

PERFORMANCE ANALYSIS STUDY REPORT IN ECONOMICS

**Class XII
(March 2005 Examination)**



Central Board of Secondary Education
Shiksha Kendra, 2-Community Centre, Preet Vihar
Delhi - 110 092

FOREWORD

Many school principals and teachers have urged CBSE to help them in their endeavours to improve performance of their students in the Board's examinations. They wonder why students doing well in Pre-Board tests and class tests do not score so well in Board's examinations.

In Performance Analysis Study, samples of answer sheets are received from the different regional offices of the Board and answers given therein are carefully analysed to

- (i) Identify deviations from expected answers relating to content and depth of the answer including its length and presentation.
- (ii) Errors are analysed to find out the probable causes for their occurrence which may be probably due to learning gaps, inadequate learning of lower order concepts or inability to correlate and compare the related concepts.
- (iii) With the help of experts remedial teaching measures are suggested so that teachers can incorporate necessary changes in their teaching strategies.

The summary given in the beginning of the report gives an overview of errors generally committed by students and necessary remedial suggestions to the teachers. It is expected that the teachers will be motivated and integrate such studies in their regular teaching programs and bring continuous improvement in the students performance.

This year, the Board has brought out Performance Analysis Studies in the subjects of Social Science (Class X) and Economics (Class XII). The study pertains to March 2005 examination. I express my sincere thanks to the experts who conducted this study and brought out the report. I also take this opportunity to thank Shri G. Balasubramanian, former Director (Acad.), CBSE for providing valuable guidance in carrying out this study. Thanks are also due to Mrs. Sugandh Sharma, Education Officer (Com.) for coordinating the activities in the preparation of this document.

Ashok Ganguly
Chairman, CBSE

CONTENTS

Foreword

Performance Analysis study in ECONOMICS (i)

STUDENTS PERFORMANCE (iv)

Unit I: Introduction 1

Unit II : Consumer behaviour and demand 4

Unit III : Producer's behaviour and supply 11

Unit IV : Forms of market and price determination 25

Unit V : Introduction 32

Unit VI : National income & related aggregates: basic concepts and measurement 34

Unit VII : Determination of income & employment 39

Unit VIII : Money and banking 49

Unit IX : Government budget and the economy 51

Unit X : Balance of payments 59

भारत का संविधान

उद्देशिका

हम, भारत के लोग, भारत को एक ‘[सम्पूर्ण प्रभुत्व-संपन्न समाजवादी पंथनिरपेक्ष लोकतंत्रात्मक गणराज्य] बनाने के लिए, तथा उसके समस्त नागरिकों को:

सामाजिक, आर्थिक और राजनैतिक न्याय,
विचार, अभिव्यक्ति, विश्वास, धर्म

और उपासना की स्वतंत्रता,
प्रतिष्ठा और अवसर की समता

प्राप्त कराने के लिए,

तथा उन सब में,

व्यक्ति की गरिमा और - [राष्ट्र की एकता
और अखण्डता] सुनिश्चित करने वाली बंधुता

बढ़ाने के लिए

दृढ़संकल्प होकर अपनी इस संविधान सभा में आज तारीख 26 नवम्बर, 1949 ई० को एतद्द्वारा इस संविधान को अंगीकृत, अधिनियमित और आत्मार्पित करते हैं।

- संविधान (बयालीसवां संशोधन) अधिनियम, 1976 की धारा 2 द्वारा (3.1.1977) से “प्रभुत्व-संपन्न लोकतंत्रात्मक गणराज्य” के स्थान पर प्रतिस्थापित।
- संविधान (बयालीसवां संशोधन) अधिनियम, 1976 की धारा 2 द्वारा (3.1.1977 से), “राष्ट्र की एकता” के स्थान पर प्रतिस्थापित।

भाग 4 क

मूल कर्तव्य

51 क. मूल कर्तव्य - भारत के प्रत्येक नागरिक का यह कर्तव्य होगा कि वह -

- संविधान का पालन करे और उसके आदर्शों, संस्थाओं, राष्ट्रध्वज और राष्ट्रगान का आदर करे;
- स्वतंत्रता के लिए हमारे राष्ट्रीय आंदोलन को प्रेरित करने वाले उच्च आदर्शों को हृदय में संजोए रखे और उनका पालन करे;
- भारत की प्रभुता, एकता और अखंडता की रक्षा करे और उसे अक्षुण्ण रखे;
- देश की रक्षा करे और आह्वान किए जाने पर राष्ट्र की सेवा करे;
- भारत के सभी लोगों में समरसता और समान भ्रातृत्व की भावना का निर्माण करे जो धर्म, भाषा और प्रदेश या वर्ग पर आधारित सभी भेदभाव से परे हों, ऐसी प्रथाओं का त्याग करे जो स्त्रियों के सम्मान के विरुद्ध हैं;
- हमारी सामासिक संस्कृति की गौरवशाली परंपरा का महत्त्व समझे और उसका परीक्षण करे;
- प्राकृतिक पर्यावरण की जिसके अंतर्गत वन, झील, नदी, और वन्य जीव हैं, रक्षा करे और उसका संवर्धन करे तथा प्राणिमात्र के प्रति दयाभाव रखे;
- वैज्ञानिक दृष्टिकोण, मानववाद और ज्ञानार्जन तथा सुधार की भावना का विकास करे;
- सार्वजनिक संपत्ति को सुरक्षित रखे और हिंसा से दूर रहे;
- व्यक्तिगत और सामूहिक गतिविधियों के सभी क्षेत्रों में उत्कर्ष की ओर बढ़ने का सतत प्रयास करे जिससे राष्ट्र निरंतर बढ़ते हुए प्रयत्न और उपलब्धि की नई उंचाइयों को छू ले।

THE CONSTITUTION OF INDIA

PREAMBLE

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a **SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC** and to secure to all its citizens :

JUSTICE, social, economic and political;

LIBERTY of thought, expression, belief, faith and worship;

EQUALITY of status and of opportunity; and to promote among them all

FRATERNITY assuring the dignity of the individual and the ¹ [unity and integrity of the Nation];

IN OUR CONSTITUENT ASSEMBLY this twenty-sixth day of November, 1949, do **HEREBY ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.**

1. Subs. by the Constitution (Forty-Second Amendment) Act. 1976, sec. 2, for "Sovereign Democratic Republic (w.e.f. 3.1.1977)

THE CONSTITUTION OF INDIA

Chapter IV A

Fundamental Duties

ARTICLES 51A

Fundamental Duties - It shall be the duty of every citizen of India-

- (a) to abide the Constitution and respect its ideals and institutions, the National Flag and the National Anthem;
- (b) to cherish and follow the noble ideals which inspired our national struggle for freedom;
- (c) to uphold and protect the sovereignty, unity and integrity of India;
- (d) to defend the country and render national service when called upon to do so;
- (e) To promote harmony and the spirit of common brotherhood amongst all the people of India transcending religious, linguistic and regional or sectional diversities; to renounce practices derogatory to the dignity of women;
- (f) to value and preserve the rich heritage of our composite culture;
- (g) to protect and improve the natural environment including forests, lakes, rivers, wild life and to have compassion for living creatures;
- (h) to develop the scientific temper, humanism and the spirit of inquiry and reform;
- (i) to safeguard public property and to abjure violence;
- (j) to strive towards excellence in all spheres of individual and collective activity so that the nation constantly rises to higher levels of endeavour and achievement.

PERFORMANCE ANALYSIS REPORT IN ECONOMICS

OBSERVATIONS

The study group on the performance analysis in Economics papers of Delhi and outside Delhi regions of Class XII examination of CBSE held in March, 2005 made the following observations :

1. Definition of Basic Concepts

Many students have written incomplete, vague or wrong definition of basic concepts like market supply, marginal physical product, production function etc. It appears that they do not know how to define a concept. Lack of practice can be another reason for such mistakes. In some cases the meaning of the concept is not properly understood e.g., the meaning of marginal revenue or cost or equilibrium.

2. Relationship between Different Economic Variables

Understanding of relationship among some economic variables like price, demand and supply; marginal and average variable is lacking. The students try to memorise these relationships without understanding them.

3. Numerical Questions

Understanding of the meaning of basic concepts like elasticity, national income, disposable income etc. is a precondition to solving numerical questions. Memorising the equations and formula does not help. The students use the formula and equations without understanding them and commit mistakes whenever there is a slight variation in the items given. For example, the students memorise that net indirect taxes are subtracted while calculating net value added. If in the question only subsidies are given, they get confused and commit mistake of subtracting it for calculating net value added. Similarly, they do not know how the formula for calculating elasticity is derived. Sometimes there are some redundant items in the questions. The students are not able to identify them.

4. Drawing of Diagrams

Why do we draw a diagram? What does a diagram show? These questions are not clear to the students. Very often they draw lines on the basis of memory and not on understanding. OX and OY axis and the curves are not marked properly. Again unless the meaning of basic concepts are clear correct diagrams cannot be drawn.

5. Explanation with the help of a Diagram or an Example

While answering questions which require explanation with the help of an example or diagram, students only state the answer and draw a diagram or give an example. The diagram or example is not used for explanation. They lack an understanding and practice in answering such questions.

SUGGESTIONS

The following suggestions are made to improve the performance of the students :

1. Defining the Basic Concepts

Familiarize the students with basic economic concepts like demand, supply, equilibrium, production function, marginal and average cost etc. by giving examples from real life. They should be explained what all is to be included in the definition of a particular concept or term. Practice of defining the concepts is necessary.

2. Relationship between various Economic Variables

Many economic variables have a cause and effect relationship, for example, price and demand; price and supply etc. Examples from day to day life should be given while explaining such relationship. Some economic variables have only mathematical relationships such as marginal and average revenue and cost; marginal and total revenue and cost; marginal propensity to consume and to save etc. Simple numerical examples must be given to explain such relationships. Then the students should be asked to write these relationships in a generalized form.

3. Numerical Questions

It appears that the students memorise the formula and equations used in solving the numerical questions. They lack understanding of the various variables in the equations and the formula. The difference between gross value and net value etc. must be repeatedly explained. The three methods of calculating national income must be explained by listing and explaining the components of each method. Similarly, the concepts of national disposable income, private and personal income and personal disposable income and their relationship must be repeatedly explained. This appears to be the weakest area of most of the students. At least one numerical question per week must be given for practice. The mistakes committed must be discussed.

4. Drawing Diagrams

Drawing diagrams is not economics. Diagrams are geometric tools used in understanding relationship between different economic variables. So which variables are being studied must be clearly indicated along OX and OY axis. This must be repeatedly emphasised.

Before using diagrams the meaning of negatively sloped, positively sloped lines must be explained. Lot of practice of drawing diagrams must be given.

These suggestions are not exhaustive. The main point is to make the learning of economics interesting. For this, the teachers will have to take up examples from day to day life which make the concepts clear.

