

**Strictly Confidential: (For Internal and Restricted use only)**  
**Senior School Certificate Examination**  
**March 2019**  
**Marking Scheme – ECONOMICS (030)**  
**PAPER CODE – 58/4/1, 58/4/2, 58/4/3**

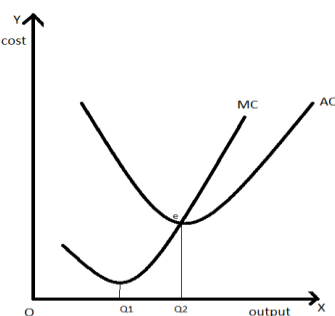
**General Instructions: -**

1. You are aware that evaluation is the most important process in the actual and correct assessment of the candidates. A small mistake in evaluation may lead to serious problems which may affect the future of the candidates, education system and teaching profession. To avoid mistakes, it is requested that before starting evaluation, you must read and understand the spot evaluation guidelines carefully. **Evaluation is a 10-12 days mission for all of us. Hence, it is necessary that you put in your best efforts in this process.**
2. Evaluation is to be done as per instructions provided in the Marking Scheme. It should not be done according to one's own interpretation or any other consideration. Marking Scheme should be strictly adhered to and religiously followed. **However, while evaluating, answers which are based on latest information or knowledge and/or are innovative, they may be assessed for their correctness otherwise and marks be awarded to them.**
3. The Head-Examiner must go through the first five answer books evaluated by each evaluator on the first day, to ensure that evaluation has been carried out as per the instructions given in the Marking Scheme. The remaining answer books meant for evaluation shall be given only after ensuring that there is no significant variation in the marking of individual evaluators.
4. If a question has parts, please award marks on the right-hand side for each part. Marks awarded for different parts of the question should then be totalled up and written in the left-hand margin and encircled.
5. If a question does not have any parts, marks must be awarded in the left hand margin and encircled.
6. If a student has attempted an extra question, answer of the question deserving more marks should be retained and the other answer scored out.
7. No marks to be deducted for the cumulative effect of an error. It should be penalized only once.
8. A full scale of marks **0-80** has to be used. Please do not hesitate to award full marks if the answer deserves it.
9. Every examiner has to necessarily do evaluation work for full working hours i.e. 8 hours every day and evaluate 25 answer books per day.
10. Ensure that you do not make the following common types of errors committed by the Examiner in the past:-
  - Leaving answer or part thereof unassessed in an answer book.
  - Giving more marks for an answer than assigned to it.
  - Wrong transfer of marks from the inside pages of the answer book to the title page.
  - Wrong question wise totalling on the title page.
  - Wrong totalling of marks of the two columns on the title page.
  - Wrong grand total.
  - Marks in words and figures not tallying.
  - Wrong transfer of marks from the answer book to online award list.
  - Answers marked as correct, but marks not awarded. (Ensure that the right tick mark is correctly and clearly indicated. It should merely be a line. Same is with the X for incorrect answer.)
  - Half or a part of answer marked correct and the rest as wrong, but no marks awarded.
11. While evaluating the answer books if the answer is found to be totally incorrect, it should be marked as (X) and awarded zero (0) Marks.
12. Any unassessed portion, non-carrying over of marks to the title page, or totaling error detected by the candidate shall damage the prestige of all the personnel engaged in the evaluation work as also of the Board. Hence, in order to uphold the prestige of all concerned, it is again reiterated that the instructions be followed meticulously and judiciously.
13. The Examiners should acquaint themselves with the guidelines given in the Guidelines for spot Evaluation before starting the actual evaluation.
14. Every Examiner shall also ensure that all the answers are evaluated, marks carried over to the title page, correctly totaled and written in figures and words.
15. In case of numerical questions, no marks should be awarded if only the final answer has been given, even if it is correct.
16. There should be no effort at 'moderation' of the marks by the evaluating teachers. The actual total marks obtained by the candidate may be of no concern to the evaluators.
17. Higher order thinking ability questions are for assessing a student's understanding / analytical ability.
18. For mere arithmetical errors, there should be minimal deduction. Only ½mark should be deducted for such an error.
19. The Board permits candidates to obtain photocopy of the Answer Book on request in an RTI application and also separately s a part of the re-evaluation process on payment of the processing charges.

