

Performance Analysis Study in ECONOMICS

(Based on March 2015 Examination)
Class XII



CENTRAL BOARD OF SECONDARY EDUCATION

Shiksha Kendra, 2, Community Centre, Preet Vihar, Delhi-110092







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in
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भारत का संविधान

उद्देशिका

हम, भारत के लोग, भारत को एक सम्पूर्ण¹ 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

²और राष्ट्र की एकता और अखंडता
सुनिश्चित करने वाली बंधुता बढ़ाने के लिए

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

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

- (क) संविधान का पालन करे और उसके आदर्शों, संस्थाओं, राष्ट्रध्वज और राष्ट्रगान का आदर करे;
- (ख) स्वतंत्रता के लिए हमारे राष्ट्रीय आंदोलन को प्रेरित करने वाले उच्च आदर्शों को हृदय में संजोए रखे और उनका पालन करे;
- (ग) भारत की प्रभुता, एकता और अखंडता की रक्षा करे और उसे अक्षुण्ण रखे;
- (घ) देश की रक्षा करे और आह्वान किए जाने पर राष्ट्र की सेवा करे;
- (ङ) 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;
- (च) हमारी सामासिक संस्कृति की गौरवशाली परंपरा का महत्त्व समझे और उसका परिरक्षण करे;
- (छ) प्राकृतिक पर्यावरण की जिसके अंतर्गत वन, झील, नदी, और वन्य जीव हैं, रक्षा करे और उसका संवर्धन करे तथा प्राणी मात्र के प्रति दयाभाव रखे;
- (ज) वैज्ञानिक दृष्टिकोण, मानववाद और ज्ञानार्जन तथा सुधार की भावना का विकास करे;
- (झ) सार्वजनिक संपत्ति को सुरक्षित रखे और हिंसा से दूर रहे;
- (ञ) 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;
- ¹(ट) यदि माता-पिता या संरक्षक हैं, छह वर्ष से चौदह वर्ष तक की आयु वाले अपने, यथास्थिति, बालक या प्रतिपाल्य के लिये शिक्षा के अवसर प्रदान करे।

1. संविधान (छयासीवां संशोधन) अधिनियम, 2002 की धारा 4 द्वारा प्रतिस्थापित।

THE CONSTITUTION OF INDIA

PREAMBLE

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a ¹**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 the² 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)
 2. Subs, by the Constitution (Forty-Second Amendment) Act. 1976, sec. 2, for "unity of the Nation" (w.e.f. 3.1.1977)
-

THE CONSTITUTION OF INDIA

Chapter IV A

FUNDAMENTAL DUTIES

ARTICLE 51A

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

- (a) to abide by 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;
- ¹(k) to provide opportunities for education to his/her child or, as the case may be, ward between age of 6 and 14 years.

-
1. Subs. by the Constitution (Eighty - Sixth Amendment) Act, 2002

Foreword



The future of world is in classroom today. Therefore, teaching has become one of the most challenging and responsible job. A teacher can facilitate better learning by simplifying the most difficult topics. Teaching pedagogies are also taking new shapes with time; consequently the role of a teacher has to be modified in the modern times. A teacher is no longer a resource provider as in this digital age, information is available to students at the click of a button. A teacher has to be a mentor for the students and show them the way to acquire knowledge and teach them what is to be done with the vast information they have access to. Keeping pace with the changing and challenging times, Central Board of Secondary Education has been trying to devise an appropriate examination and evaluation system to ensure that the students are in sync with the dynamism of the modern education system.

Chanakya rightly quoted, “**Learn from mistakes of others, one can’t live long enough to make them all oneself.**” The exercise of **Performance Analysis Study** will be an important tool for teachers and students to understand the common errors and suggested rectifications of the errors; it is an important corrective measure for the examinations in the coming years. The analysis of question papers, common errors committed by students and topic-wise suggestive measures will help the teachers to mould their lectures and strengthen the specific areas of concern which the students find difficult.

In this Performance Analysis Study, common observations by the subject experts have been compiled for the benefit of students and teachers. Teachers should also be cautious with the common errors and simultaneously take up the concepts which are confusing for students. Individual feedback to each learner is the most effective way to correct errors. Cross references and simultaneous appraisal will help students to strengthen their concepts and to comprehend the application in a real life situation too.

This year, the Board has brought out Performance Analysis Studies in subjects of Economics and Mathematics. I am sure our teachers will be benefited from these studies. I am thankful to Mrs. Sugandh Sharma Additional Director and Incharge (Research & Innovation), under whose guidance, the team comprising Sh. Subhash Chand (Deputy Director), Dr. Manjit Singh (Deputy Director) and subject experts of Mathematics and Economics have worked hard with sincerity and dedication and have done a wonderful job.

Y.S.K. Seshu Kumar
Chairman, CBSE





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Introduction



Central Board of Secondary Examination is constantly making efforts to enable the students feel comfortable and fearless not only with taking exams but also by giving them variety of learning support material whenever and wherever needed. Class XII result is an important stepping stone for building a sound career of a student. A good result in class XII is possible only if there are less mistakes in the answer sheets of students. Economics can be a scoring subject if the mistakes made by students are minimized. Keeping this in view, Performance Analysis Study (Economics) was conducted, based on March 2015 examination.

The objective of this study was to find out the common mistakes and their probable causes which will help teachers to improve instructional strategies leading to better understanding of the subject. This will serve as a tool for improving academic achievements in the overall teaching/learning process.

In the light of above mentioned context, Performance Analysis Study was conducted. For this purpose, a random sample of total 450 answer sheets-was selected for all three sets of question papers. Out of 450 answer-sheets, 300 answer-sheets (100 of each set) were from 9 CBSE regions and 150 answer-sheets (50 of each set) from CBSE Delhi region. The answer-sheets were taken out with following scheme:

CBSE Regions taken together (other than Delhi region)

Marks	0-32	33-45	46-60	61-75	76 & above
Answer sheets	50	70	70	60	50

CBSE Delhi Region

Marks	0-32	33-45	46-60	61-75	76 & above
Answer sheets	20	40	40	30	20

Each answer sheet was scrutinized by a group of subject experts. The mistakes made by majority of students in a question were noted down and finally the errors and their remedies were discussed. Similar/ duplicate questions in the question papers of different regions were skipped in order to avoid repetition. The questions were then arranged chapter-wise so that the students/ teachers should know the nature of questions and mistakes being committed in different chapters.

The data has been analyzed both quantitatively and qualitatively. Bar Graph for each item is drawn to highlight the result. Qualitative analysis has been done through analysis of errors and giving their probable causes as well as remedial measures.

GENERAL OBSERVATIONS

After going through several answer sheets, it was found that many mistakes are common and can be omitted if proper instructions are given by the teachers and the students are more careful in attempting the question. Although question wise analysis will be given, but some general observations are given as under:





- **Basic Concepts**

It was surprising to see the lack of conceptual clarity among students even in topics/ concepts which have been asked in exams time and again. For example:- meaning and definition of indifference curve, significance of posting an item in debit or credit side of balance of payment account; intermediate goods, transfer payment etc. have been attempted wrongly by many students. Similarly, steps of chain effect when demand/ supply for a good increases/decreases if market of good is in equilibrium, were wrongly attempted by many either by giving multiple diagrams or by not explaining the steps of chain effect properly. Minute details like gifts to and from abroad are part of transfer payment in balance of payment and the correct concept of indifference curve was missed by students and probably by teachers too.

- **Direct and Indirect relationship of variables**

Two or more variables may or may not be related to each other. If the variables are related, there may be a direct or an indirect relationship between them. The effect of change in one variable due to another should be understood by students clearly. For example:-

Price of foreign currency and National Income; the relationship between Real and Nominal GDP and meaning of price index were missed out by a larger lot in spite of having a similar question in the Sample Question Paper released by CBSE.

Simple relationships like that of MPC & MPS with multiplier; relationship of income of consumer with demand of inferior good etc were attempted incorrectly by many students.

- **Lack of practice of application based and HOTS questions**

Application based questions require a good understanding of concepts. A student can apply a concept to practical use only through knowledge. Cramming the formula and relationship will not help a child to score good marks. Some of the notable errors were:-

- $Y = C + I = \{\bar{C} + MPC(Y)\} + I$, the equation was not understood by many students. The significance of each variable in equation and their relationship with each other was not clear to them.
- The reason of applying minus sign in relationship of price of commodity and demand etc.
- The effect of repo rate/bank rate etc. in reducing inflationary/deflationary gap,
- Calculation error in estimating depreciation when Gross Domestic Capital Formation and Net Domestic Capital Formation, was found.
- Treatment of Net Factor Income to Abroad as Net Factor Income FROM abroad.

- **Drawing of diagrams**

Most of students learnt the diagrams instead of understanding them. For example, in the question where different phases of law of Variable Proportion was asked in terms of MPP, most of students explained it in terms of TPP along with MPP. The TPP curve did not have the convex then concave shape at proper places rather the curve was increasing reaching maximum becomes constant and started decreasing. The point of inflexion was not present in most of curves. Labelling of axis, curves was not there for many diagrams.