Students' Performance During 2003 - 2005

Number of Candidates Appeared

	2003	2004	2005
Boys	82706	86445	87892
Girls	67513	73652	75273
Total Appeared	150219	160097	163165

Pass %

	2003	2004	2005
Boys	78.29%	81.46%	83.05%
Girls	87.95%	90.04%	90.31%
Total Pass %	82.63%	85.40%	86.40%

2003 Students' Performance

	Comptt.	Fail	33-39%	40-44%	45-49%	50-59%	60-74%	75% and above	Mean marks
Boys	5.51%	16.06%	18.83%	8.88%	8.42%	15.30%	16.52%	10.33%	45.5%
Girls	3.86%	8.14%	13.56%	7.59%	8.37%	17.48%	22.72%	18.23%	53.5%
Total	4.77%	12.50%	16.46%	8.30%	8.40%	16.28%	19.31%	13.88%	49.1%

2004 Students' Performance

	Comptt.	Fail	33-39%	40-44%	45-49%	50-59%	60-74%	75% and above	Mean marks
Boys	5.26%	13.19%	17.54%	8.70%	8.61%	16.05%	19.12%	11.44%	47.6%
Girls	3.74%	6.17%	13.54%	7.82%	8.41%	17.39%	24.49%	18.38%	54.6%
Total	4.56%	9.96%	15.70%	8.30%	8.51%	16.67%	21.59%	14.63%	50.8%

2005 Students' Performance

	Comptt.	Fail	33-39%	40-44%	45-49%	50-59%	60-74%	75% and above	Mean marks
Boys	5.3%	11.50%	17.90%	9.16%	9.31%	17.22%	18.66%	10.79%	48.1%
Girls	3.87%	5.77%	13.49%	8.21%	8.88%	18.73%	23.82%	17.18%	54.5%
Total	4.68%	8.85%	15.87%	8.72%	9.11%	17.92%	21.04%	13.74%	51.1%

UNIT-I

INTRODUCTION

Question : 1

Explain the problem of 'how to produce' with the help of an example.

Type of Question	Marks	Objectives	Concept / Sub-concepts
SAI	4	Understanding	Understands the problem of how to produce and explains it.

Expected Answer

This problem relates to choosing the technique of production for producing goods. Generally, most goods can be produced by using more than one technique. More labour and less capital can be used or more capital and less labour can be used. Since the resources are scarce a decision is to be taken as to which technique to be used. For example, cloth can be produced with labour intensive technique as well as capital intensive technique. Which technique to choose is the problem of how to produce.

Deviations – Types and causes

This question was attempted well by almost all students. 90% got more than 50% marks. Example was not given by many. Even the explanation was inadequate.

Probable causes

It is not properly understood that there are different ways (Capital intensive and labour intensive) of producing and the producer has to choose one of these. This is the problem of choice.

Suggested Remedial Teaching Measures

The problem of choice and why does it arise must be explained in the context of producers. How to produce is one aspect of this problem. In this case the question is choice among what? Various methods of production with examples must be discussed. Enough writing practice of explaining the problem with an example is necessary.

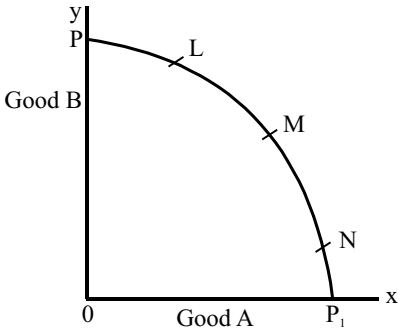
Question : 2

Explain the problem of ‘what to produce with the help of a production possibility curve.

Type of Question	Marks	Objectives	Concept/ Sub-concepts
SAI	4	Understanding	Understands the meaning of production possibility curve and how it is used to explain the problem.

Expected Answer

Since resources are limited and wants are unlimited, all goods and services desired cannot be produced. If more resources are used for producing one good then less resources are left for producing other goods. This is the problem of what to produce.



PP₁ is the production possibility curve. All the points on the curve represent all possible combinations of goods A & B that can be produced with given resources. Which point or which combination of A & B to choose is the problem of what to produce.

Deviations –Types and causes

Production possibility curve is not drawn correctly. Some students have shown growth of resources. Some students have explained the problem without the production possibility curve.

Probable causes

The concept of production possibilities is not clear. Similarly what is meant by problem of choice for a producer is not clear and the reason why it arises is not properly understood.

Suggested Remedial Teaching Measures :

It should be explained that it is an aspect of problem of choice. Why it arises should be explained with examples. The concept of production possibility curve must be explained.

Then how this is depicted on a diagram. Lots of practice of drawing diagrams and explaining the problem with its help is a must.

Question : 3

Explain the problem of ‘what to produce’ with the help of an example.

Type of Question	Marks	Objectives	Concept/ Sub-concepts
SAI	4	Understanding	Understands the problem and explains it.

Expected Answer :

An economy has only limited resources and the wants are unlimited. Wants are satisfied by goods and services which are to be produced by the resources. So all goods and services cannot be produced. The economy has to decide which goods to be produced. For example, on a given piece of land, all crops cannot be grown. If it is used for growing wheat then on the area on which wheat is grown, other crops cannot be grown. This is the problem of what to produce.

Deviations –Types and causes :

Many students have not stated the problem but stated the solution which is irrelevant. Some have drawn the production possibility curve which is not required. Explanation of the problem given is not clear.

Probable causes :

The basic concept of problem of choice and why it arises is not clear and they have not understood that when a producer exercises this choice he is faced with problem of what to produce.

Suggested Remedial Teaching Measures :

The students must be explained why such a problem arises (problem of choice). Writing practice in explaining the problem with example is necessary. Just giving examples is not sufficient. Explanation with the help of example is required.

UNIT-II

CONSUMER BEHAVIOUR AND DEMAND

Question : 4

Explain the law of demand with the help of a demand schedule.

Type of Question	Marks	Objectives	Concept / Sub-concepts
SA-II	3	Understanding	Understands the law and makes a demand schedule.

Expected Answer :

Law of demand states that there is an inverse relationship between the price and quantity demanded of a good, other things remaining the same.

Price(Rs.)	Quantity demanded(Units)
5	20
4	25
3	30

The above schedule shows that as price falls quantity demanded rises.

Deviations –Types and causes :

Incomplete statement of the law (other things remaining the same not stated). Many students have drawn wrong schedule. Most of the students have not explained the law with help of the schedule.

Suggested Remedial Teaching Measures :

The assumption of 'other things remaining the same' must be explained. Its importance in the context of law of demand must be explained. The importance of stating 'at a price' and 'during a given period' must be explained.

Question : 5

Explain any three causes of a rightward shift of demand curve of a commodity.

Type of Question	Marks	Objectives	Concept / Sub-concepts
SA-II	3	Knowledge	Meaning of shift of demand curve and causes of rightward shift.

Expected Answer :

Causes for a rightward shift of demand curve :

- (i) Rise in price of substitute good.
- (ii) Fall in price of complementary good.
- (iii) Increase in income (normal good)
- (iv) Favourable change in taste for the commodity.

Deviations –Types and causes :

Change in price is mentioned as one of the causes of shift by many students. Some have given reasons for the law of demand. Some have explained the meaning of substitute goods and normal goods. Some have explained the shift of Production Possibility Curve.

Probable causes :

The meaning of a shift of demand curve is not properly understood. It is not clear to the students that rightward shift of demand curve means more demand at the same price.

Suggested Remedial Teaching Measures :

Diagrams be used in explaining the meaning of a shift (both rightward & leftward). The economic meaning of the shift must be explained (more or less is demanded at the same price). Once it is understood by the students that shift of *dd* curve means more or less demand at same price then it is easy to make him understand what causes these shifts. Enough writing practice is necessary.

Question : 6

The quantity demanded of a commodity at a price of Rs. 8 per unit is 600 units. Its price falls by 25% and quantity demanded rises by 120 units. Calculate its price elasticity of demand. Is its demand elastic? Give reasons for your answer.

Type of Question	Marks	Objectives	Concept / Sub-concepts
SAI	4	Application	Calculates price elasticity of demand and interprets its value.

Expected Answer :

$$P_0 = 8 \quad P_1 = 6 \quad Q_0 = 600 \quad Q_1 = 720 \quad \Delta P = -2$$

$$\Delta Q = 120$$

$$e_{dd} = \frac{\Delta Q}{Q_0} \times \frac{P_0}{\Delta P}$$

$$= \frac{120}{600} \times \frac{8}{-2}$$

$$= -0.8$$

Its demand is inelastic because when e_{dd} is less than one, it is called inelastic demand.

Deviations – Types and causes :

Many students have not given negative sign in the calculations. Some students have committed arithmetic errors. The second part of the question is either not attempted or wrongly interpreted by most of the students.

Probable causes :

Lack of practice.

Suggested Remedial Teaching Measures :

Meaning of elastic, inelastic etc. in the question must be clearly explained with examples. Then raise a question, how do we know whether the demand of a commodity is elastic or inelastic? For this we have a method of measurement. Explain the method starting with : Compare the relative (percentage) change in quantity demanded and price. Explain the interpretation of result. One numerical question combined with interpretation of result should be given every week. The importance of negative sign must be explained. They must also be explained how the formula :

$$e_{dd} = \frac{\Delta Q}{Q_0} \times \frac{P_0}{\Delta P} \text{ is derived.}$$

Question : 7

Explain consumer's equilibrium in case of a single commodity with the help of a utility schedule.

Type of Question	Marks	Objectives	Concept / Sub-concepts
LA	6	Understanding	Understands the meaning of consumer equilibrium and how it is achieved.

Expected Answer :

Consumers equilibrium means a situation when a consumer buys that much quantity of a commodity which gives him maximum utility. How many units of the commodity he should buy is explained with the help of marginal utility schedule given below :

Units consumed of 'A'	Marginal utility of 'A'
1	14
2	12
3	10
4	8

Suppose the price of A is Rs. 5/- per unit and the marginal utility of each rupee to him is 2. Then for each unit of A he has to sacrifice 10 utility. He will compare the marginal utility of each unit of A with the utility he sacrifices. He will go on buying till the marginal utility of A is equal to the utility that he sacrifices. From the table it is clear, that he will buy 3 units because at 3rd unit, what he pays is just equal to what he gets. So he is in equilibrium.

Deviations – Types and causes :

This is a choice question and very few have attempted it. The concepts are not clear. Utility schedule is not correctly made.

Probable causes :

The concept of consumer's equilibrium is not properly understood and how it is achieved is not understood.

Suggested Remedial Teaching Measures :

The concept of equilibrium, as a state of rest, must be explained. Then it should be used in the case of consumer. Then the objective of the consumer must be explained. Once the objective is achieved he is in a state of rest. Then use the concept of marginal utility and total

utility. Explain the behaviour of marginal utility and the reasons. Then the equilibrium condition must be stated (only a single commodity case is given in the syllabus).

Question : 8

How is demand of a commodity affected by change in the price of related goods? Explain with the help of diagram.