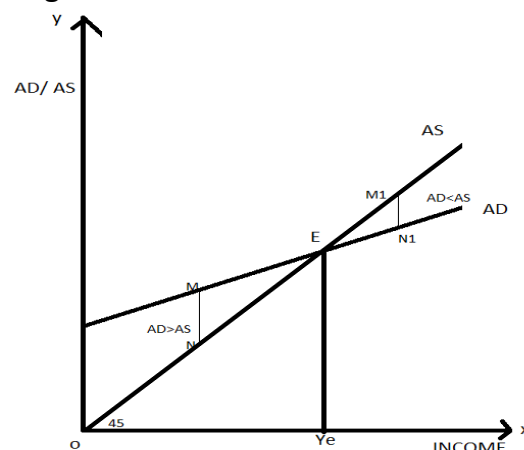
SET 1	SET 2	SET 3	Expected Answer / Value Points	MARKS DISTRIBUTION																					
			<b>SECTION A – MICRO ECONOMICS</b>																						
1	3	4	Parallel to X-Axis.	<b>1</b>																					
2	2	1	b) Increase in resources. <b>OR</b> MRT is declining	<b>1</b>																					
3	4	2	Examples of implicit cost: Imputed rent on owner’s land, Interest on owner’s capital. <b>(any other two relevant examples)</b> <b>OR</b> <u>Variable cost</u> :- cost incurred on those factor inputs which directly varies with the change in the level of output.	$\frac{1}{2}+\frac{1}{2}$  <b>1</b>																					
4	1	3	(c) Elastic supply.	<b>1</b>																					
5	-	-	<b>How to produce:</b> Due to the relative scarcity of resources, every economy has to face this problem, which deals with the choice of technique of production, i.e. labour intensive or capital intensive techniques. This problem is concerned with the efficient use of resource (labour or capital) so as to maximise the output at minimum possible cost.  <b>(to be marked as a whole)</b> <b>OR</b> a) Normative statement- it deals with a situation as it ‘ought to be’. b) Positive statement – it deals with a real life situation, justifiable by facts.  <b>(No marks to be awarded if reason not given)</b>	<b>3</b>     <b>1½+1½</b>																					
6	6	5	<table border="1"> <thead> <tr> <th>Quantity (in units)</th> <th>MU (Utils)</th> <th>TU (Utils)</th> </tr> </thead> <tbody> <tr> <td align="center">1</td> <td align="center">8</td> <td align="center">8</td> </tr> <tr> <td align="center">2</td> <td align="center">5</td> <td align="center">13</td> </tr> <tr> <td align="center">3</td> <td align="center">3</td> <td align="center">16</td> </tr> <tr> <td align="center">4</td> <td align="center">1</td> <td align="center">17</td> </tr> <tr> <td align="center">5</td> <td align="center">0</td> <td align="center">17</td> </tr> <tr> <td align="center">6</td> <td align="center">-1</td> <td align="center">16</td> </tr> </tbody> </table> <p><u>Relationship between total utility and Marginal Utility</u></p> <ul style="list-style-type: none"> <li>• Marginal utility falls but remains positive as long as total utility increases from 1<sup>st</sup> unit to 4<sup>th</sup> unit of consumption.</li> <li>• When marginal utility is Zero, total utility is maximum i.e. at 5<sup>th</sup> unit of consumption.</li> <li>• When marginal utility becomes negative, total utility starts falling but remains positive i.e. at 6<sup>th</sup> unit of consumption and beyond.</li> </ul> <p align="center"><b>(or any other relevant schedule with explanation)</b> <b>(to be marked as a whole)</b></p>	Quantity (in units)	MU (Utils)	TU (Utils)	1	8	8	2	5	13	3	3	16	4	1	17	5	0	17	6	-1	16	<b>3</b>
Quantity (in units)	MU (Utils)	TU (Utils)																							
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2	5	13																							
3	3	16																							
4	1	17																							
5	0	17																							
6	-1	16																							

7	9	9	Quantity (in units)	Marginal Revenue (in ₹)		Marginal Cost (in ₹)	2	
			1	20	=	20		
			2	20	>	10		
			3	20	>	6		
			4	20	>	4		
			5	20	=	20		
			6	20	<	30		
<p>Although MR = MC is equal at two different units purchase but the firm will be in equilibrium at 5 units of output as at this level of output both the conditions of firm's equilibrium are satisfied, i.e.</p> <p>1) MR is equal to MC (₹20) 2) MC is increasing after the point of equilibrium</p>							1 1	
8	8	7	Given					1 1 1 1 2 2
			$E_d = - 1.25$					
			Change in Price ( $\Delta P$ )= ₹4.					