SUGGESTIONS

The study group made the following suggestions:

- **Conceptual Understanding**

Teachers should understand that purpose of teaching and learning is not only to score marks in exams but also to properly grasp the concept and to apply the same in a real life situation. A teacher while teaching the subject should be aware of common errors and devote extra time by providing real life examples based on application. Reference of current happenings and the impact of policies should also be discussed. Students of economics should develop the habit of reading newspapers and analysing the news reports regularly.

- **Application based HOTS and Value Based Questions**

The students are expected to understand the variable and calculate missing value after applying the direct and indirect relationship of variables. Proper way to attempt such a question is to scientifically study the relationships of variables with each other and apply the same to crack the question. The application of concept in real life situation like effect on PPC due to “Make in India policy” of government is possible only when the concept and policy are properly understood by the learner. The indirect relations of variables should also be understood to avoid mistakes. The numerical questions in economics are not formula based rather they are based on relationships of variables and a slight twist in question will change the formula/application of the formulae. If a student is well versed in application based aspects, he/she is very unlikely to commit mistake in solving.

Learning Values in education is getting more and more important each day but it has been observed that students are not able to score well in value based questions too. List of values is available on CBSE websites. Students should adhere to same to improve score in Value based questions. Also, while teaching the basic meaning of economics teachers must also give reference to the positive and normative aspect of economics as a subject.

- **Drawing of diagrams**

The diagram is a tool which supports and enhances the understanding of the concept and help in practical applicability. Diagram makes the study realistic and it becomes easy for learner to apply the knowledge in real life situation. It helps the learner to reproduce the explanation but the following points should be kept in mind during examination:

- i. Diagrams should be provided only when asked exclusively in the question, or when they are extremely essential to support the answer as they are time consuming.
- ii. Diagram should be properly labelled. The axis and variable for which the relationship is drawn should be clearly defined.
- iii. It has been observed that students start the answer with a diagram, which is not appreciated and is a flawed approach to answer the question. Teachers should tell that first the answer should be introduced, followed by the diagram and its explanation which is very crucial and should be properly given. E.g : if the market





equilibrium for a good is to be explained, the learner should explain where and how the equilibrium is reached and should also explain why the equilibrium is at the specific point and why not a point before or after.

iv. The curves should be properly shaped and clearly marked.

- **Time Management**

The examination of 100 marks is conducted in three hours i.e. 180 minutes, of which ideally 15 minutes are kept for through revisions, a student is left with almost 165 minutes for each mark. Since one mark questions and MCQ's take lesser time hence the saved time can be used in long answer type questions and short answer type questions. Reading time of fifteen minutes should be utilized properly. Examinees should mentally make notes for each question while reading them. Among the choice questions, examinee should finalize the choice of question which he/she wants to attempt during the reading time itself.

While attempting the paper, the students should adhere to the word limit and answer strictly what is asked in the exam. Unnecessary details should be avoided. For the effective time management, the practice of previous year question papers and sample question paper issued by the board is advisable. Enough practice will ensure the student to attempt exam within allotted time and up to his satisfaction level.

- **Inculcating Reading as a Habit**

Reading prepares a student to observe, analyse and comprehend global trends. Hence, regular reading of business newspapers, magazines and regular updates on current affairs will go a long way in preparing students, as reading habit is a must in today's times. An eye of global trends helps a learner to deeply ponder on the effects of policies at micro and macro level. New thoughts also are sown in fresh mind to bear its fruit not only just in scoring well in exams but later in the tests of life also.



Unit-1



Introduction

Question No.1

3 Marks

Type of question: Understanding

Giving reason comment on the shape of Production Possibilities Curve based on the following schedule:

Good X (units)	Good Y (units)
0	30
1	27
2	21
3	12
4	0

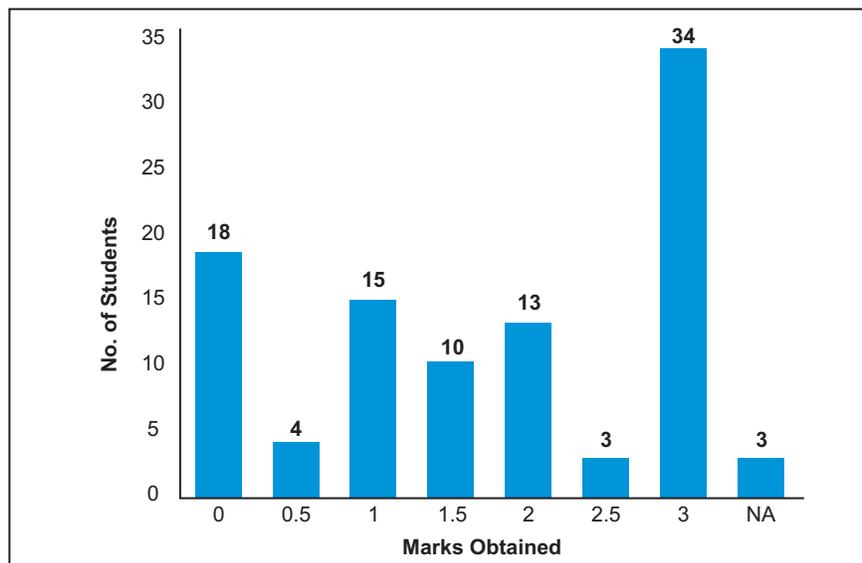
Answer:

Good X (Units)	Good Y (Units)	MRT
0	30	–
1	27	3Y:1X
2	21	6Y:1X
3	12	9Y:1X
4	0	12Y:1X

Since MRT is increasing, the PP curve is downward sloping concave to the origin. **(Diagram not required)**

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	Mean Score	% Mean Score
Percentage	3	18	4	15	10	13	3	34	1.726	57.50





Common Errors:

- Students have not calculated MRT which is the actual basis of this answer.
- Many students have written PPC to be downward sloping and concave, without giving any reasons.
- Many students explained only downward sloping nature of PPC without mentioning to concavity of PPC.
- Some students have explained only concavity of PPC.
- Many students have plotted PPC which was not required.
- Reverse formula of MRT (Δ_x/Δ_y) is used, instead of MRT (Δ_y/Δ_x).

Suggestions:

- Teachers should emphasize that reason of concavity of PPC is increasing MRT which needs to be calculated if units of X and Y are given numerically.
- Students need to understand that plotting of quantities of X and Y is not the basis of studying shape of PPC.
- Students should not draw diagrams where these are not required.
- Teachers should tell students that both downward sloping nature and concavity of PPC should be given wherever shape of PPC is required.

Question No. 2

3 Marks

Type of question: Understanding

What is likely to be the impact of “Make in India” appeal to the foreign investors by the Prime Minister of India, on the production possibilities frontier of India ? Explain.

OR

What is likely to be the impact of efforts towards reducing unemployment on the production potential of the economy? Explain.

Answer:

‘Make in India’ appeal signifies invitation to foreign producers to produce in India. This will lead to increase in resources thus raising production potential of the country. As a result PP curve will shift upwards. **(Diagram not required)**

OR

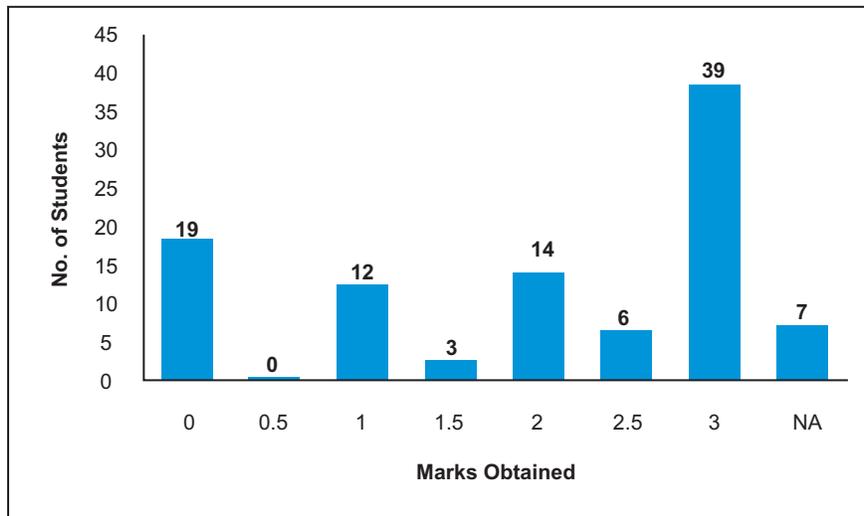
Reducing unemployment has no effect on the production potential of the country. It is because production potential is determined assuming full employment.

Unemployment indicated that the country is operating below potential. Reducing unemployment simply helps in reaching potential. **(Diagram not required)**

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	Mean Score	% Mean Score
Percentage	7	19	0	12	3	14	6	39	1.897	63.20





Common Errors of 'Make in India':

- Students have written wrong reasons for rightward shift in PPC:- like increase in demand & supply, Increase in Employment, increase in efficiency etc. Such wrong reasons were prime reasons of marks deduction for students.
- Many students have not explained increasing marginal rate of transformation as the reason of rightward shift in PPC.
- Some of the students did not write the effects on the PPC altogether.
- Foreign investment is explained without its impact on PPC, some students stated foreign direct investment (FDI & FII) as well.

