

CBSE CLASS 12
ANSWER KEY (SET-5)
Subject: Economics

SECTION A – MACROECONOMICS

Part A – MCQs (Answers)

1. (a) GDP + NFIA
 2. (c) Increases
 3. (d) Depreciation
 4. (b) Rate at which RBI lends to banks
 5. (a) Fiscal deficit – Interest payments
 6. (b) Trade surplus
 7. (c) Income
 8. (b) Deflationary gap
 9. (a) C/Y
 10. (b) Capital receipts
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Part B – Short Answer

11. Net National Product at Factor Cost (NNP at FC)

Meaning:

NNP at FC refers to the total value of final goods and services produced by the residents of a country during a year, after deducting depreciation and indirect taxes, and adding subsidies.

Formula:

$NNP \text{ at FC} = GNP - \text{Depreciation} - \text{Indirect Taxes} + \text{Subsidies}$

12. Functions of Central Bank

(i) Issue of Currency

The Central Bank has the sole authority to issue currency notes.

(ii) Banker's Bank

Commercial banks keep their reserves with the Central Bank and borrow from it when required.

13. Difference between Revenue Deficit and Primary Deficit

Revenue Deficit

Revenue Expenditure – Revenue Receipts

Indicates current income shortfall

Primary Deficit

Fiscal Deficit – Interest Payments

Shows borrowing excluding interest burden

14. Investment Multiplier

Meaning:

Multiplier shows how much national income increases due to increase in investment.

Formula:

$$K = 1 / (1 - MPC)$$

OR

$$K = 1 / MPS$$

Working:

Increase in investment → Increase in income → Increase in consumption → Further increase in income.

Part C – Short Answer

15. Full Employment Equilibrium

Full employment equilibrium occurs when Aggregate Demand equals Aggregate Supply at full employment level.

At this level, no involuntary unemployment exists.

16. Difference between Fixed and Flexible Exchange Rate

Fixed Exchange Rate	Flexible Exchange Rate
Determined by government	Determined by demand & supply
Stable	Fluctuates
Requires intervention	Market based

17. Components of Money Supply (M1)

M1 = Currency held by public + Demand deposits + Other deposits with RBI

It is also known as narrow money.

Part D – Long Answer

18. Determination of Income and Employment (AD-AS Model)

Meaning:

Equilibrium income is determined where $AD = AS$.

Explanation:

- If $AD > AS \rightarrow$ Inflation
- If $AD < AS \rightarrow$ Deflation
- Intersection point gives equilibrium income.

(Draw AD and AS curves intersecting at equilibrium point E.)

19. Fiscal Policy Measures to Reduce Deflation

1. Increase government expenditure
2. Reduce taxes

3. Increase transfer payments
4. Encourage public investment

These measures increase aggregate demand.

SECTION B – INDIAN ECONOMIC DEVELOPMENT

Part A – MCQs (Answers)

20. (b) Self-reliance
 21. (a) Fisheries
 22. (b) Depth of poverty
 23. (b) Manufacturing
 24. (a) Removing restrictions
 25. (b) Infant Mortality Rate
 26. (a) Free flow of goods and services
 27. (b) Rural credit
 28. (b) Planning Commission
 29. (b) Skill mismatch
 30. (c) Health, Education and Income
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Short Answer

31. Achievements of Green Revolution

1. Increased food grain production
 2. Self-sufficiency in food
 3. Improved farmer income
 4. Use of modern technology
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32. Causes of Rural Unemployment

1. Seasonal nature of agriculture
 2. Lack of rural industries
 3. Population pressure
 4. Low agricultural productivity
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33. Importance of Human Capital

1. Increases productivity
 2. Promotes economic growth
 3. Encourages innovation
 4. Improves living standards
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34. Sustainable Development

Development that meets present needs without harming future generations.

Examples:

1. Use of renewable energy
 2. Water conservation
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Long Answer

35. Features and Impact of Economic Reforms 1991

Features:

1. Liberalisation
2. Privatisation
3. Globalisation

Impact:

1. Increased foreign investment
2. Growth of service sector

3. Improved competition
 4. Integration with world economy
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36. Major Poverty Alleviation Programmes

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

These programmes aim to reduce poverty and generate employment.

37. Role of Agriculture in Indian Economy

1. Provides employment
2. Supplies raw materials
3. Contributes to GDP
4. Ensures food security