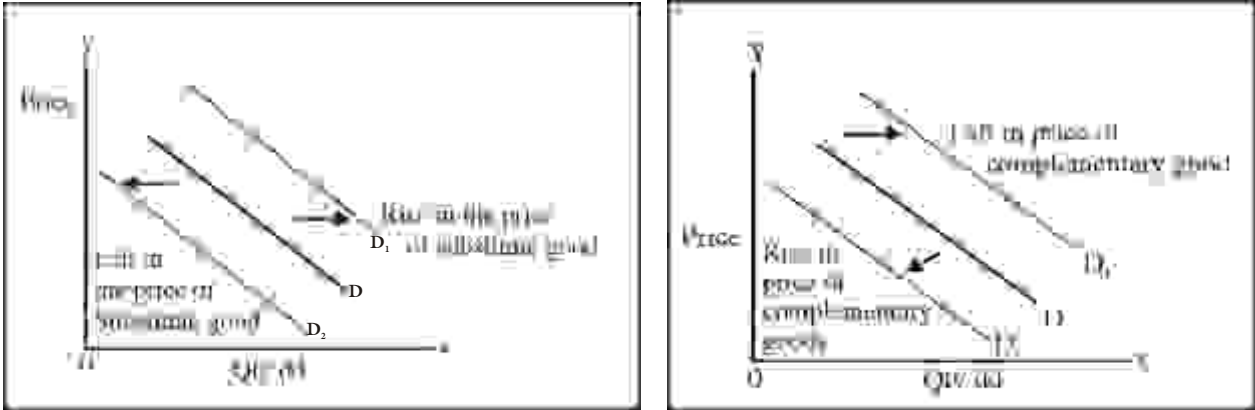
Type of Question	Marks	Objectives	Concept / Sub-concepts
LA	6	Understanding	Understands the meaning of related goods. Explains how changes in their price affects demand of a commodity. Draws the diagram.

Expected Answer :

Related good, can be substitute or complementary.

When the price of substitute good falls (rises) it becomes relatively cheaper (costlier), so it is substituted (gets substituted) for the given commodity. So the demand for the commodity decreases (increases). This results in a rightward (leftward) shift of demand curve.

When price of complementary good falls (rises) its quantity demanded rises (falls). The demand for given commodity increases (decreases) as complementary goods are used together. This will cause a rightward shift (leftward) of demand curve of given commodity.



Deviations – Types and causes :

In most of the answers, diagrams drawn were wrong. Many had only explained the meaning of related goods and explained the effect of change in their price. Shift of demand curve due to change in price of related goods was not stated.

Probable causes :

Lack of practice of drawing diagrams. The relationship between price of related goods and quantity demanded of a given good is not clearly understood.

Suggested Remedial Teaching Measures :

Factors affecting demand must be explained with examples. Then an exercise in identifying factors that cause a shift of **dd** curve is necessary. Meaning of related goods be explained and examples of how change in their prices will affect demand of given good must be given. Then an exercise in which change will cause what type of shift of demand curve must be given. Practice of drawing correct diagrams and explaining them is very necessary.

Question : 9

Briefly explain any three factors that shift the demand curve to the right.

Type of Question	Marks	Objectives	Concept / Sub-concepts
LA	6	Understanding	Explains the meaning of shift of demand curve to right and explains the factors that cause it.

Expected Answer :

Factors that shift the demand curve to the right *i.e.*, increase in demand are :

- (i) Increase in income (normal good)
- (ii) Rise in price of substitute good.
- (iii) Favourable change in taste etc. (Diagram not required)

Deviations – Types and causes :

Price is written as one of the factors by many. Some have written determinants of market demand. Many have explained the causes of law of demand.

Probable causes :

Meaning (economic) of shift of demand curve is not understood. They are confused between movement along a demand curve and shift of demand curve.

Suggested Remedial Teaching Measures :

Use diagram to show how a shift of demand curve means more or less of demand at the same price. This would help the students to understand that price is not a cause of shift of demand curve.

UNIT-III**PRODUCER'S BEHAVIOUR
AND SUPPLY****Question : 10**

Define Market supply.

Type of Question	Marks	Objectives	Concept / Sub-concepts
VSA	1	Knowledge	State the meaning of market supply.

Expected Answer :

It is the total quantity of a commodity that all its producers are willing to sell at a given price during a given period of time.

Deviations – Types and causes :

Many defined it as supply of goods and services available in the market to its ultimate consumer. Very few have given correct definition. More than 70% got full marks.

Probable causes :

Practice in defining concepts is lacking.

Suggested Remedial Teaching Measures :

Students lack practice in defining concepts. Enough practice in writing the definitions of such concepts be given.

Question : 11

Define Marginal Physical Product.

Type of Question	Marks	Objectives	Concept / Sub-concepts
VSA	1	Knowledge	States the meaning of marginal physical product.

Expected Answer :

It is the change in total physical product when an additional unit of variable input is used.

Deviations – Types and causes :

Most of the answers are incorrect. The concept is not defined in terms of change in TPP when an additional unit of variable input is used. Some have written the relationship between TPP and MPP.

Probable causes :

Meaning of MPP is not clearly understood. Also lack of practice in defining a concept.

Suggested Remedial Teaching Measures :

The meaning of the word marginal must be explained in terms of change in total. In this context the meaning of physical product must be explained. Students should be given the practice of defining a concept.

Question : 12

What is meant by producer's equilibrium?

Type of Question	Marks	Objectives	Concept / Sub-concepts
VSA	1	Knowledge	States the meaning of Producer's equilibrium.

Expected Answer :

The situation when a producer earns maximum profits.

Deviations – Types and causes :

Many have written the meaning of equilibrium price. Some have unnecessarily mentioned equality of MC & MR as a condition, this was not asked for, nor it is a part of syllabus.

Probable causes :

Meaning of the word 'equilibrium' is not clear. They often take equilibrium as equilibrium price.

Suggested Remedial Teaching Measures :

The meaning of the word 'equilibrium' must be explained. Then the objective of a producer should be explained.

Question : 13

What causes upward movement along a supply curve?

Type of Question	Marks	Objectives	Concept / Sub-concepts
VSA	1	Knowledge	States the cause of upwards movement along a supply curve.

Expected Answer :

Rise in price.

Deviations – Types and causes :

Many gave the literal meaning of upward movement. Some have written about shift of supply curve. Many have written change in price (which is wrong).

Probable causes :

Economic meaning of a shift of supply curve is not clear. Difference between movement along a supply curve and shift of a supply curve is not understood.

Suggested Remedial Teaching Measures :

Meaning of movement along a supply curve must be explained and then a movement with the change in price should be identified.

Question : 14

What causes a downward movement along a supply curve?

Type of Question	Marks	Objectives	Concept / Sub-concepts
VSA	1	Knowledge	States the cause of downward movement along a supply curve.

Expected Answer :

Fall in price.

Deviations – Types and causes :

Many have written change in price. Some have written rise in price. Some have written about shift of supply curve.

Probable causes :

The meaning and cause of movement along a supply curve is not very clear.

Suggested Remedial Teaching Measures :

Ask the students repeatedly the change in price when there is a downward movement along a supply curve. Then establish the relationship between price and quantity supplied.

Question : 15

What causes a movement along a supply curve.

Type of Question	Marks	Objectives	Concept / Sub-concepts
VSA	1	Knowledge	State the factor that causes a movement along a supply curve.

Expected Answer :

Change in price.

Deviations – Types and causes :

Some have use the word ‘full movement.’ Many have given explanation which is not required.

Probable causes :

The meaning of movement along a supply curve and its economic interpretation is not clear.

Suggested Remedial Teaching Measures :

Ask the students to identify any change they notice in the diagram when we move along a supply curve. Once they are able to identify change in price then establish the relationship between price and movement along a supply curve.

Question : 16

State the geometric method of measuring price elasticity of supply (in case of straight line supply curve).

Type of Question	Marks	Objectives	Concept / Sub-concepts
SA-II	3	Knowledge	Recalls the geometric method of measuring price elasticity of supply.

Expected Answer :

1. If the supply curve intersects the OX-axis in its positive range, then elasticity of supply < 1 .
2. If the supply curve intersects the OY axis in its positive range, the elasticity of supply > 1 .
3. If the supply curve passes through the origin, the elasticity of supply $= 1$.

Deviations – Types and causes :

Many students have tried to explain the elasticity of demand by point method.

Probable causes :

Lack of practice in doing question on elasticity of supply by different methods.

Suggested Remedial Teaching Measures :

Explain the geometric method by taking small change in price. As the students have studied geometry upto X Class the proof of this method should be explained.

Question : 17

What is the relationship between marginal cost and average variable cost?

Type of Question	Marks	Objectives	Concept / Sub-concepts
S.A. - II	3	Knowledge	States the relationship between marginal cost and average variable cost.

Expected Answer :

- (i) When marginal cost is less than average variable cost average variable cost falls.
- (ii) When marginal cost is equal to average variable cost, average variable cost is constant.
- (iii) When marginal cost is greater than average variable cost, average variable cost rises.

Deviations – Types and causes :

Many students have given the relationship between marginal cost and average cost. Some of

them explained relation between APP and MPP. But overall performance was good in this question.

Probable causes :

Casualness in answering the question. It seems many of these students have not studied these concepts carefully.

Suggested Remedial Teaching Measures :

Meaning of marginal cost and average variable cost must be explained. Their relationship must be explained by giving numerical example. It should also be explained that relationship between marginal and average cost is same as between marginal cost and average variable cost. The reasons for this must be explained. They should also be explained that change in marginal cost is the cause and change in average cost or average variable cost is the effect.

Question : 18

What is the relationship between average revenue and marginal revenue?

Type of Question	Marks	Objectives	Concept / Sub-concepts
S.A. - II	3	Knowledge	States the relationship between average revenue and marginal revenue.

Expected Answer :

When marginal revenue is less than average revenue, average revenue falls.

When marginal revenue is equal to average revenue, average revenue is constant.

When marginal revenue is greater than average revenue, average revenue rises.

Deviations – Types and causes :

Many students have given only the meaning of AR and MR. Most of the answers are incomplete. Irrelevant diagrams are drawn. Some of the students attempted it correctly.

Probable causes :

Lack of understanding and practice in using these basic concepts of average and marginal.

Suggested Remedial Teaching Measures :

The marginal, average relationship remains the same whether the cost or revenue or any other variable is taken. Numerical examples should be given to explain this relationship.

Question : 19

Explain the relationship between total revenue and marginal revenue.

Type of Question	Marks	Objectives	Concept / Sub-concepts
S.A. - II	3	Understanding	States the relationship between total revenue and marginal revenue.

Expected Answer :

When total revenue increases, marginal revenue is positive.

When total revenue is constant, marginal revenue is zero.

When total revenue decreases, marginal revenue is negative.

Deviations – Types and causes :

Some have discussed total product and marginal product. Many have explained bringing in different markets. This question was found easy by most students.

Probable causes :

The meaning of these concepts is memorised and not understood.

Suggested Remedial Teaching Measures :

It should be explained with numerical examples that marginal revenue is calculated from total revenue. So the behaviour of TR will affect MR. Different types of numerical examples should be used to explain the relationship.

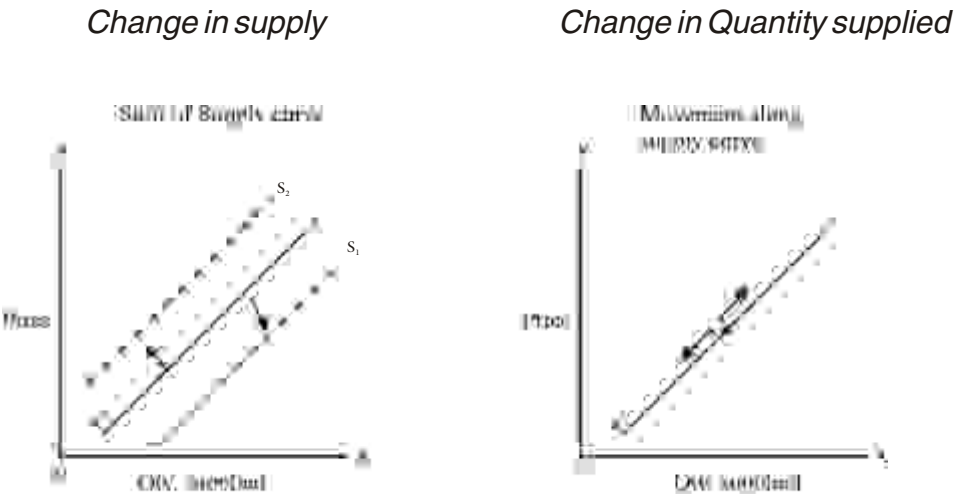
Question : 20

Distinguish between 'Change in supply' and 'Change in quantity supplied' of a commodity. (Use Diagram)

Type of Question	Marks	Objectives	Concept / Sub-concepts
SA - I	4	Understanding	Distinguishes between change in supply & change in quantity supplied. Draws correct diagrams.