			Percentage change in Price ( $\% \Delta P$ )= $\frac{4}{10} \times 100 = 40\%$					
			$E_d = \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in Price}}$ (ignoring minus sign)					
			Or $1.25 = \frac{\text{Percentage change in quantity demanded}}{40\%}$					
			Percentage change in quantity demanded = 1.25 (40%)					
			= 50% (fall in quantity demanded will be 50%)					
			OR					
			<p>a) <b>The given statement is false:-</b> A commodity with a number of alternative uses carries positive relation with the coefficient of price elasticity of demand. With the fall in the price of such a commodity the quantity demanded increases as people can put it for different uses.</p> <p>b) <b>The given statement is false:-</b> If the price of luxury goods increases, people may postpone its consumption. Hence the demand is elastic in nature.</p> <p style="text-align: center;"><b>(Any other relevant reason may also be given credit)</b></p>					
9	7	8	Price discrimination: it refers to selling the same good at different prices to different consumers. For example: a doctor may charge lesser fees from the poor and more fees from others.					2
			Product differentiation: In monopolistic competition products are differentiated on the basis of brand, size, colour etc. The firms in the market sell commodities which are close substitutes to each other. For example: Colgate, Pepsodent, Babul etc. in toothpaste					2

			<b>OR</b>	
			In perfect competition form of market a firm is a price taker as the equilibrium price is determined by the free market forces of demand and supply. Industry is the key role player in price determination and the firms have to accept the market price as they have insignificant share in the market and cannot influence the price determined by the industry.	<b>4</b>
			<b>( to be marked as a whole)</b>	
<b>10</b>	<b>11</b>	<b>12</b>	<p>a) <math>P_x Q_x + P_y Q_y = M</math>  <math>50.Q_x + 25.Q_y = 500</math></p> <p>b) Slope = <math>\frac{-P_x}{P_y} = \frac{50}{25} = -2</math></p> <p>c) <math>Q_x = \frac{M}{P_x} = \frac{500}{10} = 10</math> units of Good X.</p> <p>d) <math>Q_y = \frac{M}{P_y} = \frac{500}{50} = 10</math> units of Good Y. (since price of commodity Y has doubled)</p> <p style="text-align: center;"><b>OR</b></p> <p>The given partially statement is true. As the consumer will get stable equilibrium only when the following two conditions are satisfied:</p> <p>i) Slope of Indifference Curve is equal to the price ratio or <math>MRS_{XY} = \frac{P_x}{P_y}</math></p> <p>ii) <math>MRS_{xy}</math> must be diminishing.</p> <p>There may be following two situations that may arise:</p> <p>If <math>MRS_{xy} &gt; \frac{P_x}{P_y}</math> consumer is willing to pay more for commodity X than the price preventing in the market It will induce him to purchase more of X less of Good Y, which leads to decline of MRS. This will continue until <math>MRS_{xy} = \frac{P_x}{P_y}</math> vice – versa.</p> <p>It must be supported by the second condition i.e. MRS must diminish.</p> <p>Thus, the consumer will get stable equilibrium only when <math>MRS_{xy} = \frac{P_x}{P_y}</math> and Indifference curve is convex to the origin.</p> <p style="text-align: right;"><b>(To be marked as a whole)</b></p>	<b>1</b> <b>1</b> <b>2</b> <b>2</b>
<b>11</b>	<b>10</b>	<b>11</b>	<p><b>a) Perfect competition</b>  The feature stated here is <b>homogenous product</b> which means that all the producers in the industry must be producing and selling identical goods which are perfect substitutes of each other. Which keeps the price constant or uniform.</p> <p><b>b) Price floor:</b> Price fixed by the government at a higher level than the equilibrium price to support the interest of the producers.</p> <p>Consequence of price floor:-</p> <ul style="list-style-type: none"> <li>• Excess supply</li> <li>• Unsold stock with the producers.</li> </ul> <p style="text-align: right;"><b>(any other relevant consequence)</b></p>	<b>1</b> <b>2</b> <b>1</b> <b>2</b>

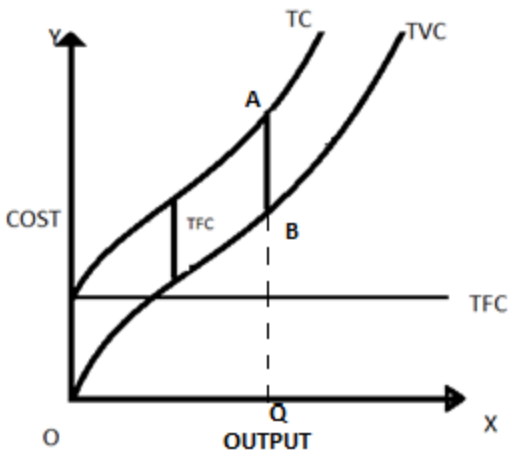
