CBSE Class 12 2022 Economics Set 2 - 58/5/2 Answer Key

Question 1

'Consumption function curve of an involuntary unemployed workers start from some positive level on Y-axis even at zero level of Income'.
Justify the given statement.

SOLUTION:

Consumption function curve of an involuntary unemployed worker starts with some positive level on the Y-axis even at zero level of income because there is always some consumption when income is zero. A person can fulfill at least his/her basic needs even with zero income. This consumption is called autonomous consumption.

Question 2

'Health is a yardstick of human well-being'.
Justify the given statement with valid explanation.

SOLUTION:

Health means not only being free from diseases but also being a sound person physically or mentally. A healthy person can contribute more to society. The healthier a person is, the better their well-being is. Thus health measures the well-being of humans. There are various factors that indicate a healthy nation. Some of them are infant mortality rate, life expectancy, nutritional level, removal of disease like polio, hepatitis etc.

Question 3

"In an economy, the autonomous consumption is ₹100 and Marginal Propensity to Consume (MPC) is 0.6. If the equilibrium level of Income is 2,000, then the autonomous investment is ₹300."

Justify the statement with valid calculation.

OR

An Economy is in equilibrium, calculate the Marginal Propensity to Save (MPS) from the following:

(i)   National Income (Y)   =   ₹4,400
(ii) Autonomous Consumption $(\bar{c})$ =   ₹1,000
(iii) Investment Expenditure (I)   =   ₹70

SOLUTION:

At equilibrium level of national income.
National Income (Y) = Consumption (C) + Investment (I)
$Y = C + I$ .....(1)
and,
Consumption Expenditure = Autonomous Consumption + (MPC × National Income)
$C = \bar{c} + by$
$\therefore C = 100 + 0.6(2000)$
$\quad C = 100 + 1200$
$\quad C = ₹1300$
Putting it in eg (1)
$Y \neq C + I$
$2000 \neq 1300 + 300$
$2000 \neq 1600$
Hence, the given statement is incorrect.

OR

At equilibrium level of national Income.
National Income (Y) = Consumption (C) + Investment (I)
and,
$C = \bar{c} + by$
Where, b = MPC
$4400 = 1000 + b(4400) + 70$
$4400 - 1070 = 4400(b)$
$3330 = 4400(b)$
$\frac{3330}{4400} = b$
$0.75 = b$
and, we know that,
MDC + MDS = 1
$\therefore$ MDC + MDC = 1
$0.75 + MPS = 1$
MPS = 0.25

Question 4

Distinguish between Factor Cost and Market Price.

OR

Distinguish between Factor Income and Transfer Income.

SOLUTION:

When National Income is expressed *in terms of market prices*, indirect taxes and subsidies are taken into account. While subsidies tend to lower the market price on the other hand, the indirect taxes tend to raise the market price. The resultant is known as **National Income at Market Prices, i.e.** (NNP_{MP}).

When National Income is expressed *in terms of factor cost*, the impact of subsidies and indirect taxes is not taken into consideration. The resultant is known as **National Income** at *Factor Costs*, i.e. (NNP_{FC}).

OR

Factor income is the income received by factors of production (land, labour, capital and entrepreneur) in return for their factor services provided by the household sector in the production process. Ex- rent, wages, interest and profit.

Transfer income refers to the income received by the government or households without rendering any productive services in return for them. It is a unilateral income and can be received either from domestic territory or abroad. Ex- old age pension and gifts.

Question 5

'Ram is able to get work only for two hours in a day. Rest of the day, he is looking for work.' Is he unemployed ? What kind of job could person like Ram be doing ?

OR

Compare and analyse the sector-wise trends in employment, based on following information:

Trends in Employment (Sector-wise)

Sector	1999-2000	2011-12
Primary sector	60.4	48.9
Secondary sector	15.8	24.3
Tertiary sector	23.8	26.8
Total	100	100

SOLUTION:

Ram is not employed because he is able to get work for two hours in a day. Economists define unemployed person as one who is not able to get employment of even one hour in a half day i.e., two hours in a day.
Ram could be casually engaged in other's shops or factories. Hence, he is a casual wage labourer.