Suggestions:

- Teachers should explain clearly about the shift in PPC together with the probable causes.
- Teachers should strive for inculcating the habit of reading newspaper among the students & guide them to correlate the events with the economic theories.

OR

Common Errors of "Reduction in Unemployment":

- Students have explained general impact of increase in employment like economic growth, increase in knowledge, decrease in poverty etc.
- Majority of students have not mentioned the effect of reducing unemployment on PPC.
- Most of the students have drawn diagram which was not required.

Suggestions:

- Teachers should explain situations in which economy is working below the PPC and when will it move towards PPC.
- Teacher should clearly explain when does PPC shifts rightwards, i.e. all situations leading to increase in resources and advancements in technology only.
- Students must relate their explanation of the situation given with PPC.





Question No. 3

3 Marks

Type of question: Understanding

Giving reason comment on the shape of Production Possibilities Curve based on the following table :

Good X (units)	Good Y (units)
0	10
1	9
2	7
3	4
4	0

Answer:

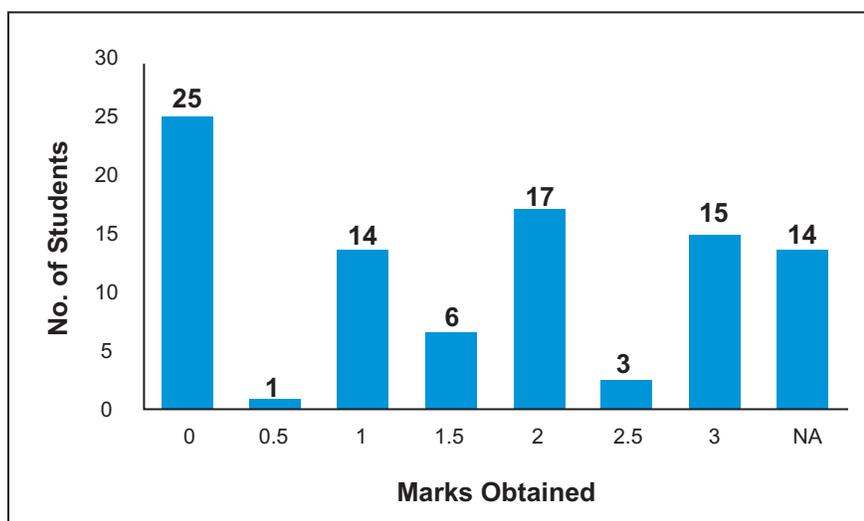
Good X (Units)	Good Y (Units)	MRT
0	10	–
1	9	1Y:1X
2	7	2Y:1X
3	4	3Y:1X
4	0	4Y:1X

Since MRT is increasing, the PP curve is downward sloping concave to the origin.

(Diagram not required)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	Mean Score	% Mean Score
Percentage	14	25	1	14	8	17	3	15	1.4534	48.44





Common Errors:

- Students have not calculated MRT which is the actual basis of this answer.
- Many students have written PPC to be downward sloping and concave, without giving any reasons.
- Many students explained only downward sloping nature of PPC without mentioning to concavity of PPC.
- Some students have explained only concavity of PPC.
- Many students have plotted PPC which was not required.
- Reverse formula of MRT (Δ_x/Δ_y) is used, instead of MRT (Δ_y/Δ_x).

Suggestions:

- Teachers should explain clearly about the shift in PPC together with the.
- Teachers should strive for inculcating the habit of reading newspaper among the students & guide them to correlate the events with the economic theories.

Question No. 4

3 Marks

Type of question: Understanding

What will be the impact of recently launched ‘Clean India Mission’ (Swachh Bharat Mission) on the Production Possibilities curve of the economy and why?

Or

What will likely be the impact of large scale outflow of foreign capital on Production Possibilities curve of the economy and why?

Answer:

Cleanliness reduces chances of people falling ill and, thus can ensure better health. This in turn will reduce forced absenteeism from work, raise efficiency level and thus raise country’s production potential. Rise in this potential shifts PP curve to the right. **(Diagram not required)**

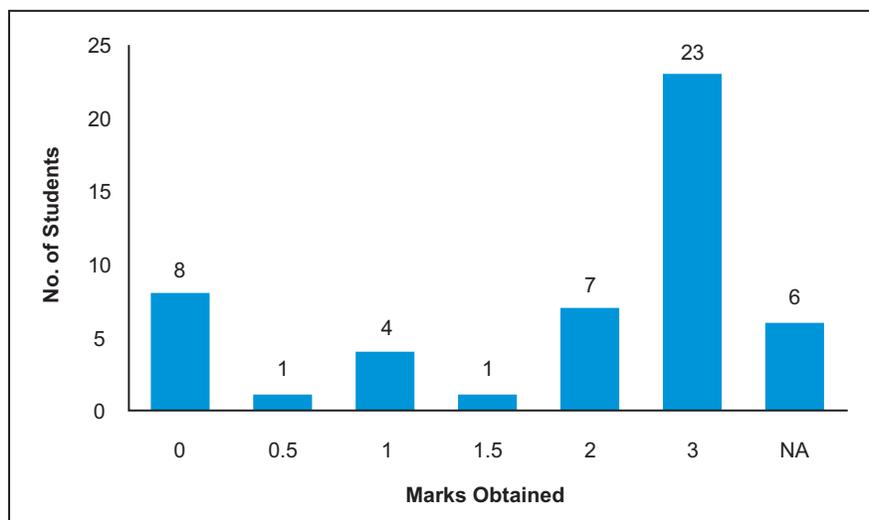
OR

Large scale outflow of foreign capital from the economy will reduce resources and thus production potential of the country will fall. Fall in production potential in turn will shift the PP-Curve downwards. **(Diagram not required)**

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	Mean Score	% Mean Score
Percentage	6	8	1	4	1	7	0	23	2.0227	67.424





Common errors:

- Many students could not interpret that Clean India Mission would lead to increase in efficiency and would thus result in rightward shift of PPC.
- Many students did not conclude that PPC would shift because they comprehended that there is no increase in resources.
- Some students wrote rightward shift, however gave wrong reason.

OR

- Some students explained that outflow of foreign capital will impact export and import of the country, rather than understanding that would simply lead to decrease in resources.
- Many students have not mentioned the effect of outflow of foreign capital on PPC.

Suggestions:

- Teachers need to take up various situations that result in shift in PPC and movement towards PPC and explain these properly to students.
- Teachers should clearly explain that PPC shifts leftwards whenever there is some decline in resources and technology and vice versa.
- Students must be aware of happenings around, so as to develop better understanding of such Application based question.





Question No. 5

3 Marks

Type of question: Understanding

Giving reason comment on the shape of Production Possibilities curve based on the following schedule:

Good X (units)	Good Y (units)
0	8
1	6
2	4
3	2
4	0

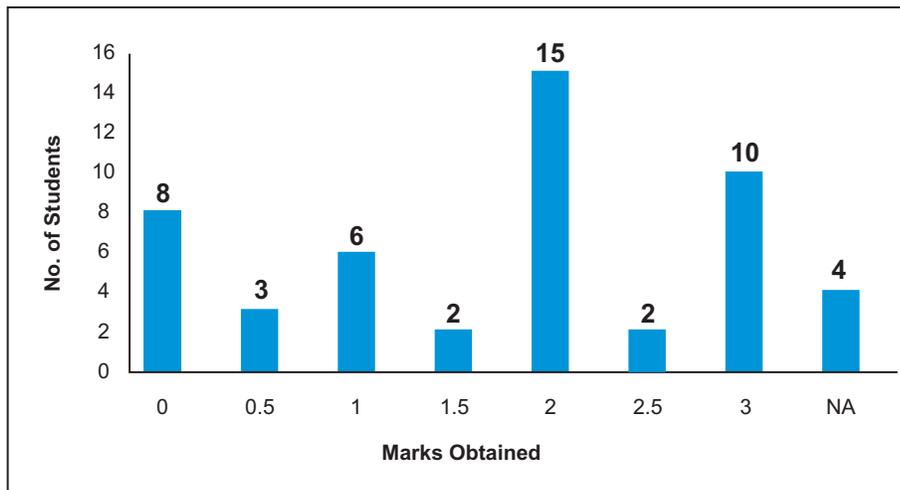
Answer:

Good X (Units)	Good Y (Units)	MRT
0	8	–
1	6	2Y:1X
2	4	2Y:1X
3	2	2Y:1X
4	0	2Y:1X

Since MRT is constant, PP curve is downward sloping straight line. **(Diagram not required)**

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	Mean Score	% Mean Score
Percentage	4	8	3	6	2	15	2	10	1.6413	54.7101



Common Errors:

- Many students have only solved the numerical portion in the question and left the theoretical content related to it.
- Many students have stated wrong shape of PP curve i.e. concave and even convex.





- Some students were also linking the concept of outward movement of the production possibility curve to the shape of the constant MRT.
- Definition of production possibility curve was given by a large number of students and MRT was explained in detail.

Suggestions:

- Teachers must tell students what is expected out of an answer, for example only conditions for MRT remaining constant to be given.
- Adequate practice of numerical to be given by teachers so that students can apply their knowledge & understand the meaning of increasing, decreasing & constant MRT.
- Teachers should provide clear instructions to the students when diagram is to be given in support of the answer, this will save their time in examination.

