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# EXAMINATION PAPERS\_2019

## [DELHI SET-I, II, III]

Time Allowed: 3 Hours]

[Maximum Marks: 80

### General Instructions:

- (i) All questions in both the sections are compulsory.
- (ii) Marks for questions are indicated against each question.
- (iii) Question Nos. 1 – 4 and 13 – 16 are very short-answer questions carrying 1 mark each. They are required to be answered in **one sentence** each.
- (iv) Question Nos. 5 – 6 and 17 – 18 are short-answer questions carrying 3 marks each. Answers to them should normally not exceed **60** words each.
- (v) Question Nos. 7 – 9 and 19 – 21 are also short-answer questions carrying 4 marks each. Answers to them should normally not exceed **70** words each.
- (vi) Question Nos. 10 – 12 and 22 – 24 are long-answer questions carrying 6 marks each. Answers to them should normally not exceed **100** words each.
- (vii) Answers should be brief and to the point and the above word limits should be adhered to as far as possible.

### SET-I

#### Section – A (Microeconomics)

Introductory Microeconomics not to be studied for forthcoming examinations.

#### Section – B (Macroeconomics)

- 13. Give any two examples of flow concept.** **1**  
**Ans.** National income and capital formation
- 14. Define the term 'tax'.** **1**  
**Ans.** Tax is a legally compulsory payment made by the individuals and the firms, to the government.
- 15. Suppose in a hypothetical economy, the income rises from ₹ 5,000 crores to ₹ 6,000 crores. As a result, the consumption expenditure rises from ₹ 4,000 crores to ₹ 4,600 crores. Marginal propensity to consume in such a case would be \_\_\_\_\_.**  
**(Choose the correct alternative)** **1**
- (a) 0.8 (b) 0.4  
(c) 0.2 (d) 0.6
- Ans.** (d) 0.6

16. What is meant by primary deficit?

1

Or

What is meant by fiscal deficit?

Ans. Primary deficit refers to the difference between fiscal deficit and interest payments.

$$\text{Primary Deficit} = \text{Fiscal deficit} - \text{Interest payments}$$

Or

Fiscal deficit is the excess of total expenditure over revenue receipts and non-debt capital receipts.

Non-debt Capital receipts are a sum of 'recovery of loans' and 'disinvestment proceeds of the government'.

It indicates the "borrowing" requirements of the government.

17. Define the problem of double counting in the computation of national income. State any two approaches to correct the problem of double counting. 3

Or

"Gross Domestic Product (GDP) does not give us a clear indication of economic welfare of a country." Defend or refute the given statement with valid reason.

Ans. Problem of 'double-counting' refers to the counting of the value of output of a good more than once. It leads to overestimation of NI, which will then not be a true indicator of economic growth.

There are two approaches to correct this problem of double counting.

(a) Take value added instead of value of total output. Let us explain this with the help of a schedule based on the example given.

Suppose a farmer produces wheat worth ₹ 2,000. He sells this wheat to the baker who converts it into bread and sells it to the grocer for ₹ 4,000. The grocer sells the bread to the consumer for ₹ 4,400. The total output of the 3 producers is ₹ 10,400 but this is not the value of actual output, because it includes the value of wheat three times and the value of bread two times. This definitely will lead to overestimation of NI.

(i)	(ii)	(iii)	(iv)
Producer	Value of output	Intermediate Consumption	Value Added (ii) – (iii) Value of Final output
Farmer	2,000	—	2,000
Baker	4,000	2,000	2,000
Grocer	4,400	4,000	400
Total	10,400	6,000	NI = 4,400

On the basis of this above table, we find that the sum total value added by the three producers – Farmer, baker and grocer is ₹ 4,400 (₹ 2,000 + ₹ 2,000 + ₹ 400) and this is the value which is to be counted while estimating NI (as it does not include double counting)

- (b) Take the value of final products only. We already know these products are purchased for consumption/investment or both. The total value-added is nothing else but the value of final products only.

Value of Final Product = Value of output – Intermediate consumption

**Or**

It is correct to say that Gross Domestic Product (GDP) does not give us a clear indication of economic welfare of a country. This is because GDP cannot serve as an **adequate** indicator of welfare on account of some serious limitations it suffers from like:

- (a) Distribution of GDP may lack uniformity, as a result the welfare may not rise evenly because the increase in GDP may benefit the richer class by making them more rich and the poor poorer.
- (b) On account of ‘non-monetary exchanges’ remaining beyond the purview of GDP estimation, GDP remains underestimated.
- (c) Different products contribute differently to welfare, so GDP treats the contribution of bread, organic vegetables, drugs etc. equally in estimating their money value. It thus ignores their effect (positive/negative) on the welfare of the economy.

*(any other relevant limitation)*

**18. If in an economy:**

**3**

**Change in initial Investments ( $\Delta I$ ) = ₹ 500 crores**

**Marginal Propensity to Save (MPS) = 0.2**

**Find the values of the following:**

- (a) **Investment Multiplier ( $k$ )**  
 (b) **Change in final income ( $\Delta Y$ )**

**Ans. (a)** 
$$k = \frac{1}{\text{MPS}} = \frac{1}{0.2} = 5$$

(b) We know that, 
$$k = \frac{\Delta Y}{\Delta I}$$

$$\therefore 5 = \frac{\Delta Y}{\Delta I}$$

$$5 = \frac{\Delta Y}{500}$$

$$\Delta Y = ₹ 2,500 \text{ crores}$$

**Alternate Method:**

$$\Delta Y = k \times \Delta I$$

$$\Delta Y = 5 \times 500 = ₹ 2,500 \text{ crores}$$

19. How are capital receipts different from revenue receipts? Discuss briefly. 4

Ans. Capital receipts of the government are the receipts which either create liabilities or lead to reduction in assets.

Examples of capital receipts are borrowings, recovery of loans and resale of the shares of PSUs.

