industrial base
- Development of infrastructure
- Development of backward areas
- Mobilising savings and earning foreign exchange
- Preventing concentration of economic power
- Promoting equality of income and wealth distribution
- Providing employment
- Promoting import substitution

(any four)

(D) The import substituting industrialisation was the objective of second five year plan (1956-61) till the seventh five year plan (till 1990). The Mahalanobis strategy of development was based on import substitution. The rationale of the import substitution strategy is based on infant industry argument. It helped to save foreign exchange by drastically reducing import of goods. The foreign exchange saved was to be used for the developmental imports such as capital goods, sophisticated technology, etc. It created a protected market and large demand for domestically produced goods.

34. (a) Environment-friendly means to be sustainable using the earth's resources, without causing damage to the environment. Being eco-friendly means living in a way that is not harmful to the environment. This way of life is becoming increasingly important, as we need to protect our planet from man-made damage.
- (b) The following practices can be adopted into our daily life to become more environmentally-friendly:
- When not in use, turn off all electrical appliances (such as televisions, water heaters, lights, fans, and air conditioners)
 - Instead of using convenient plastic products, use recyclable and environmentally beneficial alternatives
 - Use paper or cloth bags instead of polythene bags
 - Sorting garbage into biodegradable and non-biodegradable categories
 - Reducing the wastage of water by turning off the tap while brushing
 - Fixing any leaking taps or pipelines as soon as possible to avoid water waste
- (any four)*