Question No. 6 **3 Marks** **Type of question: Understanding**

Giving reason comment on the shape of Production Possibilities Curve based on the following schedule:

	Good X (units)	Good Y (units)
	0	16
	1	12
	2	8
	3	4
	4	0

Answer:

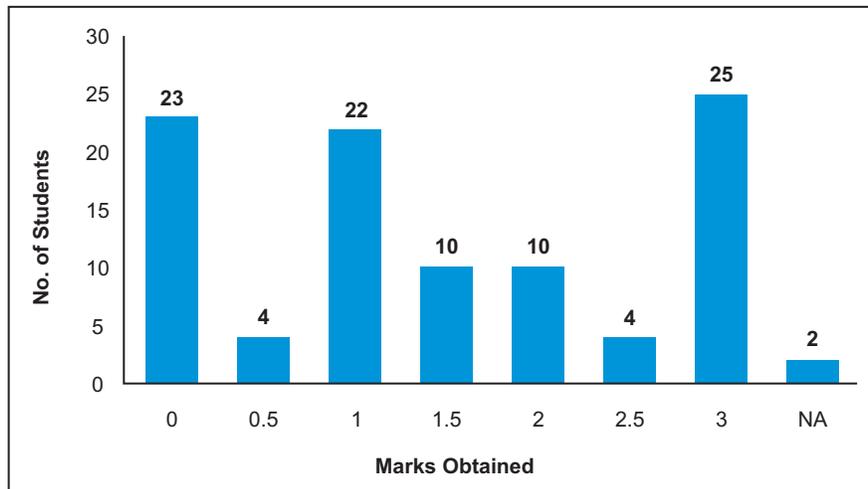
Good X (Units)	Good Y (Units)	MRT
0	16	–
1	12	4Y:1X
2	8	4Y:1X
3	4	4Y:1X
4	0	4Y:1X

Since MRT is constant, PP curve will be downward sloping straight line.

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	Mean Score	% Mean Score
Percentage	2	23	4	22	10	10	4	25	1.4693	48.97





Common errors:

- Numerical part of the question has not been attempted by many students.
- Students have elaborated the characteristics of Production Possibility Curve, which was not required in the question.
- Students were plotting PP Curve in the answer which was not required.
- Wrong formula for Marginal Rate of Transformation was stated and in some cases numerical was wrongly calculated i.e. Gain in X/Sacrifice of Y.
- Wrong shape of PP curve was drawn. This was a case of Constant rate of MRT, therefore PPC should be a straight line curve.

Suggestions:

- Formula should be stated before calculation of MRT to avoid calculation mistake.
- The student should strictly follow the instructions for example when characteristics of PP curve are not asked they should not be stated. This leads to wastage of time.
- Teachers should clearly explain & give proper practice of numericals & diagrams of all the three cases i.e. when MRT, is increasing constant and decreasing.





Unit-2

Consumer's Equilibrium & Demand

Question No. 1

1 Mark

Type of question: Remembering

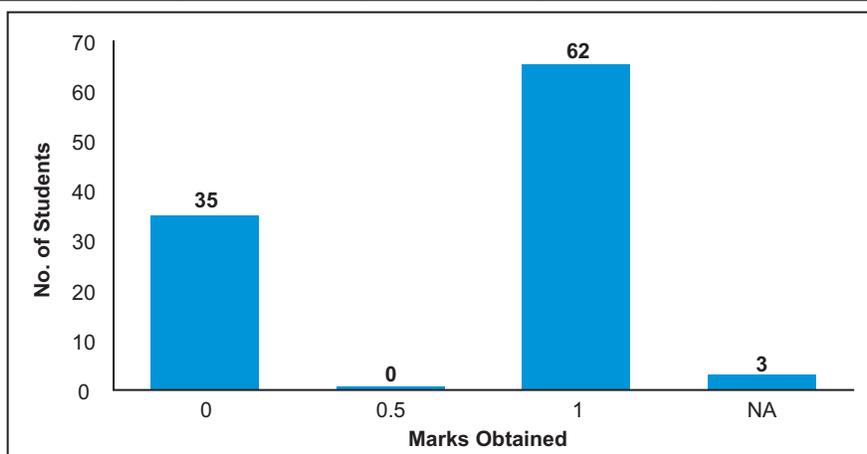
Define indifference curve.

Answer:

It is the locus of points representing such bundles of two goods, among which the consumer is indifferent.

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	Mean Score	% Mean Score
Percentage	3	35	0	62	0.6391	63.91



Common Errors:

- Students lack conceptual clarity about definition of Indifference Curve.
- Majority of students have given incomplete definition of Indifference Curve.
- Students are putting examples/drawing diagrams which are not required, leading to wastage of a precious time in examination.
- Some students explained the questions as a long answer questions, explaining assumptions and properties of indifference curve.
- Few students have referred point of tangency as definition of indifference curve.

Suggestions

- Meaning of indifference curve should be made clear by the teachers 'Indifference Curve' is set of combination of two goods that yield equal level of satisfaction to the consumer.
- Teachers should stress on not providing diagrams and examples wherever not required.
- Teachers should guide the students not to elaborate one mark questions in detail.
- Teachers should explain the difference between definition of indifference curve and consumer equilibrium under indifference curve approach.



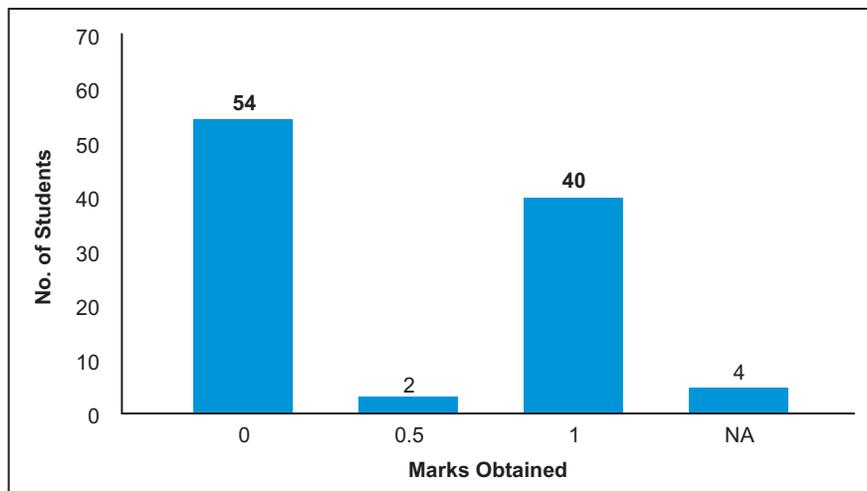
**Question No. 3****1 Mark****Type of question: Remembering**

If due to fall in the price of good X, demand for good Y rises, the two goods are: (Choose the correct alternative)

- (a) Substitutes (b) Complements
(c) Not related (d) Competitive

Answer:**(b) Complements****Performance :**

Marks	NA	0 Mark	0.5 Mark	1 Mark	Mean Score	% Mean Score
Percentage	4	54	2	40	0.4270	42.70

**Common Errors:**

- Students mixed up the concepts of substitute and complementary goods.
- Some of the students wrote reason for their selection of the answer as well, which was not required and leads to time wastage in the examination.
- Some students have defined the substitute and complimentary goods.

Suggestions:

- Teachers should make the concept clear to the students regarding substitute and complimentary goods as regards the change in the price of the commodity.
- Teachers should tell students that in case of MCQs, definitions are not required. Just write the correct answer





Question No. 4

1 Mark

Type of question: Remembering

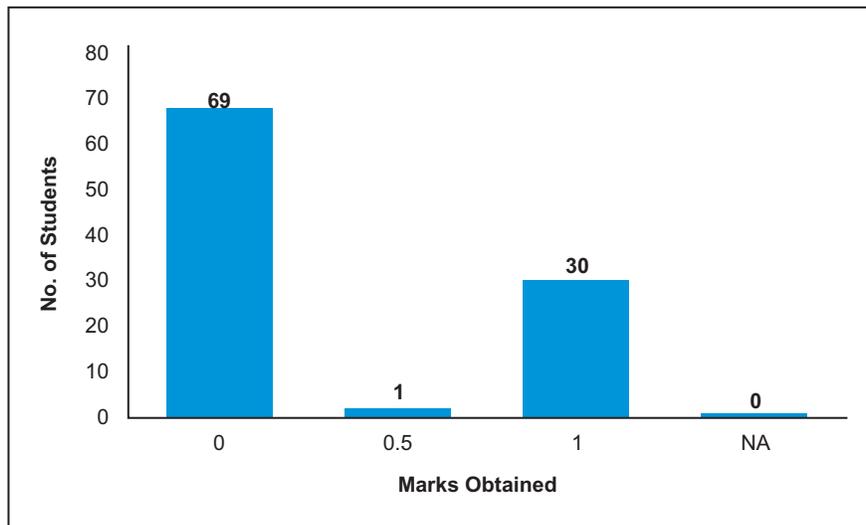
Define Indifference Map.

Answer:

A set of indifference curves of a consumer is called indifference map.