Expected Answer :

When supply increases or decreases due to change in factors other than price of the commodity, it is called change in supply. It causes a shift of supply curve. When supply rises or falls due to change in price, other factors remaining constant, then it is called change in quantity supplied. It results in movement along a supply curve.



Deviations – Types and causes :

Many have not distinguished between the two but given the meaning of only one concept. Some have discussed change in demand and its determinants. Diagrams drawn are not of supply but demand. Some have given wrong meaning of change in supply and change in quantity supplied.

Probable causes :

Some have a tendency to write whatever they read for the examination whether it is asked or not. The meaning of the concepts is not clear.

Suggested Remedial Teaching Measures :

These terms are technical terms used in specific context. The context must be explained. These concepts should also be explained in terms of shifts and movement along the supply curve.

Question : 21

Define price elasticity of supply. How is it measured by geometric method? (in case of a straight line supply curve).

Type of Question	Marks	Objectives	Concept / Sub-concepts
SA - I	4	Understanding	Meaning of price elasticity of supply. Explains the geometric method of measuring it.

Expected Answer :

It is a measure of the degree of responsiveness of supply of a good to a change in its price. When the supply curve passes through the origin, $e_s = 1$. When the supply curve touches the OX-axis, $e_s < 1$. When the supply curve touches the OY-axis, $e_s > 1$.

Deviations – Types and causes :

Many have written the geometric method of measuring elasticity of demand. Some have given only incomplete answer (only one case is given). Some have drawn diagram with no explanation.

Probable causes :

Confused with geometric method of calculating price elasticity of demand. Lack of practice of drawing diagram. This method is not understood.

Suggested Remedial Teaching Measures :

Students should be asked to write the definition repeatedly. The proof of this method must be explained (How it is derived).

Question : 22

Explain any two determinants of supply of a commodity.

Type of Question	Marks	Objectives	Concept / Sub-concepts
S.A. - I	4	Understanding	Explains any two factors that affect supply of a commodity.

Expected Answer :

- (i) Technological change.
- (ii) Input price change.
- (iii) Change in price of related good etc. (Any two) (Explanation)

Deviations – Types and causes :

Some have written about determinants of demand and drawn dd curve.

Probable causes :

They could recollect only determinants of demand so have written that. This part is not read carefully.

Suggested Remedial Teaching Measures :

They should be explained the meaning of determinant.

Question : 23

Complete the following table :

Output (Units)	Price (Rs.)	TR (Rs.)	MR (Rs)
1	12	–	–
2	10	–	–
3	8	–	–
4	6	–	–

Type of Question	Marks	Objectives	Concept / Sub-concepts
S.A. - I	4	Application	Calculates total revenue and then marginal revenue.

Expected Answer :

Output (Unit)	Price (Rs.)	Total Revenue (Rs.)	Marginal Revenue (Rs.)
1	12	12	12
2	10	20	8
3	8	24	4
4	6	24	0

Deviations – Types and causes :

Most of the students have not calculated the value of MR when output is unit 1.

Probable causes :

The meaning of MR is not clearly understood otherwise the MR at one unit of output would not have been left unanswered.

Suggested Remedial Teaching Measures :

The method of calculating marginal revenue should be explained with different types of numerical example. (Particularly how marginal revenue when only one unit is produced, is calculated.)

Question : 24

Complete the following table :

Output (Units)	TC (Rs.)	AVC (Rs.)	MC (Rs)
0	80	–	–
1	180	–	–
2	270	–	–
3	350	–	–
4	440	–	–

Type of Question	Marks	Objectives	Concept/ Sub-concepts
SA - I	4	Application	Calculates total variable cost to calculate average variable cost and then marginal cost.

Expected Answer :

Output (Units)	TC (Rs.)	TFC (Rs.)	TVC (Rs.)	AVC (Rs.)	MC (Rs.)
0	80	80			
1	180	80	100	<u>100</u>	<u>100</u>
2	270	80	190	<u>95</u>	<u>90</u>
3	350	80	270	<u>90</u>	<u>80</u>
4	440	80	360	90	<u>90</u>

Deviations – Types and causes :

Most of the students have not calculated the values of AVC correctly. MC when output is 1 unit is not calculated.

Probable causes :

How AVC is calculated from TC is not understood. Even the meaning of MC is not clear. Lack of practice in doing such question is also a probable cause as they do not become familiar with such calculations.

Suggested Remedial Teaching Measures :

The meaning of TC, TVC, AC, AVC and MC must be explained. How TVC is calculated from TC; AVC from AC and MC from TC and TVC must be explained with numerical examples.

Question : 25

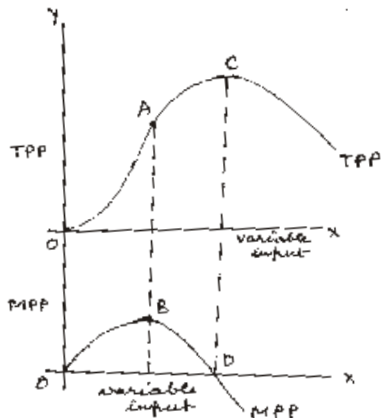
Explain the law of variable proportions with the help of total and marginal physical product curve.

Type of Question	Marks	Objectives	Concept/ Sub-concepts
L. A.	6	Understanding	Explain the law of variable proportion with the help of diagram. Draw total physical

			product and marginal physical product curves correctly.
--	--	--	---

Expected Answer :

The law of variable proportion states that to increase production as more and more unit of a variable factor are applied with fixed factors, the proportion in which the factors of production are used, varies. The total and marginal physical product change as shown in the following diagram.



TPP increases at an increasing rate upto point 'A'. Then it increases at decreasing rate upto point 'C'; beyond point 'C', it decreases.

MPP is increasing upto point 'B'. Then it decreases but is positive upto point 'D' beyond which it is negative.

Deviations – Types and causes :

Most of the students have committed mistakes in drawing diagram.

Probable causes :

Meaning of basic concepts and their relationship is not understood. How to draw TPP curve not clear and how to derive MPP curve is not at all understood. Lack of practice in drawing diagrams and reading the diagram is also a cause.

Suggested Remedial Teaching Measures :

Meaning of total physical product and marginal physical product and their relationship must be explained with numerical examples. How to draw TPP curve must be explained. How the MPP curve is derived from TPP curve must be explained. The meaning of variable proportions must be explained with numerical examples. Lastly how TPP changes and reasons for it must be explained.

Question : 26

Distinguish between returns to a factor and returns to scale. Explain the reasons for increasing returns to a factor.

Type of Question	Marks	Objectives	Concept / Sub-concepts
L.A.	6	Understanding	Distinguishes between returns to a factor and returns to scale. Gives reason for increasing returns to a factor.

Expected Answer :

Returns to a factor means the change in physical output by increasing only one physical input, keeping other inputs constant. On the other hand, returns to scale means change in physical output by changing all physical inputs simultaneously and in the same proportion.

In the beginning as we start employing variable input, the quantity of the variable input is too small to use fixed inputs efficiently. As we employ more and more units of the variable factor, the fixed inputs are efficiently utilized and there are increasing returns to the variable input.

Deviations – Types and causes :

Some students have explained these concepts in terms of change in cost. Some have explained the difference between MPP and TPP; and fixed and variable factors only. Many have given wrong explanation of the two concepts. Second part of the question is not attempted by many.

Probable causes :

This area is slightly difficult and on their own it is difficult for students to understand. Lot of writing practice and practice of drawing diagrams is needed which was missing.

Suggested Remedial Teaching Measures :

Meaning of the words 'returns', 'returns to factor' and 'scale' must be explained with examples. Meaning of increasing returns to a factor must be explained with examples. Reasons for increasing returns must be explained by giving examples from day to day life.

UNIT-IV**FORMS OF MARKET AND PRICE DETERMINATION****Question : 27**

Define equilibrium price.

Type of Question	Marks	Objectives	Concept / Sub-concepts
VSA	1	Knowledge	Defines equilibrium price.

Expected Answer :

It is the price of commodity at which its quantity demanded and quantity supplied are equal.

Deviations – Types and causes :

Some have written about how equilibrium price is determined. Some have defined it as equality of aggregate demand and aggregate supply.

Probable causes :

The difference in the meaning of equilibrium price, equilibrium level of income, consumer's equilibrium etc. is not understood. They vaguely remembered equilibrium and which ever equilibrium they were able to recollect, they wrote.

Suggested Remedial Teaching Measures :

Meaning of the word 'equilibrium' and then its meaning in the context of price of a commodity must be explained. Students must be helped in writing definitions of various terms and concepts.

Question : 28

In which form of market there is product differentiation ?

Type of Question	Marks	Objectives	Concept / Sub-concepts
VSA	1	Knowledge	Recalls the features of different types of market and identifies the correct market.

Expected Answer :

Monopolistic competition.

Deviations – Types and causes :

Some students have written monopoly as the answer.

Probable causes :

The main characteristics are not understood properly.

Suggested Remedial Teaching Measures :

The implications of the characteristics must be explained then they will be able to easily recollect the basic features.

Question : 29

Define monopoly.

Type of Question	Marks	Objectives	Concept / Sub-concepts
VSA	1	Knowledge	Defines monopoly.

Expected Answer :

It is a market in which there is only one seller of a commodity.

Deviations – Types and causes :

Many have defined it as having one buyer and one seller. Some have defined it as a place where there is one seller.

Probable causes :

They have only vague idea about the meaning. Not read carefully.

Suggested Remedial Teaching Measures :

The features must be explained, highlighting the main feature that defines this form of market.

Question : 30

In which market form is a firm a price taker ?

Type of Question	Marks	Objectives	Concept / Sub-concepts
VSA	1	Knowledge	Recalls this as a feature of perfect competition.

Expected Answer :

Perfect competition.

Deviations – Types and causes :

Many have not stated the correct form of market.

Probable causes :

Basic characteristics of different market forms have not been read carefully.

Suggested Remedial Teaching Measures :

Features of different forms of markets must be explained and compared.

Question : 31

State three main features of perfect competition.

Type of Question	Marks	Objectives	Concept / Sub-concepts
SA - II	3	Knowledge	Recalls the features of perfect competition.

Expected Answer :

Three main features of perfect competition are :

- (i) Large number of buyers and sellers.
- (ii) The product is homogeneous.
- (iii) There is free entry and exit of firms *etc.*

Deviations – Types and causes :

Many students have written price discrimination as one of the features. Many have drawn AR & MR curves. Many have given unnecessary explanation.

