

Answers to REC/Set 3

1. (b) (ii)
2. (c) Unit of account
3. (c) 6.5, 125
4. (c) Both statements 1 and 2 are true
5. (a) $C = 30 + 0.75 Y$

Working Note:

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

We know that,

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

Now, for consumption function

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

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

6. (d) Current transfers
7. (c) Both statements 1 and 2 are true
8. (a) ₹ 60 lakh crore

Working Note:

$$\begin{aligned} \text{Capital Account Balance} &= \text{FDI} + \text{FPI} + \text{ECB} \\ &= 35 + 15 + 10 \\ &= ₹ 60 \text{ lakh crore} \end{aligned}$$

9. (d) Assertion (A) is false but Reason (R) is true
10. (a) Increase
11. The amount of ₹ 10,000 received from parents is transfer income because it is a unilateral payment with no direct give-and-take. Akshay does not provide any productive service in return. Transfers are not payments for factors of production and are excluded from national income.
The amount of ₹ 5,000 earned from cafe job is factor income because it is earned by supplying labour to the cafe, *i.e.*, payment for a factor of production, so it is included in national income.
12. (A) The two types of transactions recorded in the Current Account of BOP are:
 - (a) **Exports and Imports of Goods (Visible Items):** These transactions involve the exchange of tangible, physical goods between the domestic economy and the rest of the world. Exports of goods result in inflow of foreign currency and are recorded as credit items in the BOP. Imports, on the other hand, involve payments to foreign countries, leading to an outflow of foreign currency, and are recorded as debit items.

(b) **Invisibles (Services, Transfers, and Income):** Invisibles refer to transactions that do not involve the transfer of physical goods but still lead to foreign exchange inflow or outflow. This includes services such as banking, shipping, IT, tourism, and insurance provided to or received from abroad, unilateral transfers like remittances sent by Indians working abroad to their families in India or donations received from foreign organisations and factor income such as wages earned by residents working abroad or investment income in the form of interest and dividends.

Or

(B) The two situations when reserves may be used are:

(a) **Sharp Depreciation of Domestic Currency:** If the value of domestic currency falls sharply in the foreign exchange market due to high demand for foreign currency or speculative activities, the central bank can intervene by selling foreign currency from its reserves. This increases the supply of foreign currency in the market, thereby reducing pressure on the domestic currency and preventing further depreciation.

(b) **Sudden Surge in Import Payments:** In certain situations, the import bill of a country may rise sharply due to sudden global price hikes of essential commodities like crude oil, natural gas, or food grains. This puts pressure on the balance of payments by increasing the outflow of foreign currency. In such cases, foreign exchange reserves are used to finance these essential imports without disrupting trade and domestic supply.

(or any other relevant point)

13. Given,

$$S = (-) 50 + 0.2 Y$$

$$Y = ₹ 2,000 \text{ crores}$$

$$\text{Consumption Expenditure} = ₹ 1,650 \text{ crores}$$

$$\text{Autonomous Investment} = ₹ 50 \text{ crores}$$

Now,

$$S = (-) 50 + 0.2 (2,000)$$

$$= - 50 + 400 = ₹ 350 \text{ crores}$$

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 functions of central bank indicated in the given image are:

(a) **Banker's Bank:** The Reserve Bank of India (RBI) acts as a bank to all commercial banks in the country. It accepts deposits from them, maintains their reserves, and facilitates inter-bank settlements. RBI also provides loans to commercial banks when they face a shortage of funds. By doing so, it ensures liquidity and stability in the banking system.

(b) **Issuing of currency:** The RBI has the sole authority to issue the currency notes in India, except for one-rupee notes and coins which are issued by the Ministry of Finance. The currency issued by the RBI is legal tender, meaning it must be accepted for payment within the country. This function ensures uniformity in currency supply, prevents counterfeiting, and maintains public confidence in the monetary system. By controlling the issuance of currency, the RBI can also regulate liquidity in the economy, which is essential for price stability and economic growth.