12	-	-	<p>a) Short run Marginal Cost (MC) curve is U shaped because of the application of the law of returns to a variable factor.</p> <p>b) i) When <math>MC &lt; AC</math>, AC decreases (this happens up to <math>Q_2</math> level of output)  ii) When <math>MC = AC</math>, AC is constant and at its minimum(at <math>Q_2</math> level of output)  iii) when <math>MC &gt; AC</math>, AC increases (beyond <math>Q_2</math> level of output)</p>  <p style="text-align: center;"><b>For blind candidates</b></p> <p>b) i) when <math>MC &lt; AC</math>, AC decreases.  ii) when <math>MC = AC</math>, AC is constant and at its minimum.  iii) when <math>MC &gt; AC</math>, AC increases.</p>	<p style="text-align: right;">2</p> <p style="text-align: right;">3</p> <p style="text-align: right;">1</p> <p style="text-align: right;">4</p>
<b>SECTION B – MACRO ECONOMICS</b>				
13	15	16	Demand deposits are deposits which are withdrawable at any time.	1
14	13	15	Fees, Fines, Penalties, Escheat etc. <p style="text-align: right;"><b>(any other relevant example)</b></p> <p style="text-align: center;"><b>OR</b></p> a) Non tax Revenue Receipts	<p style="text-align: right;">1</p> <p style="text-align: right;">1</p>
15	16	13	In case of a financial emergency faced by a bank, central bank is the only institution that can come to the rescue of the concerned bank. <p style="text-align: right;"><b>(any other relevant explanation)</b></p>	1
16	14	14	Measure to Control Revenue deficit: a) To reduce government administrative expenses. b) To reduce the burden of subsidy. c) To increase taxation. <span style="float: right;"><b>(any one of the relevant measure)</b></span>	1
17	17	17	Given, $APC=1$ , which means that income (Y) is equal to the consumption (C), i.e. $Y=C$ . $C = 40 + 0.8Y$ $Y = 40 + 0.8Y$ (since $Y=C$ ) $Y - 0.8Y = 40$ $0.2Y = 40$ $Y = ₹200$ crores <p style="text-align: center;"><b>OR</b></p> APC cannot be negative as even at zero level of income, there will be some minimum amount of consumption (i.e. autonomous consumption) for survival. While, APS can be negative because at zero level of income, there can be dis-savings.	<p style="text-align: right;">1</p> <p style="text-align: right;"><math>\frac{1}{2}</math></p> <p style="text-align: right;"><math>\frac{1}{2}</math></p> <p style="text-align: right;"><math>\frac{1}{2}</math></p> <p style="text-align: right;"><math>\frac{1}{2}</math></p> <p style="text-align: right;"><b><math>1\frac{1}{2} + 1\frac{1}{2}</math></b></p>

18			<p>Ex-ante savings are lesser than ex-ante investment (<math>S &lt; I</math>) means buyers are planning to buy more goods &amp; services as to what producers are planning to produce. It will lead to fall in planned inventories below the desired level. As a result the producers will increase production, leading to rise of income till savings becomes equal to investments.</p> <p style="text-align: right;"><b>(To be marked as a whole)</b></p>	3
19			<p>Reserve deposit ratio is the minimum reserves that a commercial bank must maintain as per the instructions of the central bank. Credit creation is inversely related to the reserve deposit ratio.</p> <p>For Example suppose the Reserve Ratio is 0.2 and initial deposit is ₹ 1000</p> <p>Total Credit Created = <math>\frac{1}{RR} \times \text{initial deposits} = \frac{1}{0.2} \times 1000 = ₹ 5,000</math></p> <p>Whereas, suppose LRR is 0.5 and initial deposit is ₹Rs. 1,000</p> <p>Total Credit Created = <math>\frac{1}{RR} \times \text{initial deposits} = \frac{1}{0.5} \times 1000 = ₹ 2,000</math></p> <p><b>Thus, increase in reserve deposit will decrease the credit creation power of the banking system.</b></p> <p style="text-align: right;"><b>(Any other relevant example)</b></p>	1 1 1 1