OR

From the given data, it is clear that the primary sector share got reduced from 1999-2000 to 2011-12. Previously agriculture, fishing, mining etc. contributed around 60% to employment. Contribution by the secondary sector improved in 2011-12. It increased around 8-9% whereas service sector's contribution increased by 3% only. From the given data it is shown that the maximum contribution to employment is by the primary sector that is around 50%. The least contribution is made by the manufacturing sector i.e. only 1/3rd of total employment.

Question 6

'Infrastructure facilities boost production.' Do you agree ? Explain.

SOLUTION:

Infrastructure facilitates the process of production. The availability of quality infrastructure guarantees increase in production and productivity. In the absence of infrastructure, the production process cannot be smooth and efficient. In every sector of the economy, production depends to a great extent on the presence of quality infrastructure. Infrastructure acts as an input as well as a support system for production. For example, if the industrial sector is lacking in infrastructure such as transportation and communication, then there may be delays in the movement of raw materials and finished goods from one place to another. Consequently, the process of production is hampered. The process of distribution is also adversely affected in the absence of sound transportation. A similar situation can be seen in the agricultural sector. If this sector lacks infrastructure such as irrigation facilities, then it may have to depend entirely on rains. This may hamper its production and productivity. Social infrastructure such as health and education helps accelerate the production process by increasing productivity. A healthy and educated workforce is of great value in the production process. Thus, we can say that infrastructure helps pace the production process and productivity.

Question 7

"Gross Domestic Product (*GDP*) as an indicator of welfare loses its significance if the distribution of income turns unequal". Justify the given statement with valid reason.

OR

Giving valid reasons, explain how the following would be treated while estimating domestic income?
(i) Payment made by a Japanese tourist for goods purchased in India.
(ii) Broker's commission on the sale of second hand goods.

SOLUTION:

We often consider *GDP* as an index of economic welfare. A rise in *GDP* implies a rise in the output/volume of the goods and services produced in an economy. In other words, a rise in the *GDP* implies greater availability of goods and services with the people and thus, a rise in the standard of living or welfare of the people. However, *GDP* as an index of welfare of an economy is imperfect and insufficient. It is possible that even with the rise in the *GDP*, the welfare of the people might not increase. The increase in the *GDP* may be a result of the increase in the income of a few individuals. On the other hand, the majority of people remain deprived of the benefits of the rise in the *GDP*. Hence, a rise in national income may lead to false interpretation of social welfare.

OR

(i) Payments made by foreign tourists are done in the domestic territory. Goods and services purchased by foreign tourists are produced by the producers in the domestic territory of the country. So will be included in the domestic income.

(ii) Broker's commission on the sale of second hand goods will be included as the part domestic income as it is a payment for productive service rendered.

Question 8

Define 'liberty indicator' with the help of an example and state its importance.

SOLUTION:

Liberty indicators are defined as a measure of the extent of demographic participation in the social and political decision-making of the people. In other words, it is an index that is used to measure the participation of the people in taking decisions. The following are some of the examples of liberty indicators that can be introduced for constructing HDI of a country:
a. measures of 'the extent of Constitutional protection given to rights of citizens'
b. measures of 'the extent of Constitutional protection of the Independence of the Judiciary and the Rule of Law'
Liberty indicators indicate the quality of life which represents the functioning of an economy. Studies show that an expansion of civil liberties promote economic growth by reducing the social conflict and encouraging the adherence to rule of law. Hence, liberty indicators play a vital role.

Question 9

"The Government has raised the exemption limit for the payment of Income tax from ₹2 lakh to ₹2.5 lakh."
If the situation of deficient demand is prevailing in the economy, what will be the impact of this action taken by the Government ?

SOLUTION:

In order to correct the problem of deficient demand (or deflationary gap), the aggregate demand has to be increased. The aggregate demand may be increased by raising the exemption limit for the payment of income tax by the government, as the people will be now encouraged to spend more.

Question 10

Briefly explain any two similar developmental strategies opted by India and Pakistan for their respective developmental path.

SOLUTION:

The development strategy followed by India and Pakistan bear a high degree of resemblance. The major similarities between the developmental strategies of the two nations can be summed up as follows:-
i) Same period of the initiation of development process: India and Pakistan both have started their development programmes based on economic planning soon after their independence in 1947.
ii) Reliance on the public sector: Both the countries relied heavily on the public sector for initiating the process of growth and development.
iii) Mixed economic structure: Both of them have followed the path of mixed economic structure involving the participation of both the state as well as the private sector.
iv) Same period of the initiation of reforms: Both the nations introduced economic reforms at the same time to strengthen their economies.