- (c) **Lender of Last Resort:** When no other institution is willing to lend to a bank or financial institution facing a crisis, the RBI steps in as the lender of last resort. This prevents bank failures from causing wider panic in the financial system. RBI provides emergency credit to ensure that banks can meet withdrawal demands from depositors.
- (d) **Government's Bank:** The RBI manages the banking needs of the central and state governments. It handles public debt, issues new loans on behalf of the government, and manages the issuance of government securities. RBI also acts as a debt manager and facilitates government transactions like tax collection and payments. (any two)

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) (i) GNP_{FC} by Income Method = (iii) + (iv) + (v) + (viii) + (vii) + (x)
= 400 + 800 + 250 + 150 + 60 + (-10)
= ₹ 1650 crores

- (ii) The given statement is refuted. Producer goods can be categorised as single-use producer goods (intermediate goods) and durable producer goods (capital goods). These goods are used for further production of goods and services. Intermediate goods are completely used up in the production process during the same year. Whereas, capital goods are used for more than one year. Thus, all producer goods are not essentially capital goods.

Or

(B) (i) National Income/ NNP_{FC} = (ii) + (iv) + (vii) - (viii) + (x) - (ix)
= 900 + 200 + 120 - 10 + (-10) - 150
= ₹ 1,050 crores

- (ii) The given statement is refuted. Consumption goods can be categorised as durable and non-durable. Non-durable consumption goods, such as food, have a shorter lifespan. Whereas durable consumption goods, like cars and home appliances, can be used over an extended period usually more than one year. Hence, not all consumption goods are durable in nature.

17. (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.
18. (c) Montreal
19. (a) Foreign Trade
20. (c) India generated large export surplus during the British rule.
21. (c) Assertion (A) is true but Reason (R) is false
22. (b) Female workers are more concentrated in the primary sector than male workers
23. (d) (i), (ii) and (iii)
24. (a) Expenditure on education
25. (a) A – (i)
26. (b) Organic
27. (b) Statement 1 is false and statement 2 is true
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) Farmers require credit for various purposes such as purchasing land, tools, fertilisers, seeds, and meeting personal expenses like marriage or religious ceremonies. Since there is a long gap between sowing and earning income from selling crops, they depend heavily on borrowing to meet immediate needs. However, high-interest loans and recurring borrowing cycles prevent them from repaying debts, often trapping them in a cycle of indebtedness. This has led to a growing number of landless labourers and worsening rural poverty. To solve this issue, it is necessary to provide farmers with low-interest credit and flexible repayment options.
29. Indiscriminate felling of trees has led to serious environmental issues by disturbing the natural balance. Trees help in maintaining the climate, controlling soil erosion, and supporting biodiversity. Their removal leads to deforestation, which causes loss of wildlife habitats, reduced rainfall, and disruption of the water cycle. The absence of trees increases carbon dioxide in the atmosphere, contributing to global warming and climate change. It also results in land degradation and increased vulnerability to floods and droughts. Hence, cutting trees without replanting or sustainable planning has damaging long-term environmental effects.
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. (a) Real per capita income has increased significantly from ₹ 7,651 in 1951 to ₹ 94,054 in 2018-21, showing remarkable growth in income levels.
- (b) Crude death rate declined from 25.1 per 1000 population in 1951 to 6.0 in 2018-21, and infant mortality rate reduced from 146 to 28 during the same period. This reflects substantial improvement in health services.
- (c) Life expectancy at birth for males rose from 37.2 years in 1951 to 68.6 years in 2018-21, while for females it increased from 36.2 years to 71.4 years. Thus, both genders show improved longevity, with females overtaking males.
- (d) Literacy rate increased considerably from 16.67% in 1951 to 78% in 2018-21, reflecting significant progress in educational development.
32. The given diagrams show that in urban areas, a large portion of workers (43%) are self-employed, followed by 42% regular salaried workers and 15% casual workers. In contrast, in rural areas, the majority of workers (56%) are self-employed, 35% are casual workers, and only 9% are regular salaried workers.

This indicates that rural workers are largely dependent on self-employment and casual work due to limited job opportunities in the organised sector. On the other hand, urban workers have relatively better access to regular salaried jobs, though self-employment also remains significant.

Conclusion: Rural employment is dominated by unorganised and insecure work, whereas urban employment shows a higher share of regular and secure jobs.

33. (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.

34. (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.
- (c) After partition, most of the good quality cotton-growing areas went to West Pakistan, leaving India with only 29% of the cotton-producing area and 409 mills, which caused a major shortage of raw cotton and recession in the industry.