20	21	19	<p><b>Real GDP:</b> It is the market value of the final goods &amp; services produced within the domestic territory of a country during an accounting year, as estimated at the <u>base year prices</u>.</p> <p><b>Nominal GDP:</b> It is the market value of the final goods &amp; services produced with in domestic territory of a country during an accounting year, as estimated at the <u>current year prices</u>.</p> <p>Real GDP = <math>\frac{\text{Nominal GDP}}{\text{Price index}} \times 100</math></p> <p>Let Real GDP = ₹ 240, Price index = 120</p> <p>Nominal GDP = Real GDP <math>\times \frac{\text{Price Index}}{100}</math></p> <p>= <math>240 \times \frac{120}{100} = ₹ 288</math></p> <p style="text-align: right;"><b>(any alternative correct example must be marked)</b></p>	1 1 2
21	20	20	<p>Every government tries to reduce inequality of income among masses so as to ensure progress of the people with lesser monetary resources. Inequalities of income can be reduced either by rationalisation of taxation policy or regulating the expenditure policy of the government or both.</p> <p style="text-align: right;"><b>(to be marked as a whole)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>Through the budgetary policy, government allocates the resources of the economy. This may be in accordance with the economic and social priorities of the economy through the tax concessions/subsidies or directly producing goods and services.</p> <p style="text-align: right;"><b>(to be marked as a whole)</b></p> <p style="text-align: right;"><b>(or any other relevant explanation)</b></p>	4 4

22	24	24	<p>Effective Demand is that level of income where the Aggregate Demand (AD) is equal to the Aggregate Supply (AS).</p> <p><b>Schedule:</b> (all figures in ₹ crores)</p> <table border="1" data-bbox="335 212 1252 571"> <thead> <tr> <th>Income</th> <th>Consumption (C)</th> <th>Savings (S)</th> <th>Investments (I)</th> <th>Aggregate Demand (C+I)</th> <th>Aggregate Supply (C+S)</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>50</td> <td>-50</td> <td>100</td> <td>150</td> <td>0</td> </tr> <tr> <td>100</td> <td>100</td> <td>0</td> <td>100</td> <td>200</td> <td>100</td> </tr> <tr> <td>200</td> <td>150</td> <td>50</td> <td>100</td> <td>250</td> <td>200</td> </tr> <tr> <td><b>300</b></td> <td><b>200</b></td> <td><b>100</b></td> <td><b>100</b></td> <td><b>300</b></td> <td><b>300</b></td> </tr> <tr> <td>400</td> <td>250</td> <td>150</td> <td>100</td> <td>350</td> <td>400</td> </tr> <tr> <td>500</td> <td>300</td> <td>200</td> <td>100</td> <td>400</td> <td>500</td> </tr> </tbody> </table> <p>As the schedule above shows that, Effective Demand (AD=AS) is obtained at ₹ 300 crores level of income which is the equilibrium level of income.</p> <p style="text-align: center;"><b>OR</b></p> <p><b>Diagram</b></p>  <p>Explanation:</p> <p>The effective demand is established at 'E' where AD=AS. If the economy is facing MN situation where AD &gt; AS, the producers will be trying to produce more thereby moving towards equilibrium and vice-versa.</p>	Income	Consumption (C)	Savings (S)	Investments (I)	Aggregate Demand (C+I)	Aggregate Supply (C+S)	0	50	-50	100	150	0	100	100	0	100	200	100	200	150	50	100	250	200	<b>300</b>	<b>200</b>	<b>100</b>	<b>100</b>	<b>300</b>	<b>300</b>	400	250	150	100	350	400	500	300	200	100	400	500	<p>2</p> <p>3</p> <p>1</p> <p>3</p> <p>1</p>
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23	-	-	<p>a) <u>Net Factor Income from Abroad</u> – It is the excess of factor incomes (rent, wages, interest, profit) earned from abroad over factor incomes (rent, wages, interest, profit) paid to abroad, <b>whereas;</b></p> <p><u>Net export</u> - refers to the excess of the value of exports over the value of imports of a country in an accounting year.</p> <p>b) <math>GDP_{MP} = NDP_{FC} + \text{Depreciation} + \text{Net indirect tax}</math></p> <p>(i) = (vii) + (ii) + [(iv) + (vi) + Rent] + (viii) + [(ix)-(iii)]</p> <p><math>18000 = (6000+7000+(800+975+\text{Rent}) + 1000+ (2000-250)</math></p> <p><math>18000 = 17525 + \text{Rent}</math></p> <p><math>\text{Rent} = ₹475 \text{ crores}</math></p>	<p>1 ½</p> <p>1 ½</p> <p>1 ½</p> <p>1</p> <p>½</p> <p>½</p>																																										