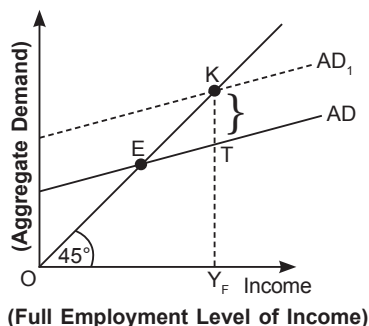
Whereas revenue receipts are government receipts which neither create liabilities nor lead to reduction in assets.

Examples of revenue receipts are dividends, interest etc.

20. State and discuss the components of Aggregate Demand in a two sector economy.

Or 4

In the given figure, what does the gap 'KT' represent? State any two fiscal measures to correct the situation.



Ans. Aggregate demand represents the planned expenditure on final goods and services in an economy during a period of time.

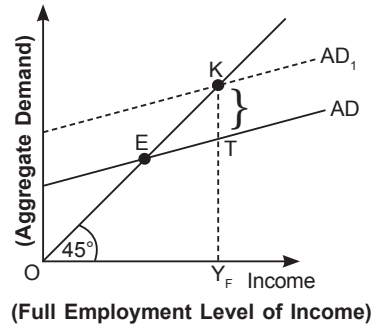
There are four components of aggregate demand (AD), namely,

- (a) **Private Consumption Expenditure (C)**. It is the most important component of aggregate demand. It refers to the total amount of expenditure incurred by the households on the purchase of final goods and services to satisfy their wants.
- (b) **Investment Expenditure (I)**. It refers to the expenditure incurred by the private firms on the purchase of capital goods such as plant and equipment, construction work, etc.
- (c) **Government Expenditure (G)**. It refers to the expenditure incurred by the government on the purchase of final goods and services. The level of government expenditure is determined by the government's policy.
- (d) **Net Exports**. Net exports is the difference between exports and imports. It shows the effect of domestic spending on foreign goods and services (Imports) and foreign spending on domestic goods and services (Exports).

Or

In the given figure the gap 'KT' represents 'Deflationary gap' in the economy at the full employment level of income. This gap arises due to aggregate demand being less than aggregate supply at the level of full employment.

The two fiscal measures that can be adopted to correct the situation of deflationary gap are:



(a) **To increase the spending by the Government**, i.e., an increase in expenditure of the Government incurred on administrative and welfare activities.

This increase in government expenditure will directly raise the aggregate demand and thereby help in closing/correcting the deflationary gap.

(b) **To reduce the taxes**. Reducing the taxes will raise the disposable income of the people who will now have more money in their hands to spend. So it will raise their consumption expenditure. This in turn will raise the aggregate demand and thereby help in correcting the deflationary gap.

**21. Discuss the working of the adjustment mechanism in the following situations: 4**

(a) **Aggregate demand is greater than Aggregate supply.**

(b) **Ex-Ante Investments are lesser than Ex-Ante Savings.**

**Ans.** (a) In an economy, if aggregate demand (AD) is greater than aggregate supply (AS), it implies that buyers now plan to purchase more goods and services than producers are planning to supply. Producers keep ready stock in the form of 'inventories'. When  $AD > AS$ , this implies that buyers are buying faster than what the sellers had expected. Thus the inventories start falling and fall below the desired level. So to bring back the inventories at their desired level, producers produce more, which raises the income level, which keeps on going up, till  $AD = AS$ , once again.

(b) **When ex-ante investments are lesser than ex-ante savings (i.e., saving exceed planned investment)**. People are consuming less and thereby spending less. As a result, aggregate demand is less than aggregate supply. This will lead to the accumulation of unintended inventories with businessmen. To avoid further accumulation of inventories, businessmen will reduce production. Consequently, output, income and employment will be reduced till the equilibrium level of income is reached, where  $S = I$ .

22. (a) Define “Trade surplus”. How is it different from “Current account surplus”?  
(b) “Indian Rupee (₹) plunged to all time low of ₹ 74.48 against the US Dollar (\$)”.

—*The Economic Times*

**In the light of the above report, discuss the impact of the situation on Indian Imports. (3,3)**

**Ans.** (a) ‘Trade surplus’ refers to the export of goods being greater than import of goods. It is a ‘positive’ balance of trade situation.

It is different from “current account surplus” in the sense that trade surplus is a narrow phenomenon. Whereas current account surplus is a wider phenomenon because it not only includes the value of **merchandise** (*i.e.* export) and import of goods but also takes into account the value of **Invisibles**, which include the following items:

- (i) Export and import of services — **Net export of services**
  - (ii) Income receipts and income payments — **Net income receipts**
  - (iii) Transfer receipts and Transfer payments — **Net transfer receipts**
- (b) The plunging of the Indian rupee to an all time low at ₹ 74.48 against US Dollar is called “depreciation” in the value of Indian rupee. It may lead to a fall in Indian imports as the foreign goods will become expensive/costlier for the domestic consumers. So they will now demand them less, *i.e.*, imports will fall.

23. (a) State any two components of  $M_1$  measure of money supply.  
(b) Elaborate any two instruments of Credit Control, as exercised by the Reserve Bank of India. 2, 4

Or

**Define Credit Multiplier. What role does it play in determining the credit creation power of the banking system? Use a numerical illustration to explain. 6**

**Ans.** (a) The two components of  $M_1$  measure of money supply are Currency and Deposits.

$$M_1 = cu + DD,$$

where *cu* is currency (notes plus coins) held by the public and DD is net demand deposits held by the commercial banks.

- (b) The instruments of monetary policy of the central bank focus on the overall supply of money in the economy. [These instruments relate to two policy rates and two policy ratios. The policy rates are bank rate and repo rate. The two policy ratios are CRR and SLR.]