Question 11

'Investment multiplier and Marginal Propensity to Save are indirectly related to each other.'
Explain with the help of numerical example.

SOLUTION:

Investment multiplier is defined as the ratio of change in income due to change in investment.

Symbolic, multiplier $(K) = \frac{\Delta Y}{\Delta I}$

Relationship between multiplier and MPS
The value of the multilplier varies inversely with MPS. Higher the MPS, the lower will be the size of multiplier and lower the MPS, the larger will be the value of the multiplier.
The relationship can be expressed as
$K = \frac{1}{MPS}$
For example, if MPS = 0.4, then,
$K = \frac{1}{MPS} = \frac{1}{0.Y} = 2.5$

If MPS = 0.1 then
$K = \frac{1}{MPS} = \frac{1}{0.1} = 10$

Thus, it is clear from above that, higher the MPS, the smaller will be the size of multiplier and lower the MPS, the larger will be the size of multiplier.Thus, the size of multiplier and MPS are inversely related.

Question 12

(I) From the following data, calculate the value of compensation of employees (COE) :

S.No.	Items	Amount in (₹ crore)
(i)	Old age pension	1,250
(ii)	Wages and salaries in cash	49,500
(iii)	Rent free accommodation to employees	13,500
(iv)	Employer's contribution to provident fund	8,900
(v)	Payment of life insurance premium by the employees	3,000
(vi)	Contribution to provident fund by employees	35,600

(II) Distinguish between Real Gross Domestic Product (GDP).
Nominal Gross Domestic Product (GDP).

OR

(I) From the following data, calculate the value of operating surplus:

S.No.	Items	Amount in (₹ crore)
(i)	Royalty	10
(ii)	Rent	70
(iii)	Interest	25
(iv)	Net domestic product at factor cost	500
(v)	Profit	50
(vi)	Dividends	20

(II) Distinguish between 'Fixed Investment' and 'Inventory Investment'.

Question 13

Read the following text carefully and answer question number 13(a) and 13(b) given below:

Green investment and sustainability are priorities in public policy. India has emerged as a global leader at the front of the climate change. India has pledged to seek solutions for the future.

Government schemes and policies such as Swachh Bharat Mission, Pradhan Mantri Awas Yojana, Smart Cities, Deen Dayal Upadhyay Gram Jyoti Yojana among other, all contribute towards achieving sustainable development goals.

The government has contributed to maintain economic growth by introducing and implementing various policies and measures relating to sustainable development, climate change, energy efficiency and air pollution.

Pradhan Mantri Uijwala Yojana Scheme, has actively contributed to cleaner air. It has resulted in drastic reduction of respiratory diseases and ultimately death as per recent medical report.

The Jal Jeevan Mission was launched with the objective of achieving water security. We have seen 68 per cent decline in the size of population of various animal species and amphibian over the last 60 years. The issue of green house gases and rising temperature of the earth are a global concern. India is one of those countries that will be affected by the over 2 degree celsius rise in global temperature.

'India has already taken a lot of steps in the area of innovation and development of different production methodologies which are environmentally friendly in the long run.'

Source: The Economic Times; Oct. 27, 2021

(a) State and discuss any two steps involved in attaining sustainable development in India.

(b) From the given text, state any two factors which challenged the carrying capacity of the environment.

SOLUTION:

(a) Two steps involved in attaining sustainable development in India are as follow-

  (i) **Substitute non- renewable resources with renewable resources-** As non- renewable resources are depleted, we should use renewable resources in place of non renewable resources, so we can maintain them. We should use non- renewable resources in such a way that it will not come to an end and create renewable substitute for them

  (ii) **Control pollution-** Pollution should be controlled or it should be in a limit that can be easily absorbed by the environment without giving much adverse effect to it.

(b) Greenhouse gasses and rising temperature are the two factors that challenge the carrying capacity of the environment. Greenhouse gasses like increase in carbon dioxide , methane etc in atmosphere leads to rise in the temperature which in turn leads to melting of glaciers.