Probable causes :

The features are not to be memorised. There are to be understood. This understanding is lacking.

Suggested Remedial Teaching Measures :

Students just memorise the features and then commit mistakes in recollecting them. They must be explained the significance of each feature.

Question : 32

State the main features of monopoly market.

Type of Question	Marks	Objectives	Concept / Sub-concepts
S.A. - II	3	Knowledge	Recalls the features of monopoly.

Expected Answer :

Main features of a monopoly market are :

- (i) There is a single seller.
- (ii) There is no close substitute of the product.
- (iii) No freedom of entry of new firms.

Deviations – Types and causes :

Some have stated wrong features such as heterogenous product. Some have written about perfect market.

Probable causes :

This is a very easy question. The students do not read the features carefully. They have got vague ideas.

Suggested Remedial Teaching Measures :

Writing practice of such questions is necessary.

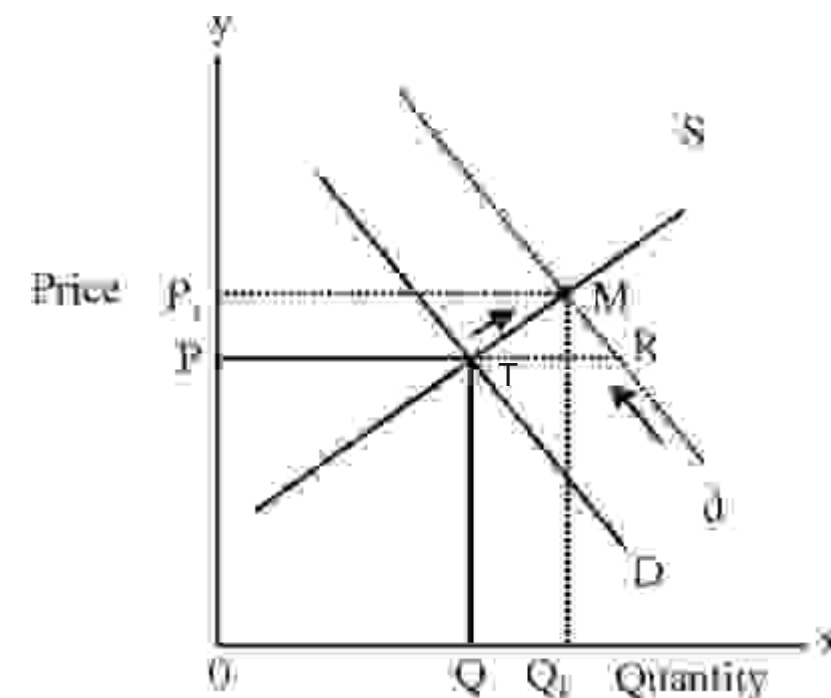
Question : 33

How does an increase in demand of a commodity affect its equilibrium price and equilibrium quantity? Explain with the help of a diagram.

Type of Question	Marks	Objectives	Concept / Sub-concepts
LA	6	Understanding	Explains the meaning of increase in demand in terms of diagram. Explains the various changes that take place and affect the equilibrium price.

Expected Answer :

An increase in demand of a commodity results in a rightward shift of demand curve as shown by dotted demand curve in the diagram.



The original equilibrium price is OP and equilibrium quantity is OQ . When demand curve shifts to right, the quantity demanded at OP price exceeds the quantity supplied by TR . This will result in competition among buyers. This will raise the price. At a higher price, quantity demanded will fall and quantity supplied will increase, resulting in upward movement along new demand curve and given supply curve. This reduces the gap between quantity demanded and quantity supplied. These changes continue till we reach the price OP_1 at which quantity demanded is equal to quantity supplied.

OP_1 is new equilibrium price which is higher than the old equilibrium price. New equilibrium quantity is OQ_1 which is also higher than the old equilibrium quantity.

Deviations – Types and causes :

Most of the students have drawn wrong diagram. Many have assumed shift in supply curve also. Some have not drawn a diagram.

Probable causes :

Answering such questions require an understanding of basic concepts like increase in demand, shift of dd curve, equilibrium price and quantity and how equilibrium price is reached. This understanding is missing. Basic concepts are not clear. So in the answer economic logic is missing. Very little or no practice in drawing diagrams.

Suggested Remedial Teaching Measures :

The distinction between change in demand and change in quantity demanded should be repeatedly explained. They should be explained what these changes mean diagrammatically. Then the concept of excess demand of a commodity must be explained. What changes will take place when there is excess demand, should be repeatedly explained.

Question : 34

How does an increase in the supply of a commodity affect its equilibrium price and equilibrium quantity? Explain with the help of a diagram.

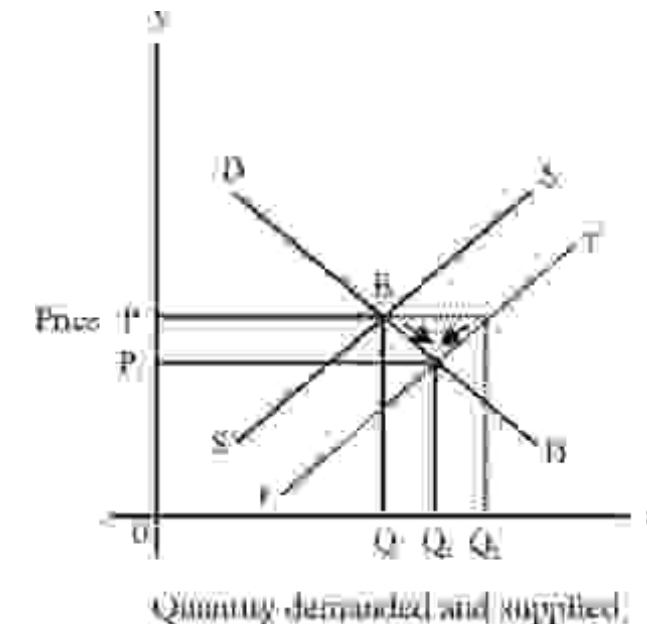
Type of Question	Marks	Objectives	Concept / Sub-concepts
LA	6	Understanding	Explains an increase in supply in terms of diagram. Explains the changes that take place and their effect on equilibrium price & quantity.

Expected Answer :

Dotted supply curve shows increase in supply. OP is the given equilibrium price and OQ is the equilibrium quantity. When SS^1 curve shifts to right due to increase in supply, it shows that at OP price now quantity supplied is OQ_2 which is greater than demand by QQ_2 .

This excess supply results in competition among the sellers leading to fall in the price. A fall

in price results in rise in quantity demanded (a downward movement along the new demand curve) and fall in quantity supplied (a downward movement along new supply curve). These changes continue till we reach price OP_1 . This is new *eq.* price at which quantity demanded and supplied are equal ($=OQ_1$). Hence equilibrium price has fallen from OP to OP_1 and equilibrium quantity has increased from OQ to OQ_1 .



Deviations – Types and causes :

Most of the students have drawn incomplete or wrong diagram. Some have shown increase in supply as left ward shift. Some have shown shift in both demand and supply. None has explained how equilibrium price is affected.

Probable causes :

Lack of understanding of basic concepts and practice of drawing diagrams.

Suggested Remedial Teaching Measures :

Meaning of increase in supply and how it is reflected on a diagram should be explained. Meaning of excess supply and how it affects the price, quantity demanded and supplied must be explained.

UNIT-V

INTRODUCTION

Question : 35

Define macro-economics.

Type of Question	Marks	Objectives	Concept / Sub-concepts
VSA	1	Knowledge	Defines macro-economics.

Expected Answer :

It is the study of the economy as a whole.

Deviations – Types and causes :

Majority of answers are correct.

Suggested Remedial Teaching Measures :

Examples of macro-economic variables and studies must be given.

Question : 36

Give two examples of micro-economic studies.

Type of Question	Marks	Objectives	Concept / Sub-concepts
VSA	1	Knowledge	Gives examples of micro-economic studies.

Expected Answer :

- (i) Study of consumer's equilibrium.
- (ii) Study of price determination of a commodity.

Deviations – Types and causes :

Many have given wrong examples. They have given examples of micro-economic studies.

Probable causes :

The definitions are generally memorised. Examples are not given or not read and discussed.

Suggested Remedial Teaching Measures :

Meaning of such concepts must be explained with examples.

Question : 37

Define micro economics.

Type of Question	Marks	Objectives	Concept / Sub-concepts
VSA	1	Knowledge	Defines Micro-economics.

Expected Answer :

The branch of economics that studies a single unit of the economic system.

Deviations – Types and causes :

Some have defined macro-economics. Many have not defined it clearly, tried to define it in terms of individual.

Probable causes :

Lack of practice of defining the terms or concepts. So they are not able to express correctly.

Suggested Remedial Teaching Measures :

Such concepts should be explained by giving examples. Practice of defining a term is necessary.

UNIT-VI

NATIONAL INCOME & RELATED AGGREGATES-BASIC CONCEPTS AND MEASUREMENT

Question : 38

From the following data about firm 'X' calculate gross value added at factor cost by it.

	Rs. (in thousand)
(i) Sales	500
(ii) Opening stock	30
(iii) Closing stock	20
(iv) Purchase of intermediate product	300
(v) Purchase of machinery	150
(vi) Subsidy	40

Type of Question	Marks	Objectives	Concept / Sub-concepts
SA - II	3	Application	Calculates gross value added at factor cost.

Expected Answer :

$$\begin{aligned}
 \text{Gross value added at fixed cost} &= (i) + [(iii) - (ii)] - (iv) + (vi) \\
 &= 500 + (20 - 30) - 300 + 40 \\
 &= \text{Rs. 230 thousand}
 \end{aligned}$$

Deviations – Types and causes :

Many students have committed the mistake in treating subsidy. They have subtracted it instead of adding it. Purchase of machinery is treated as purchase of intermediate product. Some have wrongly calculated change in stock (opening stock - closing stock).

Probable causes :

They try to recollect which items are added and which subtracted without knowing the reasons for such additions or subtractions. As a result mistakes are committed if there is a slightly changed concept in the question, such as subsidy is given and not net indirect taxes.

Suggested Remedial Teaching Measures :

The meaning of value added with examples must be explained. It should be explained why a particular item is added or subtracted while calculating value added. Meaning of gross and net and at factor cost and market price must be explained..

Question : 39

Distinguish between the following giving suitable examples in support of your answer :

- (a) Domestic product and national product.
(b) Intermediate product and final product.

Type of Question	Marks	Objectives	Concept / Sub-concepts
LA	6	Understanding	Distinguishes between domestic & national products and between intermediate and final products.

Expected Answer :

- (a) Total production within the domestic territory is called domestic product whereas total production by the residents of a country is called national product.
(b) A product which is purchased by one production unit from another for resale is called intermediate product whereas a product purchased for investment or for consumption is called a final product.

Deviations – Types and causes :

- (a) Examples are not given or wrong examples are given. Definition of domestic and national product given by many students is incorrect. Most of the answers are vague.
(b) The definitions given is not correct. Examples given are wrong by many. Wheat is stated as intermediate and sugar as final product by some.

Probable causes :

Meaning of domestic and national is not clearly understood. They are confused in these concepts. Meaning of intermediate and final product is either not explained with lots of examples or is not understood by them.