The two instruments of credit control are:

- **Repo Rate** is the rate of interest at which central bank lends to commercial banks for their short-period requirements. An increase in repo rate will force commercial banks to increase their lending rate, which in turn makes borrowing costlier to the general public.
- **Open Market Operations** refer to the buying and selling of government securities by the central bank from and to the general public. When the central bank sells its securities it reduces liquidity (deposits) with the commercial banks and adversely affects credit creating power of banks.

(any other relevant instrument with explanation)

Or

**Credit Multiplier** measures the amount of money that the banks are able to create in the form of deposits with every initial deposit. The credit creation by the commercial banks depends on credit multiplier, as it is inversely related to LRR. Higher the credit multiplier the higher will be the total credit created and vice versa.

For example, suppose the LRR is 0.2 and initial deposit is ₹ 1,000.

$$\text{Credit multiplier} = \frac{1}{0.2} = 5, \text{ as credit multiplier} = \frac{1}{\text{LRR}}$$

$$\text{Total credit creation} = 5 \times ₹ 1,000 = ₹ 5,000.$$

Whereas, suppose LRR is 0.5 and initial deposits is ₹ 1,000

$$\text{Credit multiplier} = \frac{1}{0.5} = 2$$

$$\text{Total credit created} = 2 \times 1,000 = ₹ 2,000$$

Thus with the same initial deposit total credit creation decreases with an increase in the value of credit multiplier.

(any other relevant example)

24. Given the following data, find the missing values of 'Government Final Consumption Expenditure' and 'Mixed Income of Self Employed'. 6

S.No.	Particulars	Amount (in ₹ crores)
(i)	National Income	71,000
(ii)	Gross Domestic Capital Formation	10,000
(iii)	Government Final Consumption Expenditure	?
(iv)	Mixed Income of Self-Employed	?
(v)	Net Factor Income from Abroad	1,000
(vi)	Net Indirect Taxes	2,000
(vii)	Profits	1,200
(viii)	Wages and Salaries	15,000
(ix)	Net Exports	5,000
(x)	Private Final Consumption Expenditure	40,000
(xi)	Consumption of Fixed Capital	3,000
(xii)	Operating Surplus	30,000

**Ans. (a) Government Final Consumption Expenditure (GFCE):**

$$\begin{aligned} \text{GFCE} &= (i) - (x) - (ii) - (ix) + (xi) + (vi) - (v) \\ &= 71,000 - 40,000 - 10,000 - 5,000 + 3,000 + 2,000 - 1,000 \\ &= ₹ 20,000 \text{ crores} \end{aligned}$$

**(b) Mixed Income of Self Employeds (MISE):**

$$\begin{aligned} \text{MISE} &= (i) - (viii) - (xii) - (v) \\ &= 71,000 - 15,000 - 30,000 - 1,000 \\ &= ₹ 25,000 \text{ crores} \end{aligned}$$

## SET-II Uncommon Questions to Set-I

### Section - B (Macroeconomics)

**17. If in an economy:**

**3**

**Change in initial Investments ( $\Delta I$ ) = ₹ 700 crores**

**Marginal Propensity to Save (MPS) = 0.2**

**Find the values of the following:**

**(a) Investment Multiplier ( $k$ )**

**(b) Change in final income ( $\Delta Y$ )**

**Ans. (a)**  $k = \frac{1}{\text{MPS}}$   
 $= \frac{1}{0.2} = 5$

**(b)**  $k = \frac{\Delta Y}{\Delta I}$   
 $5 = \frac{\Delta Y}{700}$

$\therefore \Delta Y = ₹ 3,500 \text{ crores}$

**Alternate Method:**

$$\begin{aligned} \Delta Y &= k \times \Delta I \\ &= 5 \times 700 \end{aligned}$$

$$\Delta Y = ₹ 3,500 \text{ crores}$$

**20. How are capital expenditure different from revenue expenditure? Discuss briefly.**

**4**

**Ans. Revenue expenditure** is the expenditure of the government that neither creates any asset nor reduces any liability.

For example, expenditure on salaries, pensions, interest payments etc.

Whereas **capital expenditure** is the expenditure of the government that either creates an asset or reduces liabilities.

For example, expenditure on construction of flyovers, repayment of loans etc.

23. Given the following data, find the missing values of 'Private Final Consumption Expenditure' and 'Operating Surplus'. 6

S.No.	Particulars	Amount (in ₹ crores)
(i)	National Income	50,000
(ii)	Net Indirect Taxes	1,000
(iii)	Private Final Consumption Expenditure	?
(iv)	Gross Domestic Capital Formation	17,000
(v)	Profits	1,000
(vi)	Government Final Consumption Expenditure	12,500
(vii)	Wages and Salaries	20,000
(viii)	Consumption of Fixed Capital	700
(ix)	Mixed Income of Self-Employed	13,000
(x)	Operating Surplus	?
(xi)	Net Factor Income from Abroad	500
(xii)	Net Exports	2,000

Ans. (a) Private Final Consumption Expenditure (PFCE):

$$\begin{aligned} \text{PFCE} &= (i) - (iv) - (vi) - (xii) + (viii) + (ii) - (xi) \\ &= 50,000 - 17,000 - 12,500 - 2,000 + 700 + 1,000 - 500 \\ &= ₹ 19,700 \text{ crores} \end{aligned}$$

$$\begin{aligned} (b) \text{ Operating Surplus} &= (i) - (vii) - (ix) - (xi) \\ &= 50,000 - 20,000 - 13,000 - 500 \\ &= ₹ 16,500 \text{ crores} \end{aligned}$$

### SET-III Uncommon Questions to Set-I and Set-II

#### Section – B (Macroeconomics)

18. If in an economy: 3

Change in initial Investments ( $\Delta I$ ) = ₹ 1,200 crores

Marginal Propensity to Save (MPS) = 0.2

Find the values of:

- (a) Investment Multiplier ( $k$ )  
 (b) Change in final income ( $\Delta Y$ )

$$\begin{aligned} \text{Ans. (a)} \quad k &= \frac{1}{\text{MPS}} \\ &= \frac{1}{0.2} = 5 \end{aligned}$$

$$(b) \quad k = \frac{\Delta Y}{\Delta I}$$

$$5 = \frac{\Delta Y}{1,200}$$

$$\therefore \Delta Y = ₹ 6,000 \text{ crores}$$

**Alternate Method:**

$$\Delta Y = k \times \Delta I$$

$$\Delta Y = 5 \times 1,200$$

$$= ₹ 6,000 \text{ crores}$$

21. (a) How are tax receipts different from non-tax receipts? Discuss briefly. (b) State any two items of revenue expenditure in a Government budget. 3, 1

Ans. (a) Tax receipts are different from non-tax receipts in the sense that they are the revenue earned by the government from taxes levied on income, wealth, commodities, etc.

For example income tax, Goods and Services Tax, etc.

Whereas non-tax receipts are the revenue earned by the government from sources other than taxes.

For example, fees, fines, interest earned etc.

- (b) Expenditure of the Government on salaries, pensions, subsidies, grants etc.

(any other relevant example)

22. Given the following data, find the missing values of 'Gross Domestic Capital Formation' and 'Wages and Salaries'. 6

S.No.	Particulars	Amount (in ₹ crores)
(i)	Mixed Income of Self-Employed	3,500
(ii)	Net Indirect Taxes	300
(iii)	Wages and Salaries	?
(iv)	Government Final Consumption Expenditure	14,000
(v)	Net Exports	3,000
(vi)	Consumption of Fixed Capital	300
(vii)	Net Factor Income from Abroad	700
(viii)	Operating Surplus	12,000
(ix)	National Income	30,000
(x)	Profits	500
(xi)	Gross Domestic Capital Formation	?
(xii)	Private Final Consumption Expenditure	11,000

**Ans. (a) Gross Domestic Capital Formation (GDCF):**

$$\begin{aligned} \text{GDCF} &= (ix) - (iv) - (xii) - (v) + (ii) + (vi) - (vii) \\ &= 30,000 - 14,000 - 11,000 - 3,000 + 300 + 300 - 700 \\ &= ₹ 1,900 \text{ crores} \end{aligned}$$

$$\begin{aligned} (b) \text{ Wages and Salaries} &= (ix) - (i) - (viii) - (vii) \\ &= 30,000 - 3,500 - 12,000 - 700 \\ &= ₹ 13,800 \text{ crores} \end{aligned}$$

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

**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 as a part of the re-evaluation process on payment of the processing charges.

**MARKING SCHEME – ECONOMICS (030)**  
**(PAPER CODE –58/1/1, 58/1/2, 1/2/3)**

SET 1	SET 2	SET 3	Expected Answer / Value Points	Marks Distribution
			<b>SECTION A – MICRO ECONOMICS</b>	
1	4	3	(c) Production of more units of Good X and less units of Good Y.	<b>1</b>
2	3	4	(c) falls, as more units are produced.  OR  (d) $MC_n = TC_n - TC_{n-1}$	<b>1</b>  <b>1</b>
3	2	1	(d) an inverse 'U' shaped curve.	<b>1</b>
4	1	2	shift rightwards  OR  shift leftwards.	<b>1</b>
5	5	6	i) Positive statement – it deals with a real life situation, justifiable by facts.  ii) Normative statement- it deals with a situation as it 'ought to be'.  <b>(No marks to be awarded if reason not given)</b>	<b>1 ½ + 1 ½</b>
6	-	-	<b>Substitute Goods</b> - those goods which can be used in place of each other to satisfy the same want, examples: Coke and Pepsi.  whereas;  <b>Complementary Goods</b> – Complementary goods is a pair of goods which are jointly demanded for the satisfaction of wants, for example: petrol car and petrol.  <b>(or any other relevant example)</b>  OR  <b>Normal Goods</b> are those Goods whose demand tends to increase with an increase in the income of a consumer. The demand for the normal goods is directly related to the income of a consumer.  <b>Inferior Goods</b> are those goods whose demand decreases with an increase in the income of a consumer. The demand for the inferior goods is inversely related to the income of a consumer.  For example – with an increase in income, more generally, a consumer would like to shift to a smart phone from a simple mobile phone he is using at present. Now, the simple mobile phone is an inferior good for him whereas, the smart phone is a normal good.  <b>(or any other relevant example)</b>	<b>1 ½ + 1 ½</b>  <b>1 ½</b>  <b>1 ½</b>  <b>1</b>

