

**CBSE CLASS 12**  
**ANSWER KEY (SET-3)**  
**Subject: Economics**

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**SECTION A – MACROECONOMICS**

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**Part A – MCQs (Answers)**

1. (b) NNP at Factor Cost
  2. (c) 4
  3. (c) Wheat used for making flour
  4. (b) Commercial Banks
  5. (c) Borrowings
  6. (c) Increase imports
  7. (c) Increase in money supply
  8. (a) M1
  9. (a) MPC
  10. (c) Borrowing
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**Part B – Short Answer**

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**11. Net Domestic Product (NDP)**

**Meaning:**

Net Domestic Product refers to the total value of final goods and services produced within the domestic territory of a country during a year after deducting depreciation.

**Formula:**

**NDP = GDP – Depreciation**

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## 12. Objectives of Government Budget

### (i) Reallocation of Resources

To reduce inequalities and promote social welfare.

### (ii) Economic Stability

To control inflation and deflation in the economy.

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## 13. Difference between Fixed and Flexible Exchange Rate

### Fixed Exchange Rate

Determined by government

Stable

Requires foreign reserves

### Flexible Exchange Rate

Determined by market forces

Fluctuates

No direct intervention

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## 14. Marginal Propensity to Consume (MPC)

### Meaning:

MPC refers to the proportion of additional income that is spent on consumption.

### Formula:

$$\text{MPC} = \Delta C / \Delta Y$$

Value of MPC lies between 0 and 1.

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## Part C – Short Answer

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### 15. Problem of Double Counting

#### Meaning:

Double counting refers to counting the value of intermediate goods more than once while calculating national income.

#### How it is Avoided:

1. Use Value Added Method
  2. Include only final goods
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## 16. Difference between Direct and Indirect Taxes

### Direct Taxes

Paid directly by taxpayer

Example: Income tax

Burden cannot be shifted

### Indirect Taxes

Shifted to others

Example: GST

Burden can be shifted

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## 17. Functions of Commercial Banks

1. Accept deposits
  2. Provide loans
  3. Credit creation
  4. Agency functions
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## Part D – Long Answer

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### 18. Determination of Equilibrium Income (Savings–Investment Approach)

#### Meaning:

Equilibrium income is determined where Savings (S) equals Investment (I).

#### Explanation:

- If  $S > I \rightarrow$  Income falls
- If  $S < I \rightarrow$  Income rises
- Equilibrium occurs at  $S = I$

#### Diagram (Exam Representation):

Savings curve intersects Investment curve at equilibrium point E.

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### **19. Measures to Reduce Fiscal Deficit**

1. Increase tax revenue
  2. Reduce unnecessary expenditure
  3. Disinvestment
  4. Control subsidies
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## **SECTION B – INDIAN ECONOMIC DEVELOPMENT**

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### **Part A – MCQs (Answers)**

20. (b) Agriculture
  21. (b) Milk
  22. (b) Calorie intake
  23. (c) Tertiary
  24. (b) Sale of government shares
  25. (d) All of these
  26. (b) Agriculture and rural development
  27. (b) Free trade
  28. (b) Liberalisation
  29. (a) Agriculture
  30. (c) Health, Education and Income
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### **Short Answer**

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### **31. Objectives of New Economic Policy 1991**

1. Liberalisation
2. Privatisation
3. Globalisation

4. Increase efficiency
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### **32. Causes of Rural Poverty**

1. Low agricultural productivity
  2. Lack of employment opportunities
  3. Illiteracy
  4. Poor infrastructure
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### **33. Importance of Small Scale Industries**

1. Employment generation
  2. Balanced regional development
  3. Export promotion
  4. Low capital requirement
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### **34. Sustainable Development**

Development that meets present needs without harming future generations.

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## **Long Answer**

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### **35. Achievements and Limitations of Green Revolution**

#### **Achievements:**

1. Increased food production
2. Self-sufficiency in food grains
3. Improved farmer income

#### **Limitations:**

1. Regional imbalance
2. Environmental degradation
3. Increased inequality

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### **36. Role of Infrastructure in Indian Economy**

1. Promotes economic growth
2. Supports industrialisation
3. Improves living standards
4. Attracts foreign investment

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### **37. Types of Unemployment and Government Measures**

#### **Types:**

1. Seasonal
2. Disguised
3. Structural
4. Educated unemployment

#### **Government Measures:**

1. MGNREGA
2. Skill development programmes
3. Industrial growth policies