Performance :

Marks	NA	0 Mark	0.5 Mark	1 Mark	Mean Score	% Mean Score
Percentage	0	69	1	30	0.3049	30.49



Common errors:

- Many students wrote the definition of Indifference Curve instead of Indifference map.
- Many students drew diagram which was not required.
- Many students wrote incomplete definition- like 'curve of two goods'
- Many students wrote Indifference map as graphical presentation of indifference curve.

Suggestions:

- Difference between indifference curve and map should be made clear.
- No need of making the diagram, if not required.



**Question No. 5****1 Mark****Type of question: Understanding**

When income of the consumer falls the impact on price-demand curve of an inferior good is :
(choose the correct alternative)

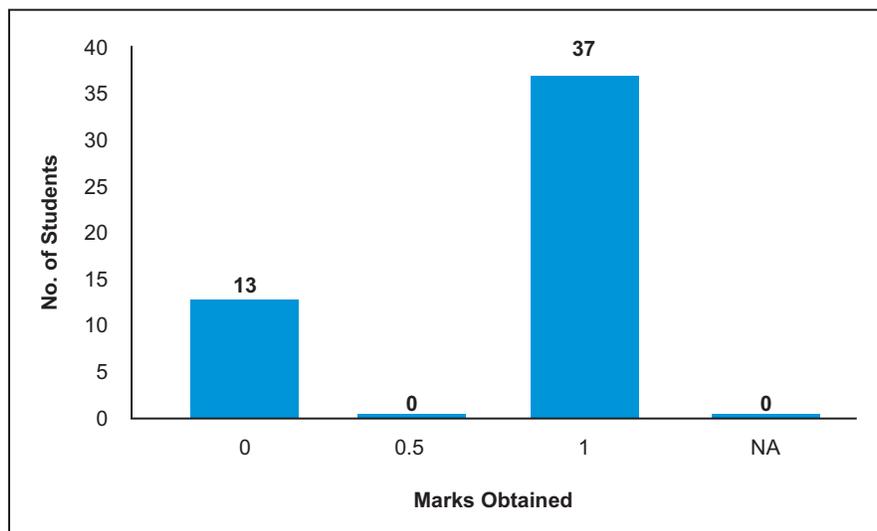
- (a) Shifts to the right.
- (b) Shifts to the left.
- (c) There is upward movement along the curve.
- (d) There is downward movement along the curve.

Answer:

- (a) Shifts to the right.

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	Mean Score	% Mean Score
Percentage	0	13	0	37	0.7399	74

**Common Errors:**

- Many students did not attempt this question correctly.
- Wrong option “shifts to left was marked by the students.

Suggestions:

- Teacher should clearly explain the concept of inferior good & normal good in the class with reference to the income & price effect.
- Teacher should substantiate example to explain the nature of demand for inferior good i.e. Bajra when income falls he buys more of inferior goods.





Question No. 6

1 Mark

Type of question: Remembering & Application

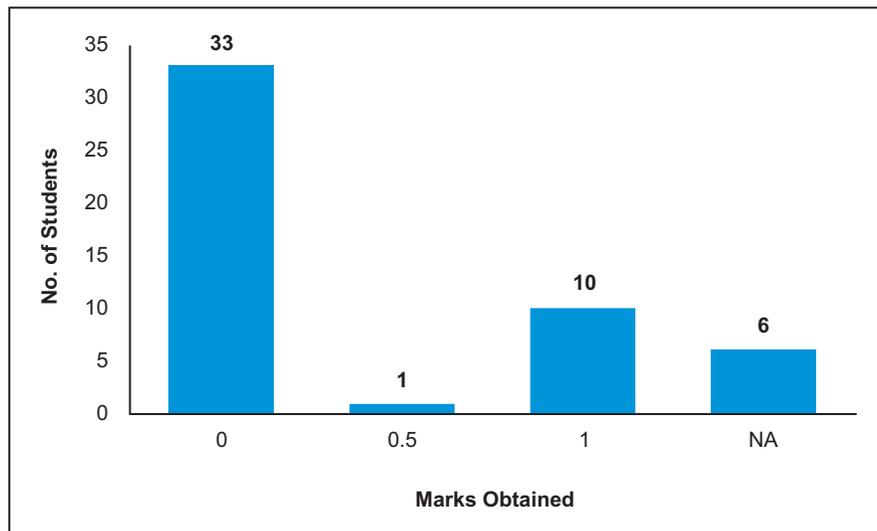
Give equation of Budget Line.

Answer:

$$P_1X_1 + P_2X_2 = m$$

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	Mean Score	% Mean Score
Percentage	6	33	1	10	0.2386	23.864



Common errors:

1. It was observed that many students Lack conceptual clarity.
2. Many students wrote definition of budget line and not its equation.
3. Many students wrote slope of budget line (P_x/P_y) as Equation of Budget Line.

Suggestion:

Concept of budget line, its equation and its significance must be understood clearly.





Question No. 7

1 Mark

Type of question: Understanding

If Marginal Rate of Substitution is constant throughout, the Indifference curve will be :
(choose the correct alternative)

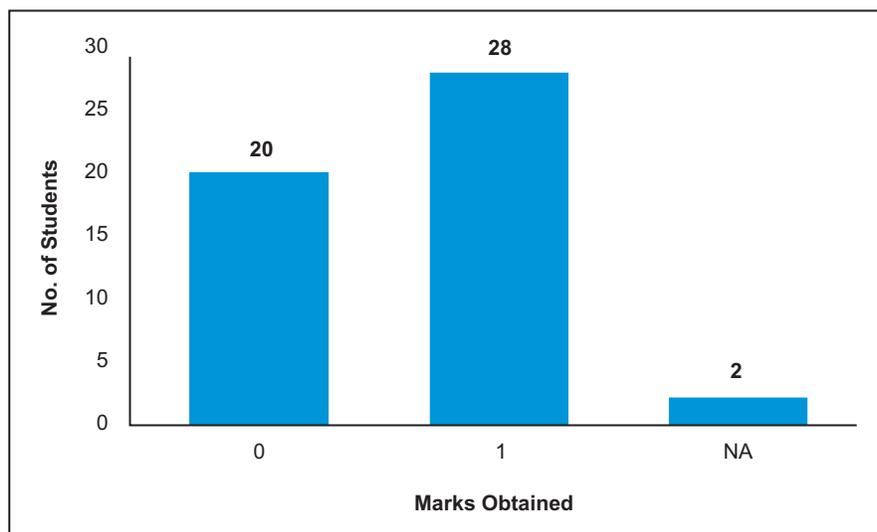
- (a) Parallel to the x-axis.
- (b) Downward sloping concave.
- (c) Downward sloping convex.
- (d) Downward sloping straight line.

Answer:

- (d) Downward sloping straight line

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	Mean Score	% Mean Score
Percentage	2	20	0	28	0.5833	58.333



Common errors:

- Many students lacked the understanding of the relationship between Marginal Rate of Substitution and shape of Indifference Curve.
- Some students chose the option - parallel to axis thus showing they did not know properties of Indifference curve.

Suggestion:

- Teachers should make the relationship between MRS and the shape of IC.
- Teachers should elaborate the concept of Marginal Rate of Substitution with the help of a numerical example and plot in a diagram to clear the shape of IC curve.
- The teacher should explain the properties of IC in detail and the essence of ordinal approach.



**Question No. 8****3 Marks****Type of question: HOTS**

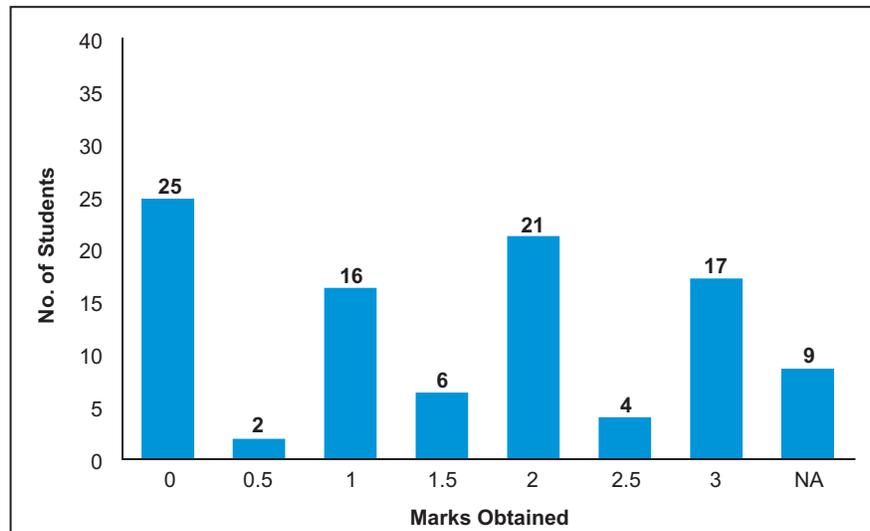
Explain the significance of 'minus sign' attached to the measure of price elasticity of demand in case of a normal good, as compared to the 'plus sign' attached to the measure of price elasticity of supply.

Answer:

The measure of price elasticity of demand has a minus sign because there is inverse relation between price and demand of a normal good, while the measure of price elasticity of supply has plus sign because there is direct relation between price and supply of a good.