7	-	-	<table border="1"> <thead> <tr> <th>Quantity (in units)</th> <th>MU (Utils)</th> <th>TU (Utils)</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>8</td> <td>8</td> </tr> <tr> <td>2</td> <td>5</td> <td>13</td> </tr> <tr> <td>3</td> <td>3</td> <td>16</td> </tr> <tr> <td>4</td> <td>1</td> <td>17</td> </tr> <tr> <td>5</td> <td>0</td> <td>17</td> </tr> <tr> <td>6</td> <td>-1</td> <td>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 style="text-align: center;"><b>(or any other relevant schedule with explanation)</b> <b>(to be marked as a whole)</b></p> <p style="text-align: center;"><b>OR</b></p> <table border="1"> <thead> <tr> <th>Combination</th> <th>Good X (in units)</th> <th>Good Y (in units)</th> <th>MRS<sub>xy</sub> (<math>\Delta y/\Delta x</math>)</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>1</td> <td>8</td> <td>-</td> </tr> <tr> <td>B</td> <td>2</td> <td>4</td> <td>4Y:1X</td> </tr> <tr> <td>C</td> <td>3</td> <td>2</td> <td>2Y:1X</td> </tr> <tr> <td>D</td> <td>4</td> <td>1</td> <td>1Y:1X</td> </tr> </tbody> </table> <p>Diminishing Marginal Rate of Substitution implies that a consumer is willing to sacrifice lesser units of Good Y for every additional unit of Good X. As given in the schedule, moving from combination B to C the consumer is willing to give up 2 units of Good Y so as to gain an additional unit of Good X (2Y:1X), which diminishes to 1Y:1X in combination D.</p> <p style="text-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	Combination	Good X (in units)	Good Y (in units)	MRS <sub>xy</sub> ( $\Delta y/\Delta x$ )	A	1	8	-	B	2	4	4Y:1X	C	3	2	2Y:1X	D	4	1	1Y:1X	<b>4</b>
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8	7	8	<table border="1"> <thead> <tr> <th>Total quantity (in units)</th> <th>TC (in ₹)</th> <th>TVC (in ₹)</th> <th>AVC (in ₹)</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>200</td> <td>0</td> <td>-</td> </tr> <tr> <td>1</td> <td><u>300</u></td> <td><u>100</u></td> <td><u>100</u></td> </tr> <tr> <td>2</td> <td><u>380</u></td> <td><u>180</u></td> <td><u>90</u></td> </tr> <tr> <td>3</td> <td><u>440</u></td> <td><u>240</u></td> <td><u>80</u></td> </tr> <tr> <td>4</td> <td><u>490</u></td> <td><u>290</u></td> <td><u>72.5</u></td> </tr> </tbody> </table>	Total quantity (in units)	TC (in ₹)	TVC (in ₹)	AVC (in ₹)	0	200	0	-	1	<u>300</u>	<u>100</u>	<u>100</u>	2	<u>380</u>	<u>180</u>	<u>90</u>	3	<u>440</u>	<u>240</u>	<u>80</u>	4	<u>490</u>	<u>290</u>	<u>72.5</u>	<b>(½ x 8= 4)</b>																	
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9	8	<p>9</p> <p>(a) 'AB' in the given diagram represents 'Price Floor'.</p> <p>(b) In the situation of price floor the Government sets the price above the equilibrium price, it creates the <b>situation of excess supply</b> in the market that leads to <b>surplus</b> of unsold stock with the producer and other consequences.</p> <p style="text-align: center;"><b>OR</b></p> <p>Equilibrium price and quantity for the commodity X in a perfectly competitive market will be determined where:</p> <p style="text-align: center;"><b><math>Q_d = Q_s</math></b></p> <p style="text-align: center;"><math>1700 - 2P = 1300 + 3P</math></p> <p style="text-align: center;"><math>1700 - 1300 = 3P + 2P</math></p> <p style="text-align: center;"><math>400 = 5P</math></p> <div style="text-align: center; border: 1px solid black; display: inline-block; padding: 2px;">P = ₹ 80</div> <p>Therefore, <b>Equilibrium price = ₹ 80</b></p> <p>Equilibrium quantity can be ascertained by substituting equilibrium price = ₹ 80, either in <math>Q_d</math> or <math>Q_s</math>.</p> <p style="text-align: center;"><math>Q_d = 1700 - 2P</math></p> <p style="text-align: center;"><math>Q_d = 1700 - 2(80)</math></p> <p style="text-align: center;"><math>Q_d = 1700 - 160 = 1,540</math> units</p> <p>Therefore, <b>equilibrium quantity = 1,540 units.</b></p>	<p>1</p> <p>3</p> <p>1</p> <p>½</p> <p>½</p> <p>½</p> <p>½</p> <p>½</p>
10	12	<p>11</p> <p>a) Price elasticity of demand is the <b>measure of the degree of responsiveness</b> of change in quantity demanded for a good due to given change in its price.</p> <p>b) <math display="block">E_d = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}} \quad (\text{ignoring minus sign})</math></p> <p style="text-align: center;"><math>\% \text{ change in quantity demanded} = \frac{\Delta Q}{Q} \times 100</math></p> <p style="text-align: center;"><math>= \frac{30}{150} \times 100</math></p> <p style="text-align: center;"><math>= 20\% \text{ fall in the quantity demanded}</math></p> <p style="text-align: center;"><math>E_d = \frac{20\%}{40\%} = 0.5</math> (ignoring minus sign)</p>	<p>2</p> <p>1</p> <p>½</p> <p>1</p> <p>½</p> <p>1</p>
11	10	<p>12</p> <p>Diminishing returns to a variable input referred to a stage in production when with the employment of more and more units of variable factor with the given fixed factor, marginal product (MP) decreases and total product (TP) increases at diminishing rate.</p> <p><b>Reasons for the decreasing returns to a variable factor are:</b></p> <p>i) <u>Over-utilisation of the fixed factor</u></p> <p>As we keep on increasing the variable factor along with the fixed factor eventually a position comes when the fixed factor has its limits and starts yielding diminishing returns.</p>	<p>2</p> <p>2</p>