24	22	23	<p>a) Two factors responsible for inflow of the foreign currency are:</p> <p>i) Investments from abroad.</p> <p>ii) Export of goods &amp; services</p> <p style="text-align: right;"><b>(or any other relevant point)</b></p> <p>b) i) Interest on Loan received from Nepal - It will be recorded on the <b>credit side of the current account</b> as it brings in funds to the country.</p> <p>ii) Import of mobile phones from China - It will be recorded in the <b>debit/payment side of the current account</b> as it represents outflow of the foreign currency through visible imports.</p> <p style="text-align: center;"><b>OR</b></p> <p>a)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; padding: 5px;"> <ul style="list-style-type: none"> <li>• <b>Autonomous transaction</b> are the transactions which are undertaken for some economic motives.</li> </ul> </td> <td style="width: 50%; padding: 5px;"> <ul style="list-style-type: none"> <li>• <b>Accommodating transaction</b> are the transactions which are undertaken to restore BOP balance.</li> </ul> </td> </tr> <tr> <td style="padding: 5px;"> <ul style="list-style-type: none"> <li>• <b>Causes imbalance in BoP</b></li> </ul> </td> <td style="padding: 5px;"> <ul style="list-style-type: none"> <li>• <b>Restore balance in BoP</b></li> </ul> </td> </tr> </table> <p style="text-align: center;"><b>(Or any other valid difference)</b></p> <p>b)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%; padding: 5px;"><b>Depreciation of currency</b></th> <th style="width: 50%; padding: 5px;"><b>Devaluation of currency</b></th> </tr> </thead> <tbody> <tr> <td style="padding: 5px;">Fall in the external value of a currency due to the change in demand and supply of the currency in the foreign exchange market.</td> <td style="padding: 5px;">Fall in the external value of a currency as notified by the government of the country.</td> </tr> </tbody> </table> <p style="text-align: center;"><b>(Or any other valid difference)</b></p>	<ul style="list-style-type: none"> <li>• <b>Autonomous transaction</b> are the transactions which are undertaken for some economic motives.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Accommodating transaction</b> are the transactions which are undertaken to restore BOP balance.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Causes imbalance in BoP</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Restore balance in BoP</b></li> </ul>	<b>Depreciation of currency</b>	<b>Devaluation of currency</b>	Fall in the external value of a currency due to the change in demand and supply of the currency in the foreign exchange market.	Fall in the external value of a currency as notified by the government of the country.	<p style="text-align: right;"><b>2</b></p> <p style="text-align: right;"><b>2</b></p> <p style="text-align: right;"><b>2</b></p> <p style="text-align: right;"><b>4</b></p> <p style="text-align: right;"><b>2</b></p>
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<b>SET 2 – UNCOMMON QUESTIONS</b>												
-	<b>5</b>	<p>- The central problem of <b>‘for whom to produce’</b> relates to the distribution of income among the different factor inputs. Goods and services are produced for those who have the capacity to pay. Capacity of the people to pay for goods depends upon their level of income which, in turn, depends on the market conditions of demand and supply of the factor inputs.</p> <p style="text-align: right;"><b>(to be marked as a whole)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>a) Normative statement- it deals with a situation as it ‘ought to be’.</p> <p>b) Positive statement – it deals with a real life situation, justifiable by facts.</p> <p style="text-align: center;"><b>(No marks to be awarded if reason not given)</b></p>	<p style="text-align: right;"><b>3</b></p> <p style="text-align: right;"><b>1 ½</b></p> <p style="text-align: right;"><b>1 ½</b></p>									
-	<b>12</b>	<p>a) Total Fixed Cost (TFC) curve is parallel to x-axis as TFC remains constant at all levels of output produced. At zero level of output also, it remains the same.</p> <p>b) Relationship between Average Variable Cost(AVC) and Marginal Cost(MC):</p> <p>i) As long as AVC curve falls, MC lies below AVC curve (this happens upto Q2 level of output)</p> <p>ii) MC = AVC when AVC is minimum (at Q2 level of output).</p> <p>iii) When AVC begins to rise, MC becomes greater than AVC (beyond Q2 level of output).</p>	<p style="text-align: right;"><b>2</b></p> <p style="text-align: right;"><b>3</b></p>									