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	Mean Score	% Mean Score
Percentage	9	25	2	16	6	21	4	17	1.418	47.30

**Common Errors:**

- Students lack fundamental clarity about the reasons behind negative and positive sign for elasticity of demand and supply.
- Some students have shown effect of change in income with reference to the term 'normal good' in question, this was a major reason for deduction of marks.
- Many students explained significance of signs using numerical problems, which was not required.
- Some students associated the plus sign with $\Sigma d > 1$ (relatively elastic demand) and minus sign with $\Sigma d < 1$ (relatively inelastic demand).
- Diagrams are drawn unnecessarily.

Suggestions:

- Teachers should explain reason and significance of attaching negative sign with price elasticity of demand and positive with price elasticity of supply.
- Students should not confuse nature of elasticity with degrees of elasticity.
- Students should not waste time in drawing diagrams, where these are not required.





Question No. 9

4 Marks

Type of question: Application

A consumer spends ₹1,000 on a good priced at ₹10 per unit. When its price falls by 20 percent, the consumer spends ₹800 on the good. Calculate the price elasticity of demand by the Percentage method.

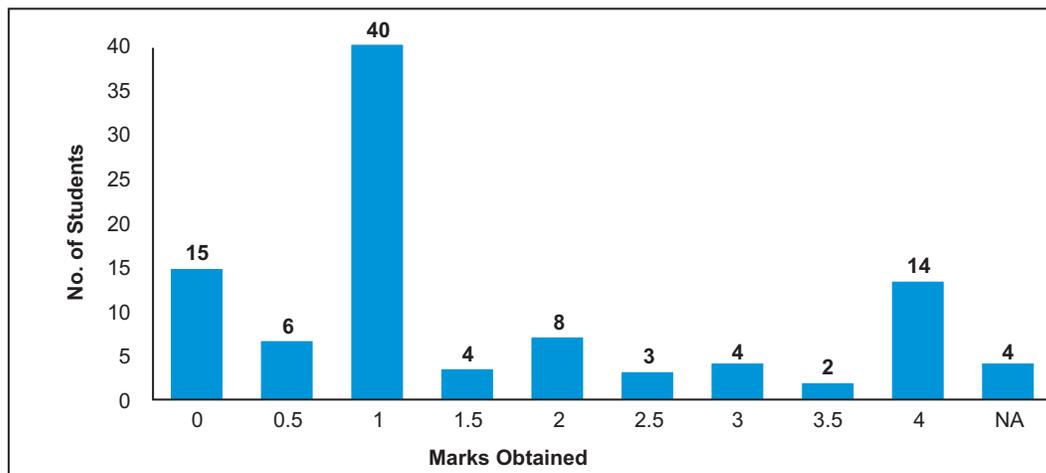
Answer:

Price	Exp.	Demand
10	1000	100
8	800	100

$$E_p = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P} = \frac{10}{100} \times \frac{0}{-2} = 0 \text{ (Perfectly Inelastic Demand)}$$

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	Mean Score	% Mean Score
Percentage	4	15	6	40	4	8	3	4	2	14	1.5365	38.41



Common Errors:

- Many students have applied wrong formula/method to solve this question.
- A large number of students have made calculation errors in the process of solving the question.
- Many students have placed the value wrongly and computed the results as $E_d = \text{Infinity}$ (perfectly elastic) instead of $E_d = \text{Zero}$ (perfectly inelastic).
- In spite of clear instruction for solving the question by percentage method many students have used Total Expenditure method as a basis of providing answer and have lost marks.

Suggestions:

- Teachers should clarify to students that wrong formula/method to solve the question would result into loss of marks.
- Students must avoid any calculation errors or placing wrong values in the process of solving the question so as to ensure better score/marks.
- Students should read the question/instructions to the question carefully in the reading time and while solving the question so as to apply the correct method for solving the question.





Question No. 10

4 Marks

Type of question: Application

A consumer spends Rs.400 on a good priced at Rs.8 per unit. When its price rises by 25 percent, the consumer spends Rs.500 on the good. Calculate the price elasticity of demand by the Percentage method.

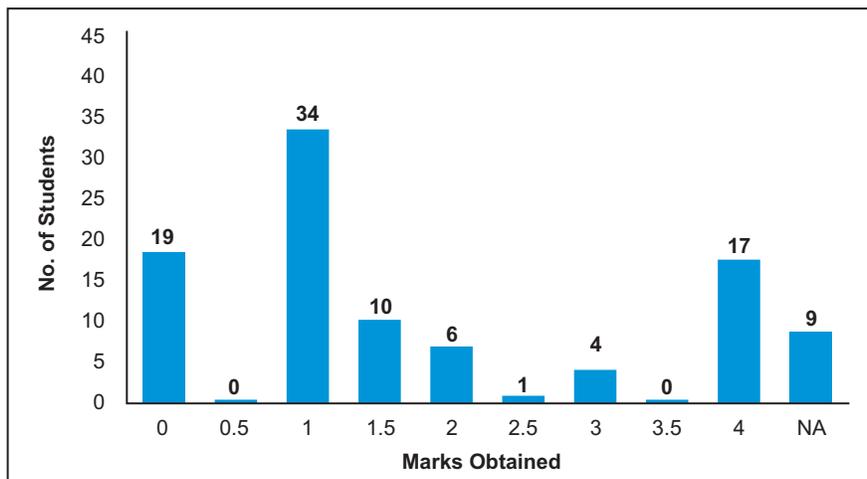
Answer:

Price	Exp.	Demand
8	400	50
10	500	50

$$E_p = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P} = \frac{8}{50} \times \frac{0}{2} = 0 \text{ (Perfectly Inelastic Demand)}$$

Performance:

Marks	NA	0	0.5	1	1.5	2.0	2.5	3.0	3.5	4.0	Mean Score	% Mean Score
		Mark	Mark	Mark	Marks	Marks	Marks	Marks	Marks	Marks		
Percentage	9	19	0	34	10	6	1	4	0	17	1.5769	39.42



Common Errors:

- Many students have applied wrong formula/method to solve this question.
- A large number of students have made calculation errors in the process of solving the question.
- Many students have placed the value wrongly and computed the results as $E_d = \text{Infinity}$ (perfectly elastic) instead of $E_d = \text{Zero}$ (perfectly inelastic).
- In spite of clear instruction for solving the question by percentage method many students have used Total Expenditure method as a basis of providing answer and have lost marks.

Suggestions:

- Teachers should clarify to students that wrong formula/method to solve the question would result into loss of marks.
- Students must avoid any calculation errors or placing wrong values in the process of solving the question so as to ensure better score/marks.
- Students should read the question/instructions to the question carefully in the reading time and while solving the question so as to apply the correct method for solving the question.





Question No. 11

4 Marks

Type of question: Application

A consumer spends ₹400 on a good priced at ₹8 per unit. When its price rises by 25 percent, the consumer spends ₹500 on the good. Calculate the price elasticity of demand by the Percentage method.

Answer:

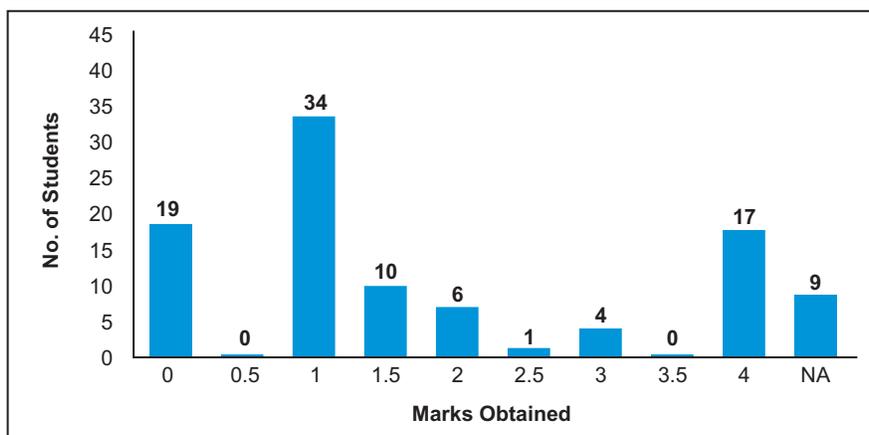
Price	Exp.	Demand
8	400	50
10	500	50

$$E_p = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P} = \frac{8}{50} \times \frac{0}{2} = 0 \text{ (Perfectly Inelastic)}$$

(No marks if only the final answer is given)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	Mean Score	% Mean Score
Percentage	9	19	0	34	10	6	1	4	0	17	1.5769	39.42



Common Errors:

- Many students have applied wrong formula/method to solve this question.
- A large number of students have made calculation errors in the process of solving the question.
- Many students have placed the value wrongly and computed the results as $E_d = \text{Infinity}$ (perfectly elastic) instead of $E_d = \text{Zero}$ (perfectly inelastic).
- In spite of clear instruction for solving the question by percentage method many students have used Total Expenditure method as a basis of providing answer and have lost marks.

Suggestions:

- Teachers should clarify to students that wrong formula/method to solve the question would result into loss of marks.
- Students must avoid any calculation errors or placing wrong values in the process of solving the question so as to ensure better score/marks.
- Students should read the question/instructions to the question carefully in the reading time and while solving the question so as to apply the correct method for solving the question.