			<p>ii) <u>Improper coordination between Fixed and Variable factors</u>  After a certain level of employment, the production process becomes too crowded with the variable input and factor proportion tends to become less and less suitable for the production.</p>	2
12	-	-	<p><b>Features of monopoly form of market-</b></p> <ol style="list-style-type: none"> <li><b>Single seller</b> – There is a single producer of a commodity therefore the difference between firm and industry disappears. The firm has full control over supply of the commodity.</li> <li><b>No close substitutes</b>-The product offered by a monopolist has no close substitute. So, the monopoly firm has no fear of competition from new or existing rivals.</li> <li><b>Restriction on entry</b> – There exist strong barriers to entry of new firm under monopoly. As a result, a monopoly firm can manipulate the market and earn abnormal profits in the long run too.  <b>(any other relevant features with explanation )</b></li> </ol> <p style="text-align: center;"><b>OR</b></p> <p><b><u>Distinction between Perfect Competition and Monopolistic Competition</u></b></p> <ol style="list-style-type: none"> <li><b>Number of sellers</b> – Perfect competition and monopolistic competition, both the markets consists of large number of sellers but there is lesser number of sellers in monopolistic competition as compared to the number of sellers in perfect competition.</li> <li><b>Nature of product</b> – under perfect competition product is homogeneous. Whereas In monopolistic competition products are differentiated on the basis of brand, size, colour etc.</li> <li><b>Selling cost</b> - under perfect competition, products are homogeneous in nature therefore there is no selling cost required whereas under monopolistic competition, products are differentiated. Therefore, huge selling costs are required to be incurred to attract consumers.</li> </ol>	<p style="text-align: right;"><b>2x3=6</b></p> <p style="text-align: right;"><b>2x3=6</b></p>
			<b>SECTION B – MACRO ECONOMICS</b>	
13	14	15	<p>National income, Investment  <b>(any other relevant example)</b></p>	$\frac{1}{2} + \frac{1}{2}$
14	15	16	<p>Tax is a compulsory payment made by the individuals and the firms to the government.</p>	1
15	16	13	<p>d) 0.6</p>	1
16	13	14	<p>Primary deficit is the difference between fiscal deficit and the interest payments made by the government.  <b>OR</b>  Fiscal deficit is the difference between the Government’s budgetary expenditure and its budgetary receipts excluding borrowings.</p>	1 1
17	18	17	<p>The problem of double counting arises when the value of some goods and services are counted more than once while estimating national income.  Two ways to avoid double counting are :</p>	1

			<p>a) Deduct intermediate consumption from value of output to arrive at value added</p> <p>b) Take the value of final product only</p> <p style="text-align: center;">OR</p> <p>Yes, given statement is defended. As GDP may not take into account</p> <p>i) Non-monetary exchanges like services of housewife</p> <p>ii) Externalities i.e. benefits and harms which are caused due to economic activities</p> <p>iii) Distribution of income.</p> <p style="text-align: right;"><b>(to be marked as a whole)</b></p>	<p>1</p> <p>1</p> <p>3</p>
18	-	-	<p><math>K = \frac{1}{MPS}</math></p> <p><math>K = \frac{1}{0.2} = 5</math></p> <p><math>\Delta Y = K(\Delta I)</math></p> <p><math>\Delta Y = 5 \times 500 = ₹2,500</math> Crores</p>	<p>1</p> <p><math>\frac{1}{2}</math></p> <p>1</p> <p><math>\frac{1}{2}</math></p>
19	-	-	<p>Capital Receipts are those receipts of government which either lead to increase in its liabilities or reduction in its assets. For Example: receipts from recovery of loans, borrowings, receipts from disinvestment.</p> <p style="text-align: center;"><b>whereas;</b></p> <p>Revenue receipts are those receipts of government which neither lead to increase in its liabilities nor reduction in its assets. For example: income tax, profit of PSU, dividends, fees and fines etc.</p> <p style="text-align: right;"><b>(any other relevant example)</b></p>	<p>1 <math>\frac{1}{2}</math></p> <p>1 <math>\frac{1}{2}</math></p>
20	21	19	<p>Components of Aggregate Demand are:</p> <ol style="list-style-type: none"> <li>1. Consumption Expenditure(C)</li> <li>2. Investment Expenditure(I) <ul style="list-style-type: none"> <li>• Consumption Expenditure(C)—it is that portion of income which is spent on purchase of goods and services by the consumers in an economy during the accounting period.</li> <li>• Investment Expenditure(I)— The addition to the stock of physical capital and change in inventories of a firm in an economy.</li> </ul> </li> </ol> <p style="text-align: center;"><b>OR</b></p> <p>The vertical gap 'KT' represents 'Deficient Demand'.</p> <p>The fiscal measures to correct 'Deficient Demand' are:</p> <ol style="list-style-type: none"> <li>a) Increase in government expenditure</li> <li>b) Reduction in taxes.</li> </ol> <p><b>(Marks may be awarded for both 'Deficient Demand' or 'Excess Demand'. However, the 'measures to control' must be correct accordingly)</b></p> <p style="text-align: center;"><b><u>FOR BLIND CANDIDATES</u></b></p> <p>Deflationary gap represents the situation where actual aggregate demand falls short of the aggregate demands required to maintain full employment level. The fiscal measures to correct deflationary gap are:</p> <ol style="list-style-type: none"> <li>a) Increase in government expenditure</li> <li>b) Reduction in taxes.</li> </ol>	<p><math>\frac{1}{2} + \frac{1}{2}</math></p> <p><math>1\frac{1}{2} + 1\frac{1}{2}</math></p> <p>1</p> <p><math>1\frac{1}{2} + 1\frac{1}{2}</math></p> <p>2+ 2</p>