Suggested Remedial Teaching Measures :

The concept of domestic territory must be explained in brief. Then the student should be asked to find out where a particular production unit is located. If in domestic territory then its production is part of domestic product. They should also be explained that the question ‘who has produced’ is irrelevant in case of domestic product. Similarly where the production is produced is irrelevant for defining national product. In this case ‘who has produced’ is relevant. Meaning of final product in case of consumer and producer must be explained with examples. Meaning of intermediate product must be explained with examples.

Question : 40

Explain briefly the distinction between :

- (a) Gross domestic product at factor cost and net national product at market price.
- (b) National income and net national disposable income.

Type of Question	Marks	Objectives	Concept / Sub-concepts
LA	6	Understanding	Distinguishes between GDP at factor cost and NNP at market price; and NI and net national disposable income.

Expected Answer :

- (a) GDP at factor cost is the value of final products produced by the production units located within domestic (economic) territory reduced by net indirect taxes, *while* NNP at market price is the value of final products produced by the residents of a country and reduced by the consumption of fixed capital.
- (b) National income is the sum total of factor incomes earned by the residents of a country during a year, *while* Net-National Disposable Income is the sum total of earned incomes and transfer incomes reduced by the consumption of Fixed capital accruing to the residents of a country during a given year.

Deviations – Types and causes :

- (a) None of the students has given correct definition. Most have written an equation only.
- (b) Correct meaning of the two concepts are given by most of the students. In place of National Disposable Income, some of them explained Personal Disposable Income.

Probable causes :

The basic concepts are not understood. Memorising these concepts cannot help in answering such question.

Suggested Remedial Teaching Measures :

The difference between gross and net; domestic and national and factor cost and market price must be explained with examples. The meaning of the word ‘disposable’ must be explained with examples.

Question : 41

From the following data, calculate :

- (a) Personal disposable income and
- (b) National income.

	Rs. (in crores)
(i) Private income	3,000
(ii) Compensation of employees.....	800
(iii) Mixed income of self employed.....	900
(iv) Net factor income from abroad	(–) 50
(v) Net retained earnings of private enterprises	600
(vi) Rent.....	350
(vii) Profit.....	600
(viii) Consumption of fixed capital	200
(ix) Direct taxes paid by households	300
(x) Corporation tax	350
(xi) Net indirect taxes	250
(xii) Net exports	(–) 70
(xiii) Interest.....	450

Type of Question	Marks	Objectives	Concept / Sub-concepts
LA	6	Application	Calculates personal disposable income and national income.

Expected Answer :

- (a) Personal disposable income = (i) – (v) – (x) – (ix)
 = 3000 - 600 – 350 - 300
 = Rs. 1750 crores.
- (b) National Income = (ii) + (iii) + (vi) + (vii) + (xiii) + (iv)
 = 800 + 900 + 350 + 600 + 450 - 50
 = Rs. 3050 crores.

Deviations – Types and causes :

- (a) Many have not attempted this part. Some have calculated personal income.
 (b) Corporation tax is added to calculate national income, depreciation is subtracted by many students. Some of them made mistakes in addition and subtraction.

Probable causes :

Most of the students know which items to add and which to subtract without knowing the reasons. So a slight change in the item creates problem. The method of calculating personal disposable income is not at all understood. There is also lack of practice in doing numerical questions.

Suggested Remedial Teaching Measures :

Meaning of net domestic product, income accruing to private sector from domestic, private income, personal income and personal disposable income must be explained. Then how each of these aggregates is calculated and what information is needed for the same must be explained. Students should be repeatedly asked the method of calculating any one of these aggregates. The components of various methods of calculating national income must be explained.

To create confidence among students in solving numerical questions, one question per week must be given.

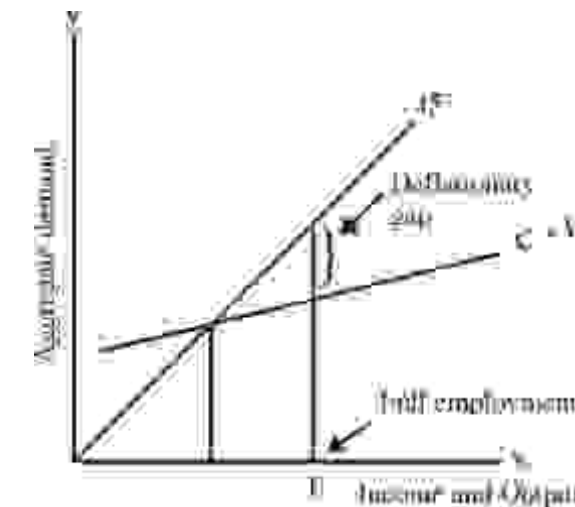
UNIT-VII**DETERMINATION OF INCOME & EMPLOYMENT****Question : 42**

Explain the meaning of deflationary gap with the help of a diagram.

Type of Question	Marks	Objectives	Concept / Sub-concepts
SA - II	3	Understanding	Draw a diagram showing deflationary gap and explain it.

Expected Answer :

In an economy when aggregate demand is less than the aggregate supply at full employment then this gap is called a deflationary gap. In such a situation, output and income start falling.

**Deviations – Types and causes :**

Many have wrongly defined deflationary gap as the difference between aggregate demand and aggregate supply (they have not mentioned aggregate supply at full employment). Some of them have drawn only a diagram. Some have drawn incomplete diagram. (ox and oy axis not labelled).

Probable causes :

It is misunderstood as a difference between aggregate demand and aggregate supply. It is not understood that aggregate supply here refers to the aggregate supply at full employment. This is not understood properly. Lack of practice of drawing diagrams.

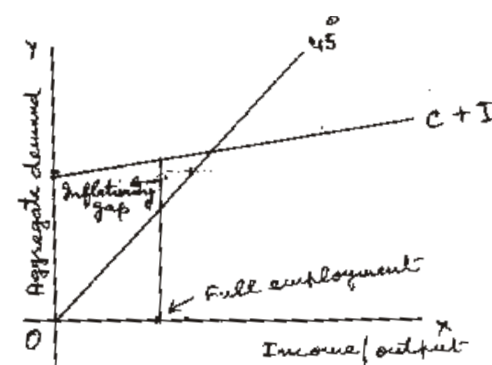
Suggested Remedial Teaching Measures :

The difference between aggregate supply and aggregate supply at full employment must be explained. The difference between aggregate supply at full employment and the given aggregate demand (when former is greater than the latter) is deficient demand. This must be explained with diagram also.

Question : 43

Explain the meaning of inflationary gap with the help of a diagram.

Type of Question	Marks	Objectives	Concept / Sub-concepts
S.A. - II	3	Understanding	Draws a diagram showing inflationary gap and explains its meaning.

Expected Answer :

When in an economy aggregate demand is greater than aggregate supply at full employment then this gap is called inflationary gap. The prices start rising.

Deviations – Types and causes :

Most of the students have not drawn the diagram properly. Full employment level is not shown. OX & OY axis are not labelled. Some have written about deflationary gap. Many have not given the correct meaning. None has explained with the help of diagram.

Probable causes :

The basic concepts are not clear. Lack of practice of drawing diagram.

Suggested Remedial Teaching Measures :

It should be explained that it is the difference between aggregate demand and aggregate supply at full employment. Lot of practice in drawing diagrams is necessary.

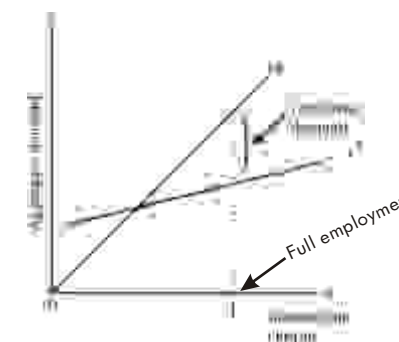
Question : 44

Explain the situation of deficient demand in an economy with the help of a diagram.

Type of Question	Marks	Objectives	Concept / Sub-concepts
S.A. - II	3	Understanding	Draws a diagram showing deficient demand and explain its meaning.

Expected Answer :

When aggregate demand in an economy is less than the aggregate supply at full employment then it is a situation of deficient demand.

**Deviations – Types and causes :**

Most of the students have wrongly defined deficient demand. They have stated it as difference between aggregate demand and aggregate supply and not mentioned aggregate supply at full employment. Most of the students have drawn incomplete diagram (OX & OY axis not labelled).

Probable causes :

The meaning and significance of aggregate supply at full employment is not understood. Lack of practice in drawing diagram. They also do not know how to explain with the help of a diagram.

Suggested Remedial Teaching Measures :

Meaning of deficient demand should be explained. Since it is a relative term, it should be explained that aggregate demand is compared with the aggregate supply and if the former is less than the latter, it is a situation of deficient demand. Student should be asked to draw the diagrams repeatedly.

Question : 45

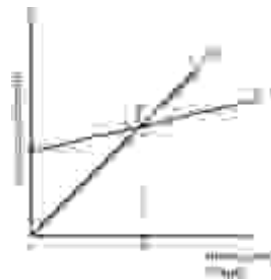
Explain the meaning of equilibrium level of income with the help of a diagram.

Type of Question	Marks	Objectives	Concept / Sub-concepts
S. A. - II	3	Understanding	Draws a diagram showing equilibrium level of income and explains its meaning.

Expected Answer :

When in an economy, aggregate demand is equal to aggregate supply, then the level of income and output is called equilibrium level.

OY_1 is the equilibrium level of income because at this level aggregate demand = TY_1 and aggregate supply = OY_1 and $OY_1 = TY_1$.



Alternatively (OR)

Eq. level of income means that level at which savings and investment are equal. No tendency for income to change. OY_1 is equilibrium level of income. Savings = Investment = TY_1 .

Deviations – Types and causes :

Some have explained the determination of equilibrium price. Some have explained circular flow of income. Most of the diagrams are incomplete or incorrect. None has explained with the help of diagram.

Probable causes :

The basic concept 'equilibrium' is not clear. Lack of practice in drawing of diagrams.

Suggested Remedial Teaching Measures :

The meaning of equilibrium as a state of rest must be explained. Then its meaning in the

context of level of income must be explained. It should be explained as the equality of AD and AS, as well as S and I.

Question : 46

Complete the following table :

Level of income (Rs.)	Consumption Exp. (Rs.)	MPC	MPS
400	240		
500	320
600	395
700	465

Type of Question	Marks	Objectives	Concept / Sub-concepts
S. A. II	3	Application	Calculates DY and DC and then MPC. Then calculates S & DS and then MPS.

Expected Answer :

Level of income (Rs.)	Consumption Exp. (Rs.)	MPC	MPS
400	240	—	—
500	320	$\frac{\Delta C}{\Delta Y} = \frac{80}{100} = 0.8$	$1 - MPC = 0.2$
600	395	$\frac{\Delta C}{\Delta Y} = \frac{75}{100} = 0.75$	$1 - MPC = 0.25$
700	465	$\frac{\Delta C}{\Delta Y} = \frac{70}{100} = 0.7$	$1 - MPC = 0.3$

Deviations – Types and causes :

Very few have correctly answered it. Many have not been able to calculate marginal propensity to consume and save. Some have not attempted this question.

Probable causes :

The definitions are memorised but not understood. So when these are to be applied, as in this question mistakes are committed.