Question No. 12

4 Marks

Type of question: Application

A consumer spends ₹1000 on a good priced at ₹ 8 per unit. When price rises by 25 per cent, the consumer continues to spend ₹1000 on the good. Calculate price elasticity of demand by percentage method.

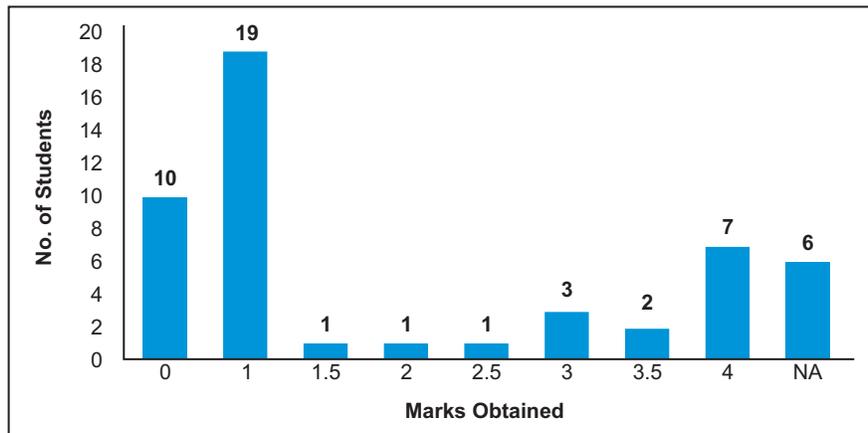
Answer:

Price	Exp.	Demand
8	1000	125
10	1000	100

$$E_p = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P} = \frac{8}{125} \times \frac{-25}{2} = 0.8 \text{ (Relatively Inelastic)}$$

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	Mean Score	% Mean Score
Percentage	6	10	0	19	1	1	1	3	2	7	1.5681	39.2045



Common Errors:

- Many students have applied wrong formula/method to solve this question.
- A large number of students have made calculation errors in the process of solving the question.
- Many students have placed the value wrongly and computed the results as $E_d = \text{Infinity}$ (perfectly elastic) instead of $E_d = \text{Zero}$ (perfectly inelastic).
- In spite of clear instruction for solving the question by percentage method many students have used Total Expenditure method as a basis of providing answer and have lost marks.

Suggestions:

- Teachers should clarify to students that wrong formula/method to solve the question would result into loss of marks.
- Students must avoid any calculation errors or placing wrong values in the process of solving the question so as to ensure better score/marks.
- Students should read the question/instructions to the question carefully in the reading time and while solving the question so as to apply the correct method for solving the question.





Question No. 13

4 Marks

Type of question: Application

A consumer spends Rs.100 on a good priced at ₹ 4 per unit. When its price falls by 25 percent, the consumer spends ₹75 on the good. Calculate the price elasticity of demand by the Percentage method.

Answer:

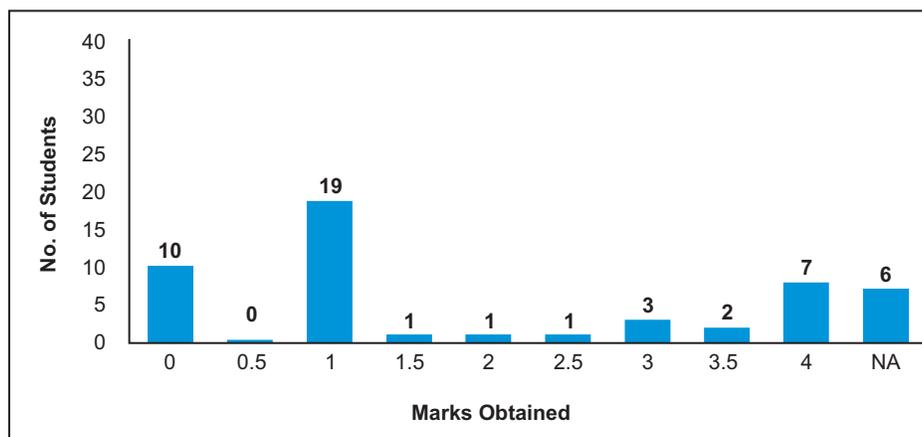
Price	Exp.	Demand
4	100	25
3	75	25

$$E_p = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P} = \frac{4}{25} \times \frac{0}{-1} = 0 \text{ (Perfectly Inelastic Demand)}$$

(No marks if only the final answer is given)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	Mean Score	% Mean Score
Percentage	6	10	0	19	1	1	1	3	2	7	1.5681	39.2045



Common Errors:

- Many students have applied wrong formula/method to solve this question.
- A large number of students have made calculation errors in the process of solving the question.
- Many students have placed the value wrongly and computed the results as $E_d = \text{Infinity}$ (perfectly elastic) instead of $E_d = \text{Zero}$ (perfectly inelastic).
- In spite of clear instruction for solving the question by percentage method many students have used Total Expenditure method as a basis of providing answer and have lost marks.

Suggestions:

- Teachers should clarify to students that wrong formula/method to solve the question would result into loss of marks.
- Students must avoid any calculation errors or placing wrong values in the process of solving the question so as to ensure better score/marks.

Students should read the question/instructions to the question carefully in the reading time and while solving the question so as to apply the correct method for solving the question.





Question No. 14

4 Marks

Type of question: Application

A consumer spends ₹ 60 on a good priced at ₹ 5 per unit. When price falls by 20 per cent, the consumer continues to spend ₹60 on the good. Calculate price elasticity of demand by percentage method.

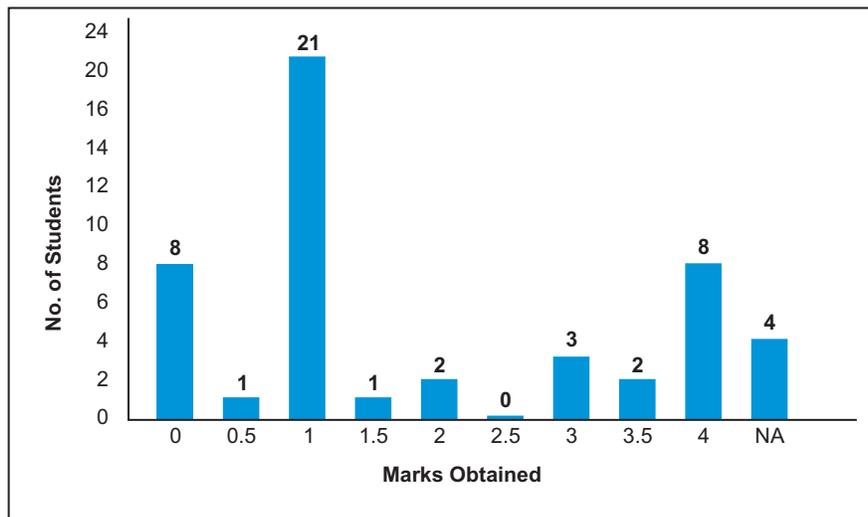
Answer:

Price	Exp.	Demand
5	60	12
4	60	15

$$E_p = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P} = \frac{5}{12} \times \frac{3}{-1} = -1.25$$

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	Mean Score	% Mean Score
Percentage	4	8	1	21	1	2	0	3	2	8	1.6304	40.7608



Common errors:

- Many students did not perform correct calculation of ₹4 as price from the total expenditure give = P × Q.
- Some students stated wrong formula to solve the numerical.
- Some students made careless mistakes like incorrectly substitution of values in the formula.
- Few students made calculations mistakes to arrive at final answer.

Suggestions:

- Teacher should provide adequate practice of Numerical together with relevant formulae.
- Teachers should help students in revising formulas and their application.
- The teacher should explain the concept of total expenditure: Price X Quantity in context of Numerical which will help them to solve such numerical.





Question No. 15

4 Marks

Type of question: Application

A consumer spends ₹100 on a good priced at ₹4 per unit. When price falls by 50 per cent, the consumer continues to spend ₹100 on the good. Calculate price elasticity of demand by percentage method.

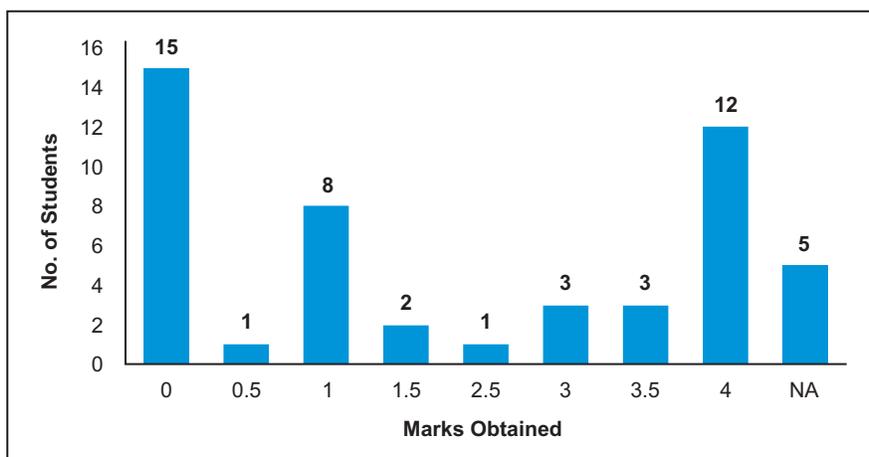
Answer:

Price	Exp.	Demand
4	100	25
2	100	50

$$E_p = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P} = \frac{4}{25} \times \frac{25}{-2} = -2 \text{ (relatively Elastic Demand)}$$

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	Mean Score	% Mean Score
Percentage	5	15	1	8	2	0	1	3	3	12	1.8111	45.2777



Common Errors:

- Many students have applied wrong formula/method to solve this question.
- A large number of students have made calculation errors in the process of solving the question.
- Many students have placed the value wrongly and computed the results as $E_d = \text{Infinity}$ (perfectly elastic) instead of $E_d = \text{Zero}$ (perfectly inelastic).
- In spite of clear instruction for solving the question by percentage method many students have used Total Expenditure method as a basis of providing answer and have lost marks.