21	19	20	<p>a) When Aggregate Demand is greater than Aggregate Supply (<math>AD &gt; AS</math>), 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>b) Ex-ante investments are lesser than ex-ante saving (<math>I &lt; S</math>) means buyers are planning to buy lesser output as to what producers are planning to produce. It will lead to rise in planned inventories above the desired level. As a result the producers will cut down production, leading to reduction of income till savings becomes equal to investments.</p>	2  2
22	24	24	<p>a) Trade surplus refers to excess of value of export of visible items over value of import of visible items in the balance of payment account of a country. Current account surplus refers to <b>excess of receipts from value of export of visible items, invisible items and unilateral transfers over payments for value of import of visible items, invisible items and unilateral transfers</b>. It is relatively broader concept as compare to trade surplus.</p> <p>b) Indian rupee plunged to all time low of ₹ 74.48 against US dollar. It is called depreciation in the value of Indian Rupees. It may lead to fall in imports as foreign goods will become costlier for the domestic consumers. <b>(To be marked as a whole)</b></p>	1  2  3
23	22	23	<p>a) Two components of money supply are: (i) Currency held with the public (ii) Demand deposits held with commercial banks</p> <p>b) Two instruments of credit control are</p> <ul style="list-style-type: none"> <li>Repo rate – It is the rate of interest at which central bank lends to commercial banks for their short term requirements. An increase in repo rate will force commercial banks to increase their lending rates. It will make borrowings costlier to general public.</li> <li>Open market operations refer to buying and selling of government securities by the central bank from and to the general public. When central bank sells its securities, it reduces liquidity (deposits) with commercial banks and adversely affects credit creating power of banks. <b>(any other instrument with relevant explanation)</b></li> </ul> <p>OR</p> <p><b>Credit multiplier measures the amount of money that the banks are able to create in the form of deposits with every initial deposit.</b></p> <p><b>The credit creation by commercial banks depends on credit multiplier as it is inversely related to LRR. Higher the credit multiplier, higher will be the total credit created and vice - versa.</b></p> <p>For Example suppose the LRR is 0.2 and initial deposit is ₹ 1000  <math display="block">\text{Credit multiplier} = \frac{1}{0.2} = 5</math> <math display="block">\text{Total credit created} = 5 \times ₹ 1,000 = ₹ 5,000</math></p> <p>Whereas, suppose LRR is 0.5 and initial deposit is Rs. 1,000  <math display="block">\text{Credit multiplier} = \frac{1}{0.5} = 2</math> <math display="block">\text{Total credit created} = 2 \times ₹ 1000 = ₹ 2,000</math></p> <p>Thus, with the same initial deposit total credit creation decreases with an increase in the value of credit multiplier. <b>(Any other relevant example)</b></p>	2  2  2  1  2  3

24	-	-	<p>Mixed income of self-employed = (i) - [(viii) + (xii) + (v)]</p> $= 71,000 - (15,000 + 30,000 + 1,000)$ <p>Mixed income of self-employed = ₹ 25,000 crores</p> <p>Government Final consumption expenditure = (i) - [(x) + (ii) + (v) + (ix)] + (vi) + (xi)</p> $= 71,000 - (40,000 + 10,000 + 1,000 + 5,000) + 2,000 + 3,000$ $= ₹ 20,000 \text{ crores}$	<p>1 ½</p> <p>1</p> <p>½</p> <p>1 ½</p> <p>1</p> <p>½</p>														
<b>SET 2 – UNCOMMON QUESTIONS</b>																		
-	6	-	<p>Good X and Good Y are substitute goods, if the price of Good X rises, it makes the Good X costlier and Good Y relatively cheaper. As a result demand for Good Y will increase and consumer will substitute Good Y over Good X.</p> <p style="text-align: center;">OR</p> <p>Increase in income of consumer leads to an increase in his purchasing power so the demand for inferior goods falls as consumer will tend to shift from an inferior product to a better quality product.</p>	<p>3</p> <p>3</p>														
-	9	-	<table border="1" data-bbox="596 981 1015 1438" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Quantity (in units)</th> <th>MU (in utils)</th> </tr> </thead> <tbody> <tr><td>1</td><td>8</td></tr> <tr><td>2</td><td>5</td></tr> <tr><td>3</td><td>3</td></tr> <tr><td>4</td><td>1</td></tr> <tr><td>5</td><td>0</td></tr> <tr><td>6</td><td>-1</td></tr> </tbody> </table> <p>Law of diminishing marginal utility states that keeping other factors constant, as a consumer consumes more and more units of a good, the utility obtained from the consumption of every additional unit consumed goes on falling.</p> <p>As per the schedule marginal utility at first unit of consumption is 8 utils and it goes on falling as consumption increases. It is zero at the 5<sup>th</sup> unit of consumption and negative at 6<sup>th</sup> unit of consumption and beyond.</p> <p><b>(any other relevant example) (to be marked as a whole)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>Budget line – it is a graphical presentation of all those combinations of two goods which costs the consumer exactly his income.</p> <p>It is downward sloping because to buy more of one good, the consumer must reduce the purchase of the other goods as income remains same.</p>	Quantity (in units)	MU (in utils)	1	8	2	5	3	3	4	1	5	0	6	-1	<p>4</p> <p>2</p> <p>2</p>
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-	11	-	<p>Three main features of oligopoly form of market:</p> <ol style="list-style-type: none"> <li>1. Few firms – This market comprises of few firms, each firm is likely to have market share big enough to have some influence on the price of product.</li> <li>2. Interdependence – As the number of competing firms is limited under oligopoly therefore each firm has to take into account the likely reactions of the rival firms before taking any price and output decision.</li> <li>3. Non-price competition – In order to avoid any possible price war in the market the firms resort to the use of promotional techniques.</li> </ol> <p style="text-align: center;"><b>(Any other relevant feature)</b></p> <p style="text-align: center;">OR</p> <p>Distinction between monopoly and monopolistic competition:</p> <ol style="list-style-type: none"> <li>1. <b>Number of seller:</b> There exists a single seller in the monopoly market whereas there are large numbers of sellers under monopolistic competition form of market.</li> <li>2. <b>Nature of the product:</b> There is unique product in monopoly market whereas under monopolistic competition products are differentiated.</li> <li>3. <b>Selling cost:</b> Under monopoly market selling cost are negligible as product is unique in its nature. Under monopolistic competition market huge selling cost are incurred due to product differentiation.</li> </ol>	<p style="text-align: right;"><b>2x3=6</b></p> <p style="text-align: right;"><b>2x3=6</b></p>
-	17	-	$K = \frac{1}{MPS}$ $K = \frac{1}{0.2} = 5$ $\Delta Y = K(\Delta I)$ $\Delta Y = 5 \times 700 = ₹3500 \text{ crores}$	<p style="text-align: right;">1</p> <p style="text-align: right;">½</p> <p style="text-align: right;">1</p> <p style="text-align: right;">½</p>
-	20	-	<p>Revenue expenditure is that expenditure of the government that neither creates any asset nor reduces any liability. For example: Expenditure on salaries, pensions, interest payments .</p> <p style="text-align: center;"><b>Whereas;</b></p> <p>Capital expenditure is that expenditure of the government that either creates assets or reduces liabilities. For example: Expenditure on construction of flyovers , repayment of loans</p>	<p style="text-align: right;">2</p> <p style="text-align: right;">2</p>
	23		<p>Operating surplus = (i)-[(vii)+(ix)+(xi)]</p> <p style="padding-left: 20px;">=50,000-(20,000+13,000+500)</p> <p style="padding-left: 20px;">=₹16,500 Crores</p> <p>Private final Consumption expenditure = (i)-[(iv)+(vi)+(xi)+(xii)]+(vii)+(ii)</p> <p style="padding-left: 20px;">=50000-(17000+12500+2000+500)+700+1000</p> <p style="padding-left: 20px;">=₹19,700 Crores</p>	<p style="text-align: right;">1 ½</p> <p style="text-align: right;">1</p> <p style="text-align: right;">½</p> <p style="text-align: right;">1 ½</p> <p style="text-align: right;">1</p> <p style="text-align: right;">½</p>