Suggested Remedial Teaching Measures :

The method of calculating ΔC , ΔS and ΔY must be explained. The meaning of MPC & MPS as a ratio of ΔC and ΔY and ΔS & ΔY must be explained. Numerical questions should be given frequently.

Question : 47

Explain the working of investment multiplier with the help of a numerical example.

Type of Question	Marks	Objectives	Concept / Sub-concepts
LA	6	Understanding	Explain how increase in investment affects income with the help of a numerical example.

Expected Answer :

The working of the multiplier is based on the fact that one person's expenditure is other person's income. Suppose investment increases by Rs. 100 crores and mpc in the economy is 0.8. So mps = 0.2.

How increase in investment affect income is shown in the following table :

Rounds	ΔI	Δ	ΔC	ΔS
I	100	100		
II		100 × 0.8	100 × 0.8	100 × 0.2
III		100 × 0.8 × 0.8	100 × 0.8 × 0.8	100 × 0.8 × 0.2
IV		100 × 0.8 × 0.8 × 0.8	100 × 0.8 × 0.8 × 0.8	100 × 0.8 × 0.8 × 0.2
<hr/>				
$\Sigma \Delta Y = 100 \times \frac{1}{1-0.8} = 500$				

In the 1st round expenditure (ΔI) increases by Rs. 100 crores so income increases by Rs. 100 Crores. In second round, out of increased income of 100, 100 × 0.8 is spent on consumption, so consumption expenditure increases by 100 × 0.8. As soon as consumption expenditure increases by 100 × 0.8, income increases by same amount. This process continues till the effect of ΔI is over. If we add the column showing ΔY we get.

$$\Sigma \Delta Y = 100 \times \frac{1}{1-0.8} = 500$$

So total increase in income will be Rs. 500 crores and investment multiplier is $\frac{500}{100} = 5$
(If numerical example is given and explained not in a tabular form, it be treated as correct.)

Deviations – Types and causes :

Many have not been able to show how increase in expenditure increases income which in turn increase, expenditure and how this chain comes to an end. Most of them have only stated that value of $K = \frac{\Delta Y}{\Delta I}$ They have not shown how it is derived.

Probable causes :

This is a difficult area to understand. Basic concepts and relationships such as one person's expenditure will be other's income etc. are either not explained with lots of examples or are not understood.

Suggested Remedial Teaching Measures :

Basic relationship between expenditure and Income must be explained. How increase in expenditure results in increase in income, how increase in income results in increase in consumption expenditure. and so on, this must be explained with numerical examples. Then the effect of savings in this chain must be explained.

Question : 48

Explain with the help of a numerical example how an increase in investment in an economy affects its level of income.

Type of Question	Marks	Objectives	Concept / Sub-concepts
LA	6	Understanding	Explains how increase in Investment affects level of income with a numerical example.

Expected Answer :

Suppose investment increases by Rs. 100 crores and MPC = 0.8. The effect of investment on income can be explained with the help of investment multiplier. The working of multiplier is shown in the following table :

Rounds ΔI	ΔY	ΔC	ΔS
1 100"	100"	$100 \times .8 = 80$	$100 \times .2 = 20$
2	80" ←	$80 \times .8 = 64$	$80 \times .2 = 16$
3	64" ←	$64 \times .8 = 51.2$	$64 \times .2 = 12.8$
.	.	.	.
.	.	.	.
.	.	.	.
$\Sigma \Delta Y = 100 \times \frac{1}{1-0.8}$ $= 500$			

Explanation

Income increases (total increase) by Rs. 500 crores i.e., 5 times of increase in investment.

(If the working of the multiplier is explained numerically but without the use of table, marks may be awarded)

Deviations –Types and causes :

Most of the students have not answered it correctly. Some have discussed aggregate demand and aggregate supply.

Probable causes :

It is either left by the students or they have very vague idea about the concepts and relationships. They tend to memorise the formula. But this question relates to derivation of the formula.

Suggested Remedial Teaching Measures :

One person’s expenditure is another’s income and increase in income results in increase in consumption, expenditure and savings and so on. This sequence of changes must be explained with numerical example. Why and how it ends must be explained, again with numerical example.

Question : 49

In an economy planned savings exceed planned investment. How will the equality between the two be achieved? Explain.

Type of Question	Marks	Objectives	Concept / Sub-concepts
LA	6	Understanding	Explains the meaning of excess of planned saving or planned investment and its effects on income and savings.

Expected Answer :

Excess of planned savings over planned investment means that the expenditure in the economy is less than what the producers had expected. This would result in undesired or unplanned build up of unsold stock. To correct this situation producers will produce less. This will reduce level of output and income. Fall in income will result in fall in savings. These changes will continue till income falls to a level at which savings equal investment.

Deviations –Types and causes :

Many students have given only the meaning of savings and investment. No student has explained how equality between S and I will be achieved. So some have given fiscal and monetary measures of how equality between saving and investment can be achieved.

Probable causes :

Meaning of planned saving and planned investment is not clear. What is the implication of their inequality is not understood.

Suggested Remedial Teaching Measures :

Meaning of savings and who save and who invest must be explained. Savers and investors take their decisions independently. Producers produce to sell. If savings are greater than what producers expect, it should be explained that it means Aggregate. demand is less than Aggregate. supply. Its effect on stock, then on production. and income and then on savings must be explained.

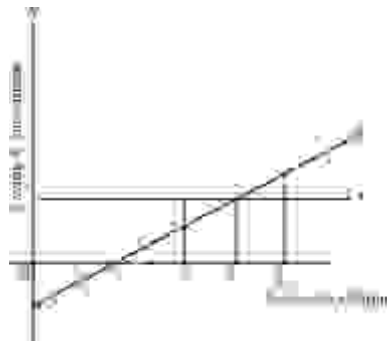
Question : 50

Why should planned savings and planned investment be equal at equilibrium level of income. Explain with the help of a diagram.

Type of Question	Marks	Objectives	Concept / Sub-concepts
LA	6	Understanding	Draws a diagram (S & I curves) showing equilibrium level of income. Takes a pt.

			at which planned savings and investment are not equal and explains the changes that take place.
--	--	--	---

Expected Answer :



OY_1 is the equilibrium level of income at which planned savings and investment are equal.

If planned savings are greater than planned investment then there would be increase in inventories. As a result the producers will reduce production. Income will fall, savings will fall. These changes continue till savings are again equal to investment. This is shown in the diagram at OY_2 level of output. This is not equilibrium level because planned savings > planned investment. So output and income start falling and reach OY_1 level.

Similarly at OY_3 level of income planned savings are less than planned investments. So inventories deplete. Producers produce more, level of income and savings rise and again reach equilibrium level of income OY_1 .

Deviations – Types and causes :

Hardly a few have attempted this question (it was a choice question). Those who have attempted, they have discussed it in terms of aggregate demand and aggregate supply.

Probable causes :

Meaning of basic concepts of planned savings and planned investment and equilibrium is not clear.

Suggested Remedial Teaching Measures :

The meaning of equilibrium as a state of rest must again be explained. If sand I are not equal then changes will take place, this must be explained. Then the chain of changes and how these will end must be explained. Sufficient practice of drawing diagrams is necessary for the students.

UNIT-VIII

MONEY AND BANKING

Question : 51

Explain any two functions of a commercial bank.

Type of Question	Marks	Objectives	Concept / Sub-concepts
S. A. - I	4	Understanding	Explains two functions of a commercial bank.

Expected Answer :

Main functions of a commercial bank are :

- (i) Accepting Deposits.
- (ii) Giving loans.
- (iii) Discounting Bills of Exchange.
- (iv) Acting as an agent of its customers, collecting and making payments on their behalf.

Deviations – Types and causes :

Many students have unnecessarily written more than two functions. The functions have either not been explained or vaguely explained.

Probable causes :

Not much time is devoted on this unit, so they are able to recollect only the main points. Proper explanation of these points is ignored.

Suggested Remedial Teaching Measures :

Each function must be explained fully.

Question : 52

State the main functions of a central bank.

Type of Question	Marks	Objectives	Concept / Sub-concepts
S. A. - I	4	Knowledge	States the main functions of central bank.

Expected Answer :

Main functions of a central bank are :

- (i) Currency authority or Bank of issue.
- (ii) Banker to the Government.
- (iii) Controller of money supply and credit.
- (iv) Lender of the last resort, etc.

Deviations – Types and causes :

Almost all the students have answered it correctly.

Probable causes :

No explanation was required. So they recollected the main points and reproduced them.

Suggested Remedial Teaching Measures :

The functions must be fully explained to the students.

Question : 53

State the four functions of money.

Type of Question	Marks	Objectives	Concept / Sub-concepts
SA - I	4	Knowledge	States the functions of money.

Expected Answer :

Four functions of money are :

- (i) Medium of exchange.
- (ii) Store of value.
- (iii) Unit of value.
- (iv) Standard of deferred payments.

Deviations – Types and causes :

Some have written medium of transfer in place of medium of exchange. Most of the students have not stated the function of 'standard of deferred payment.'

Probable causes :

The meaning of concept like 'standard of deferred payment' is not clear, so they are not able to recollect it easily.

Suggested Remedial Teaching Measures :

The meaning of each of the functions must be explained.

UNIT-IX**GOVERNMENT BUDGET AND THE ECONOMY****Question : 54**

Why is repayment of loan a capital expenditure ?

Type of Question	Marks	Objectives	Concept / Sub-concepts
VSA	1	Understanding	Gives the reason why repayment of loan is a capital expenditure.

Expected Answer :

Because repayment of loan reduces the liability.

Deviations – Types and causes :

None of the students has given the reason for classifying it as capital expenditure.

Probable causes :

The basis of classification of the expenditure into capital and revenue expenditure is not clear.

Suggested Remedial Teaching Measures :

The meaning of capital expenditure must be explained with example.

Question : 55

Why is payment of interest a revenue expenditure?

Type of Question	Marks	Objectives	Concept / Sub-concepts
VSA	1	Understanding	Gives the reason for treating payment of interest as revenue expenditure.

Expected Answer :

Payment of interest does not create an asset and also does not reduce a liability.

Deviations – Types and causes :

None has answered it correctly.

Probable causes :

Meaning of revenue and capital expenditure is not clear.

Suggested Remedial Teaching Measures :

Meaning of revenue expenditure must be explained with as many examples as possible.

Question : 56

Why are subsidies treated as revenue expenditure?

Type of Question	Marks	Objectives	Concept / Sub-concepts
VSA	1	Understanding	Gives the reason why subsidy is a revenue expenditure.

Expected Answer :

Subsidies do not create an asset or reduce a liability.

Deviations – Types and causes :

None has given the correct reason.

Probable causes :

Meaning of revenue and capital expenditure not clear.

Suggested Remedial Teaching Measures :

The meaning of revenue expenditure must be explained with as many examples as possible.

Question : 57

Why are borrowings treated as capital receipts?

Type of Question	Marks	Objectives	Concept / Sub-concepts
VSA	1	Understanding	Gives the reason for treating borrowings as capital expenditure.

Expected Answer :

Because borrowings create a liability.

Deviations – Types and causes :

None has given a correct reason.

Probable causes :

Meaning of capital receipts and revenue receipts is not understood.

Suggested Remedial Teaching Measures :

Meaning of capital receipts must be explained and different category of examples should be given.

Question : 58

Why is recovery of loans treated as a capital receipts?

