

CBSE CLASS 12
ANSWER KEY (SET-4)
Subject: Economics

SECTION A – MACROECONOMICS

Part A – MCQs (Answers)

1. (b) GDP at MP – Indirect Taxes + Subsidies
 2. (d) All of these
 3. (c) Car purchased by household
 4. (b) RBI lending to banks
 5. (b) Total Expenditure – Total Receipts (excluding borrowings)
 6. (c) Balanced
 7. (b) Decrease money supply
 8. (b) Income and Consumption
 9. (c) Export of goods
 10. (b) Independent of income
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Part B – Short Answer

11. National Disposable Income

Meaning:

National Disposable Income refers to the income available to the residents of a country for consumption and saving.

Formula:

National Disposable Income = National Income + Net Current Transfers from Abroad

12. Instruments of Monetary Policy

(i) Repo Rate

Rate at which RBI lends money to commercial banks. Increase in repo rate reduces money supply.

(ii) Open Market Operations

Buying and selling of government securities to control money supply.

13. Difference between Inflationary Gap and Deflationary Gap

Inflationary Gap

$AD > AS$ at full employment

Leads to inflation

Excess demand

Deflationary Gap

$AD < AS$ at full employment

Leads to unemployment

Deficient demand

14. Components of Aggregate Demand

Aggregate Demand (AD) = $C + I + G + (X - M)$

1. Consumption (C)
 2. Investment (I)
 3. Government Expenditure (G)
 4. Net Exports (X - M)
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Part C – Short Answer

15. Circular Flow of Income in Three-Sector Economy

Three sectors: Households, Firms and Government.

- Households provide factors to firms.
- Firms pay wages, rent, interest and profit.

- Government collects taxes and provides public services.

Money flows in circular manner between these sectors.

16. Difference between Revenue Expenditure and Capital Expenditure

Revenue Expenditure	Capital Expenditure
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Day-to-day expenses	Long-term asset creation
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Does not create assets	Creates assets
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Example: Salaries	Example: Infrastructure
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17. Precautionary and Speculative Demand for Money

Precautionary Demand

Money kept for unforeseen contingencies like illness or accidents.

Speculative Demand

Money kept to take advantage of changes in bond prices and interest rates.

Part D – Long Answer

18. Calculation of National Income by Income Method

Meaning:

Income Method sums up all factor incomes earned by factors of production.

Steps:

1. Identify factor incomes (wages, rent, interest, profit).
2. Add mixed income of self-employed.
3. Add Net Factor Income from Abroad (if calculating National Income).

Formula:

National Income = Compensation of Employees + Rent + Interest + Profit + Mixed Income + NFIA

19. Fiscal Policy Measures to Control Inflation

1. Increase taxes
2. Reduce government expenditure
3. Increase public borrowing
4. Reduce fiscal deficit

These measures reduce aggregate demand and control inflation.

SECTION B – INDIAN ECONOMIC DEVELOPMENT

Part A – MCQs (Answers)

20. (b) Second Plan
 21. (b) Punjab & Haryana
 22. (b) Poverty line
 23. (c) Banking
 24. (c) Transfer of ownership to private sector
 25. (b) Health
 26. (b) 1995
 27. (d) All of these
 28. (b) PMRY
 29. (b) Global integration
 30. (c) UNDP
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Short Answer

31. Objectives of Five Year Plans

1. Economic growth

2. Self-reliance
 3. Reduction of poverty
 4. Modernisation
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32. Causes of Urban Unemployment

1. Migration from rural areas
 2. Slow industrial growth
 3. Lack of skills
 4. Population growth
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33. Role of Foreign Trade in Economic Development

1. Earns foreign exchange
 2. Promotes economic growth
 3. Encourages competition
 4. Access to advanced technology
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34. Human Capital Formation

Investment in education, health and skill development to improve productivity of workforce.

Long Answer

35. Features and Impact of New Economic Policy 1991

Features:

1. Liberalisation
2. Privatisation
3. Globalisation

Impact:

1. Increased foreign investment
 2. Higher competition
 3. Economic growth
 4. Integration with world economy
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36. Poverty Alleviation Programmes in India

1. MGNREGA
2. PMRY
3. National Food Security Act
4. Self Help Groups

These programmes aim to reduce poverty and generate employment.

37. Structural Changes in Indian Economy after Reforms

1. Growth of service sector
2. Decline in agricultural share in GDP
3. Increase in foreign trade
4. Rise in private sector participation