			<p><b>For visually impaired candidates: (diagram not required)</b></p> <p>Relationship between Average Variable Cost(AVC) and Marginal Cost( MC):</p> <ul style="list-style-type: none"> <li>• As long as AVC curve falls, MC lies below AVC curve</li> <li>• MC = AVC when AVC is minimum.</li> <li>• When AVC begins to rise, MC becomes greater than AVC.</li> </ul>	1  4
-	18	-	<p>When ex-ante Aggregate Demand is greater than ex-ante Aggregate Supply (AD&gt;AS), buyers are planning to, buy more goods and services than what producers are planning to produce. It will lead to fall in planned inventories below the desired level. The producers in turn will produce more, which will raise the income level i.e. AS, till AD becomes equal to AS.</p> <p style="text-align: right;"><b>(To be marked on the whole)</b></p>	3
-	19	-	<p>Reserve deposit ratio is the minimum reserves that a commercial bank must maintain as per the instructions of the central bank. Credit creation is inversely related to the reserve deposit ratio.</p> <p>For Example, suppose LRR is 0.5 and initial deposit is ₹1,000</p> $\text{Total Credit Created} = \frac{1}{RR} \times \text{initial deposits} = \frac{1}{0.5} \times 1000 = ₹ 2,000$ <p>Whereas, suppose the Reserve Ratio is 0.2 and initial deposit is ₹ 1000</p> $\text{Total Credit Created} = \frac{1}{RR} \times \text{initial deposits} = \frac{1}{0.2} \times 1000 = ₹ 5,000$ <p><b>Thus, decrease in reserve deposit will increase the credit creation power of the banking system.</b></p> <p style="text-align: right;"><b>(Any other relevant example)</b></p>	1  1  1  1
-	23	-	<p>a) <u>Net export</u> - refers to the excess of the value of exports over the value of imports of a country in an accounting year, <b>whereas;</b></p> <p><u>Net Factor Income from Abroad</u> – It is the excess of factor incomes (rent, wages, interest, profit) earned from abroad over factor incomes (rent, wages, interest, profit) paid to abroad.</p> <p>b) <math>GDP_{MP} = NDP_{FC} + \text{Depreciation} + \text{Net indirect tax}</math></p> $(v) = (vi) + (viii) + [(iii)+(ix) + \text{interest}] + (iv) + [(i) - (ii)]$ $17,500 = (9,300+3,500+1,100+800+\text{interest}) + 700 + (1,500-700)$ $17,500 = 16,200 + \text{Interest}$ $\text{Interest} = ₹ 1,300 \text{ crores}$	$1\frac{1}{2}$  $1\frac{1}{2}$  $1\frac{1}{2}$  $\frac{1}{2}$  $\frac{1}{2}$  $\frac{1}{2}$

<b>SET 3 – UNCOMMON QUESTIONS</b>				
-	-	<b>6</b>	<p>The problem of 'what to produce' relates to the choice of goods for production. For example choice between capital goods and consumer goods, between war time goods and peace time goods. The actual quantity of two possible goods would ultimately depend upon the market conditions of demand and supply for each of the goods.</p> <p style="text-align: right;"><b>(to be marked as a whole)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>a) Positive statement – it deals with a real life situation, justifiable by facts.</p> <p>b) Normative statement- it deals with a situation as it 'ought to be'.</p> <p style="text-align: center;"><b>(No marks to be awarded if reason not given)</b></p>	<p><b>3</b></p> <p><b>1 ½</b></p> <p><b>1 ½</b></p>
-	-	<b>10</b>	<p>a) Average Cost Curve is U shaped in accordance with the law of returns to a variable factor. It tends to fall owing to increasing returns to a factor and finally it tends to rise owing to diminishing returns to the factor.</p> <p>b) Relationship between Total Cost (TC) curve, Total Variable Cost (TVC) Curve and Total Fixed cost (TFC) curve.</p> <p>i) TC and TVC curves increase with an increase in the level of output. Both are inverted 'S' shaped curves.</p> <p>ii) TFC is a straight line parallel to X-axis.</p> <p>iii) The vertical gap between TC and TVC is represented by TFC which remains constant with an increase in the level of output.</p>	<p><b>2</b></p> <p><b>3</b></p>