			<b>SET III – UNCOMMON QUESTIONS</b>	
		<b>5.</b>	<p>Good X and Good Y are complementary goods which are jointly demanded therefore if the price of Good X increases the demand for Good Y will decrease. This is due to the inverse relationship between the price of given good and demand for its complementary good. <b>(to be marked as a whole)</b></p> <p style="text-align: center;">OR</p> <p>Increase in income of consumer leads to an increase in purchasing power of consumer so the demand for normal good X increases, as the demand for normal good is directly related to the income of consumer. <b>(to be marked as a whole)</b></p>	<b>3</b>
		<b>7.</b>	<p>Law of equi-marginal utility states that a consumer will get maximum satisfaction if the marginal utility of last rupee spent on each good is same.</p> <p>The condition for consumer to be in equilibrium in case of equi marginal utility will be <math>\frac{MU_x}{P_x} = \frac{MU_y}{P_y} = MU</math> of last rupee spent on each good.</p> <p style="text-align: center;">OR</p> <p>The condition of consumer's equilibrium under ordinal approach are:-</p> <ol style="list-style-type: none"> <li>1. <math>MRS_{XY} = \frac{P_x}{P_y}</math></li> <li>2. <math>MRS_{XY}</math> declines as more of Good X is consumed.</li> </ol> <p>Explanation:-</p> <ol style="list-style-type: none"> <li>1. Suppose <math>MRS_{XY} &gt; \frac{P_x}{P_y}</math>, it means that the consumer is willing to sacrifice more for Good X than market price of Good X. it will induce a consumer to buy more of Good X and less of Good Y. Buying more of Good X reduces <math>MRS_{XY}</math>. This process will continue till <math>MRS_{XY} = \frac{P_x}{P_y}</math>. (explanation with <math>MRS_{XY} &lt; \frac{P_x}{P_y}</math> is also correct)</li> <li>2. <math>MRS_{XY}</math> must decline for the consumer to attain equilibrium. <b>(Diagram not required)</b></li> </ol>	<p>4</p> <p>1</p> <p>1</p> <p>1 ½</p> <p>½</p>
		<b>10.</b>	<p>Feature of monopolistic competition-</p> <ol style="list-style-type: none"> <li>1. Large number of seller – Large number of sellers selling closely related but differentiated products. Each firm acts independently and has limited share of the market which leads to limited degree of monopoly overprice.</li> <li>2. Product differentiation- products are differentiated on the basis of brand name, color, size etc. these differentiated products are close substitute of each other. Since a group of buyers prefers the product of a particular producer, that producer enjoys some monopoly in the market.</li> <li>3. Freedom of entry and exit to firms- there exist no barriers to entry or exit, as a result firms earn only normal profits in the long run.</li> </ol> <p style="text-align: center;">OR</p> <ol style="list-style-type: none"> <li>1. Number of sellers – Perfect and monopolistic, both the market consist of large number of sellers but there are comparatively less number of sellers in monopolistic market.</li> <li>2. Nature of product – under perfect competition product is homogeneous. In monopolistic competition products are differentiated on the basis of brand, size colour etc.</li> </ol>	<b>2X3=6</b>

		3. Selling cost - under perfect competition, products are homogeneous in nature therefore no selling cost is required. Under monopolistic competition, products are differentiated thus huge selling cost is required promote the good and to attract the consumers.	<b>2x3=6</b>
	<b>18.</b>	$K = \frac{1}{MPS}$ $K = \frac{1}{0.2} = 5$ $\Delta Y = K(\Delta I)$ $\Delta Y = 5 \times 1200 = ₹6000 \text{ crores}$	1 ½ 1 ½
	<b>21.</b>	<p>a) Tax receipt is the revenue earned by the government from taxes levied on income, wealth and commodities. E.g. Income Tax, GST etc., whereas; non- tax receipts are the revenue earned by the government from sources other than taxes, e.g. fees, fines, interest earned etc.</p> <p>b) Expenditure of the government on salaries, pensions, subsidies, grants etc.  <b>(any other relevant examples)</b></p>	3 1
	<b>22.</b>	<p>Wages and salaries</p> $= ix - [(i) + (viii) + (vii)]$ $= 30,000 - (3,500 + 12,000 + 700)$ $= ₹13,800 \text{ crores}$ <p>Gross domestic Capital formation</p> $= (ix) - [(iv) + (v) + (vii) + (xii)] + (ii) + (vi)$ $= 30000 - (14000 + 3000 + 700 + 11000) + 300 + 300$ $= ₹1,900 \text{ crores}$	1½ 1 ½ 1½ 1 ½