Type of Question	Marks	Objectives	Concept / Sub-concepts
VSA	1	Understanding	Gives the reason for treating borrowings as capital expenditure.

Expected Answer :

Because recovery of loans reduce an asset.

Deviations – Types and causes :

None has given a correct reason.

Probable causes :

Meaning of capital receipts and revenue receipt is not understood.

Suggested Remedial Teaching Measures :

Basis of classifying receipts into capital and revenue receipts must be explained with lots of example.

Question : 59

What is meant by revenue deficit? What are its implications?

Type of Question	Marks	Objectives	Concept / Sub-concepts
SA - II	3	Knowledge	State the meaning and implication of revenue deficit.

Expected Answer :

Revenue deficit is the excess of revenue expenditure over revenue receipts.

Revenue deficit means spending beyond the means. This will result in borrowing. Loans are paid back with interest. So in future on account of interest payment, the revenue expenditure will increase. Hence there is a possibility of greater revenue deficit in future unless revenue expenditure on other heads is reduced or revenue receipts are increased.

Deviations – Types and causes :

Many have defined it as difference between expenditure and revenue. Instead of implications, most of the students have written suggestions to reduce it.

Probable causes :

They are confused between revenue and receipts because then do not understand the meaning of revenue receipts and revenue expenditure. The word implications is not understood.

Suggested Remedial Teaching Measures :

The meaning of the word implication must be explained. The basic concepts such as revenue receipt and revenue expenditure, revenue budget must be explained.

Question : 60

What is the basis of classifying government expenditure into revenue expenditure and capital expenditure? Give an example of each.

Type of Question	Marks	Objectives	Concept / Sub-concepts
SA - II	3	Understanding	Explain how an Expenditure is classified as revenue / capital expenditure. Give example.

Expected Answer :

Any expenditure that either creates an asset or reduces a liability is called capital expenditure. Any expenditure that neither creates an asset nor reduces a liability is called revenue expenditure.

Example of Capital Expenditure : Construction of factory etc.

Revenue Expenditure : Payment of salaries etc.

Deviations – Types and causes :

Most of the students have given totally wrong answer. Even examples given are not correct.

Probable causes :

The meaning of the concepts 'asset' and 'liability' is not clear. So it is not possible to understand the meaning of revenue expenditure. and capital expenditure.

Suggested Remedial Teaching Measures :

The meaning of an asset and liability must be explained with examples before explaining the basis of classification of expenditure into revenue and capital expenditure.

Question : 61

Define tax, give two examples of direct and indirect taxes .

Type of Question	Marks	Objectives	Concept / Sub-concepts
SA - II	3	Knowledge	Defines tax. Gives example of direct & indirect taxes.

Expected Answer :

A tax is a legally compulsory payment made to the government.

Examples Direct tax : Income tax, Wealth tax etc.

Indirect tax : Sales tax, Excise duty etc.

Deviations – Types and causes :

Tax is defined as anything given to government, by many students. Examples given are also in correct.

Probable causes :

Lack of practice in defining a term or concept. The basis of classifying taxes into direct and indirect is not understood.

Suggested Remedial Teaching Measures :

Method of defining a concept or term must be explained. Basis of classifying the tax into direct and indirect must be explained with examples.

Question : 62

Define a government budget, state any four of its main objectives.

Type of Question	Marks	Objectives	Concept / Sub-concepts
SA - II	3	Knowledge	Defines a Govt. budget and states four objectives of a budget.

Expected Answer :

It is a statement of estimated receipts and expenditure of the government for a financial year.

Objectives :

- (i) Reallocation of resources.
- (ii) Reducing inequalities.
- (iii) Price stability.
- (iv) Financing public enterprise etc.

Deviations – Types and causes :

Some students have given only two objectives. Some have given only the definition.

Probable causes :

This part of the syllabus is not read carefully. This is a question where they had to recollect, no explanation was required.

Suggested Remedial Teaching Measures :

The meaning of different objectives must be explained with examples. How does a Govt. try to achieve these objective through budgetary policy? This must be explained.

Question : 63

Distinguish between :

- (i) Revenue receipts and capital receipts.
- (ii) Direct tax and indirect tax.

Type of Question	Marks	Objectives	Concept / Sub-concepts
SA - I	4	Understanding	Explains the distinction between revenue receipts and capital receipts and direct and indirect tax.

Expected Answer :

- (a) Revenue receipts are receipts that neither create a liability nor reduce an asset whereas capital receipt either create a liability or reduce on asset.
- (b) When the liability to pay and the burden of a tax falls on the same person, it is a direct tax. When the burden of a tax can be shifted to some other person, it is an indirect tax.

Deviations – Types and causes :

- (a) Most of the students have wrongly defined revenue and capital receipts.
- (b) Many students have written direct tax as the tax directly paid and indirect tax as indirectly paid to the government.

Probable causes :

The meaning of these concepts in not clear.

Suggested Remedial Teaching Measures :

Basis of classifying receipts into revenue and capital receipts must be explained with examples.

Basis of classifying taxes into direct and indirect must be explained with examples.

Question : 64

Explain the meaning and implications of fiscal deficit.

Type of Question	Marks	Objectives	Concept / Sub-concepts
SA - I	4	Understanding	Explain the meaning of fiscal deficit and then its implications.

Expected Answer :

Fiscal deficit is the excess of total expenditure of the government over its total receipts (excluding borrowing).

The fiscal deficit is financed by borrowing. Borrowing results in payment of interest and repayment of loans in future. This creates additional burden and may result in larger deficits in future because payment of interest and repayment of loans may mean more borrowing and more problems.

Deviations – Types and causes :

Some have given the cause of fiscal deficit. Most of the students have not written the implications.

Probable causes :

The word implications is not understood. Or this part has been ignored while preparing for the examination.

Suggested Remedial Teaching Measures :

The meaning of 'implication' must be explained. Meaning of fiscal deficit should be explained giving numerical example. The debate on 'Is fiscal deficit bad?' or 'Are borrowings bad?' should be organised, if possible. This will help in understanding the meaning of implications of fiscal deficit.

UNIT-X

BALANCE OF PAYMENTS

Question : 65

What is meant by balance of trade?

Type of Question	Marks	Objectives	Concept / Sub-concepts
VSA	1	Knowledge	Gives the meaning of balance of Trade.

Expected Answer :

Balance of trade is the difference between value of exports and imports of good.

Deviations – Types and causes :

Most of the answers state only the difference between exports and imports not exports and import of goods.

Probable causes :

The difference in 'exports' and 'export of goods is not understood.

Suggested Remedial Teaching Measures :

It should be explained that export / import of goods and export / import of services are recorded separately in the Balance of Payments account. The former are termed as export and import of merchandised and the latter as invisible. The reasons must be explained.

Question : 66

What is meant by balance of payment account.

Type of Question	Marks	Objectives	Concept / Sub-concepts
VSA	1	Knowledge	Gives the meaning of balance of payment account.

Expected Answer :

It is the summary statement of transactions in foreign exchange in a year.

Deviations – Types and causes :

Definition given by most of the students is not correct. Defined as transaction between countries of the world.

Probable causes :

Lack of practice in defining the terms.

Suggested Remedial Teaching Measures :

Meaning of B.O.P. must be explained. Why is it prepared should also be explained.

Question : 67

What is the difference between value of export and import of goods called.

Type of Question	Marks	Objectives	Concept / Sub-concepts
VSA	1	Knowledge	Recalls the meaning of balance of trade as the difference between value of export and import of goods.

Expected Answer :

It is called balance of trade.

Deviations – Types and causes :

Most of the student have answered correctly. Some have answered it as balance of payment.

Probable causes :

Meaning of balance of trade not understood.

Suggested Remedial Teaching Measures :

Small numerical questions should be given frequently.

Question : 68

**What is meant by visible and invisible items in the Balance of payments account?
Give two examples of invisible items.**

Type of Question	Marks	Objectives	Concept / Sub-concepts
SA - I	4	Knowledge	Give the meaning of visible and invisible items. Gives examples (Recollects).

Expected Answer :

Visible items refer to items relating to trading in goods with other countries. Invisible items refer to items relating to trading of services with other countries and unilateral transfers.

Two examples of invisible items are :

1. Transport services.
2. Insurance and banking etc.

Deviations – Types and causes :

Many have given dictionary meaning of visible and invisible. Examples of invisible items not given by many.

Probable causes :

Economic meaning of visible and invisible items is not understood.

Suggested Remedial Teaching Measures :

The meaning of visible and invisible items and why they are so called must be explained.

Question : 69

List four items each of current account and capital account of the balance of payments account.

Type of Question	Marks	Objectives	Concept / Sub-concepts
SA - I	4	Knowledge	States four items each of current account and capital account.

Expected Answer :

Four items of current account :

- (i) Export of goods.
- (ii) Import of goods
- (iii) Unilateral transfers
- (iv) Exports of services, etc.

Capital account :

- (i) Foreign direct investment.
- (ii) Portfolio investment
- (iii) Foreign borrowing
- (iv) Non-resident deposits, etc.

Deviations – Types and causes :

The items given for each account are wrong by many students.

Probable causes :

Meaning of Current A/c and Capital A/c is not clear.

Suggested Remedial Teaching Measures :

The basis of classification of the balance of payment account into current and capital account must be explained. Then examples be given.

Question : 70

Mention four sources each of demand and supply of foreign exchange.

Type of Question	Marks	Objectives	Concept / Sub-concepts
SA - I	4	Knowledge	States four sources of demand & supply of foreign currency.

Expected Answer :

Sources of demand for Foreign Exchange.

- (i) Importers.
- (ii) Sending gifts abroad.
- (iii) Investment abroad.
- (iv) Tourists going abroad etc.

Sources of supply of Foreign Exchange.

- (i) Exports.
- (ii) Foreign tourists.
- (iii) Remittances from abroad.
- (iv) Foreign investments, etc.

Deviations – Types and causes :

This has been attempted correctly by most of the students. Some have mentioned on 2 or 3 sources.

Probable causes :

A very easy question but this part of the syllabus not read properly.

Suggested Remedial Teaching Measures :

Who demands foreign currency and why must be explained. Similarly who supplies *i.e.*, the sources of supply of foreign currency must be explained by giving examples.

Question : 71

What is meant by foreign exchange rate? Give three reasons why people desire to have foreign exchange.

Type of Question	Marks	Objectives	Concept / Sub-concepts
SA - I	4	Understanding	States the meaning of foreign exchange rate. Gives reasons for demand of foreign currency.

Expected Answer :

The rate at which one currency is exchanged for another currency. The three reasons are:

1. To import from other countries.
2. To send a gift abroad.
3. To purchase financial assets abroad, etc.

Deviations – Types and causes :

(It is a choice question.) Very few have attempted it. Most of those who have attempted have answered correctly.

Probable causes :

Meaning of foreign exchange rate is not properly understood.

Suggested Remedial Teaching Measures :

Meaning of foreign exchange should be explained and numerical example be given while explaining the meaning of foreign exchange rate.

ACKNOWLEDGMENT

Mr. S. N. Sharma

Ms. Jessy Raphael

Ms. Puneeta Bhasin

Ms. Priya Vaidya

Ms. Shashi Gauba

Ms. Shivani Anand

Mr. Jose Thomas

Ms. Anjali Tyagi

Ms. Anita Jain

Ms. Indu Malik

Co-ordinator : Ms. Sugandh Sharma, CBSE