			 <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 10px auto;"> <math display="block">TC = TFC + TVC</math> <math display="block">AQ = AB + BQ</math> </div>	<p><b>1</b></p>
			<p style="text-align: center;"><b>Visually impaired candidates (diagram not required)</b></p> <p>Relationship between Total Cost (TC) curve, Total Variable Cost (TVC) Curve and Total Fixed cost (TFC) curve.</p> <ul style="list-style-type: none"> <li>• TC and TVC curves increase with an increase in the level of output. Both are inverted 'S' shaped curves.</li> <li>• TFC is a straight line parallel to X-axis.</li> <li>• The vertical gap between TC and TVC is represented by TFC which remains constant with an increase in the level of output.</li> </ul>	<p><b>4</b></p>

-	-	18	If ex-ante savings are more than ex-ante investments then aggregate expenditure will decrease in the economy. Accordingly, aggregate expenditure in the economy would be less than what is needed to buy the planned output. Some output would remain unsold, and producers will have unintended stock. To clear the stock, producer will plan lesser output. This means fallen income and resulting fall in savings. This process would continue till S = I.	3																																
-	-	21	<p>The process of credit creation is based on the following assumptions</p> <p>i) There is single banking system in the economy. ii) All transactions are routed through banks.</p> <p><b>Working of the credit creation process:</b></p> <p><b>Total credit creation = money multiplier(m) X initial deposits</b></p> $= \frac{1}{LRR} \times \text{initial deposits}$ <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th>Deposits</th> <th>Loans</th> <th>Legal Reserves</th> </tr> </thead> <tbody> <tr> <td>New</td> <td>10,000</td> <td>9,000</td> <td>1,000</td> </tr> <tr> <td>Next round</td> <td>9,000</td> <td>8,100</td> <td>900</td> </tr> <tr> <td>Next round</td> <td>8,100</td> <td>7,290</td> <td>810</td> </tr> <tr> <td>-</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>-</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>-</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td></td> <td style="border-top: 1px solid black; border-bottom: 3px double black;">1,00,000</td> <td style="border-top: 1px solid black; border-bottom: 3px double black;">90,000</td> <td style="border-top: 1px solid black; border-bottom: 3px double black;">10,000</td> </tr> </tbody> </table> <p>Since LRR is 10%, banks keep ₹ 1,000 as reserves and give loans of ₹ 9000 which ultimately comes back to bank as deposits. Out of these ₹ 9000 banks keep 10% i.e. ₹900 crore as reserves and gives loans worth ₹8100. In this way in every round 80% of the loans are converted into deposits totalling to ₹100000. The rule is :</p> $\begin{aligned} \text{Total deposit creation} &= \text{New deposits} \left( \frac{1}{LRR} \right) \\ &= 10,000 \left( \frac{1}{10\%} \right) \\ &= ₹1,00,000 \end{aligned}$ <p style="text-align: right;"><b>(To be marked as a whole)</b> <b>(any other example will be marked)</b></p>		Deposits	Loans	Legal Reserves	New	10,000	9,000	1,000	Next round	9,000	8,100	900	Next round	8,100	7,290	810	-	-	-	-	-	-	-	-	-	-	-	-		1,00,000	90,000	10,000	4
	Deposits	Loans	Legal Reserves																																	
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-	-	22	<p>a) <b>Value of Output is the market value of goods and services produced by a firm during an accounting year.</b></p> <p style="text-align: center;">Value of Output = Sales + Δ stock</p> <p><b>Whereas; Value addition is the difference between value of output and intermediate consumption</b></p> <p>Value added = Value of output – Intermediate Consumption</p> <p>b) <math>GDP_{MP} = (i) + [(ix) + (ii) + (viii)] + \text{Mixed Income of Self employed} + (iii) + (vii-v)</math></p> $500 = 17,300 + (2000+ 1200 + 1800) + \text{Mixed Income} +1100 +(2100-750)$ <p style="text-align: center;">Mixed Income = ₹2,750crores</p>	<p>1 ½</p> <p>1½</p> <p>1½</p> <p>1</p> <p>½</p>																																