Suggestions:

- Teachers should clarify to students that wrong formula/method to solve the question would result into loss of marks.
- Students must avoid any calculation errors or placing wrong values in the process of solving the question so as to ensure better score/marks.
- Students should read the question/instructions to the question carefully in the reading time and while solving the question so as to apply the correct method for solving the question.





Question No. 16 **6 Marks** **Type of question: Higher Order Thinking Skill (HOTS)**

A consumer consumes only two goods X and Y, both priced at ₹ 2 per unit. If the consumer chooses a combination of the two goods with Marginal Rate of Substitution equal to 2, is the consumer in equilibrium? Why or why not? What will a rational consumer do in this situation? Explain.

OR

A consumer consumes only two goods X and Y whose prices are ₹ 5 and ₹ 4 respectively. If the consumer chooses a combination of the two goods with marginal utility of X equal to 4 and that of Y equal to 5, is the consumer in equilibrium? Why or why not? What will a rational consumer do in this situation? Use utility analysis.

Answer:

Given $P_x = ₹ 2$, $P_y = ₹ 2$ and $MRS = 2$, A consumer is said to be in equilibrium when $MRS = \frac{P_x}{P_y}$

Substituting the values we find that $2 > \frac{2}{2}$ i.e. $MRS > \frac{P_x}{P_y}$ Therefore, consumer is not in equilibrium.

$MRS > \frac{P_x}{P_y}$ means that consumer is willing to pay more for one more unit of X as compared to what the market demands. The consumer will buy more and more of X.

As a result MRS will fall due to the Law of Diminishing Marginal Utility. This will continue till $MRS = \frac{P_x}{P_y}$ and consumer is in equilibrium.

(Diagram not required)

OR

Given $P_x = ₹ 5$, $P_y = ₹ 4$ and $MU_x = 4$, $MU_y = 5$, the consumer will be in equilibrium when

$$\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$$

Substituting values, we find that $\frac{4}{5} < \frac{5}{4}$ Or $\frac{MU_x}{P_x} < \frac{MU_y}{P_y}$

The consumer is not in equilibrium.

Since per rupee MU_x is lower than per rupee MU_y , the consumer will buy less of x and more of y. As a result due to Law of Diminishing Marginal Utility, MU_x will rise and MU_y will fall

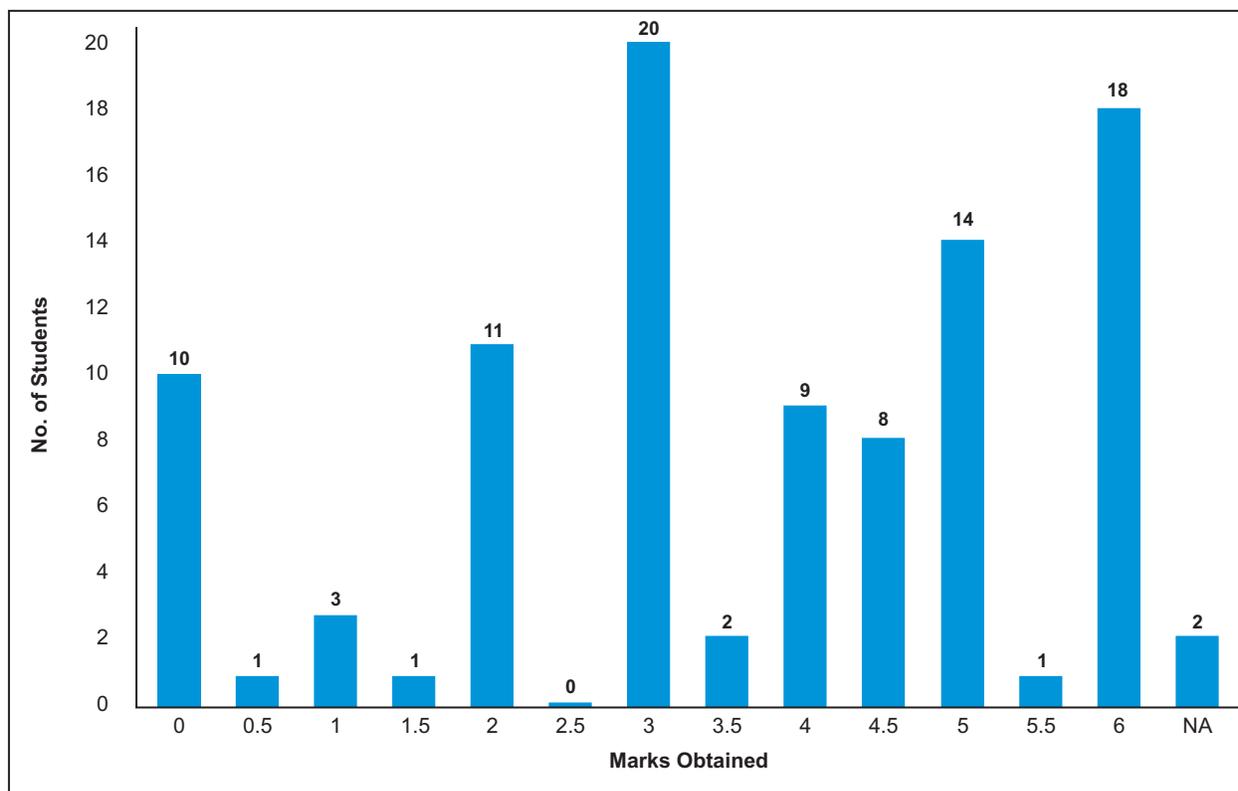
$$\text{till } \frac{MU_x}{P_x} = \frac{MU_y}{P_y}$$

(Diagram not required)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	4.5 Marks	5.0 Marks	5.5 Marks	6.0 Marks	Mean Score	%Mean Score
Percentage	2	10	1	3	1	11	0	20	2	9	8	14	1	18	3.5663	0.5943





Common Errors:

- Most of the students have not given or given wrongly the :
$$\text{Condition of } MU_x/P_x = MU_y/P_y$$
- Students have made common error in substituting the values from the question paper.
- Dis-equilibrium of $MU_x/P_x < MU_y/P_y$ is not explained by many students, properly.
- Students have given the schedule/diagram of 'Equi-Marginal' utility and also elaborated at length, leading to time-wastage.

Suggestions:

- Teachers must convey to students the importance of the Condition of Consumer's Equilibrium
$$MU_x/P_x = MU_y/P_y$$
- Teachers must instruct the students about the relevance of dis-equilibrium condition $\{MU_x/P_x < MU_y/P_y\}$ while teaching the concept of consumer's equilibrium since most of the students did not explain it.
- Students should take care while substituting the values given in the question paper.
- Students must understand the importance of utilizing their time in the examination hall and they should avoid giving schedule/diagram wherever not asked/required.
- Students should know clearly the effect of disequilibrium on the consumption pattern of the consumer.





Question No. 17 6 Marks Type of question: Higher Order Thinking Skill (HOTS)

A consumer consumes only two goods X and Y, both priced at Rs. 2 per unit. If the consumer chooses a combination of the two goods with Marginal Rate of Substitution equal to 2, is the consumer in equilibrium? Why or why not? What will a rational consumer do in this situation? Explain.

OR

A consumer consumes only two goods X and Y whose prices are Rs. 5 and Rs. 4 respectively. If the consumer chooses a combination of the two goods with marginal utility of X equal to 4 and that of Y equal to 5, is the consumer in equilibrium? Why or why not? What will a rational consumer do in this situation? Use utility analysis.

Answer:

Given $P_x = 2$, $P_y = 2$ and $MRS = 2$, A consumer is said to be in equilibrium when $MRS = \frac{P_x}{P_y}$
 Substituting the values we find that $2 > \frac{2}{2}$ i.e. $MRS > \frac{P_x}{P_y}$
 Therefore, consumer is not in equilibrium.

$MRS >$ means that consumer is willing to pay more for one more unit of X as compared to what the market demands. The consumer will buy more and more of X. As a result MRS will fall due to the Law of Diminishing Marginal Utility. This will continue till $MRS = \frac{P_x}{P_y}$ and consumer is in equilibrium.

(Diagram not required)

OR

Given $P_x = 5$, $P_y = 4$ and $MU_x = 4$, $MU_y = 5$, the consumer will be in equilibrium when

Substituting values, we find that $\frac{4}{5} < \frac{5}{4}$ OR $\frac{MU_x}{P_x} < \frac{MU_y}{P_y}$

The consumer is not in equilibrium.

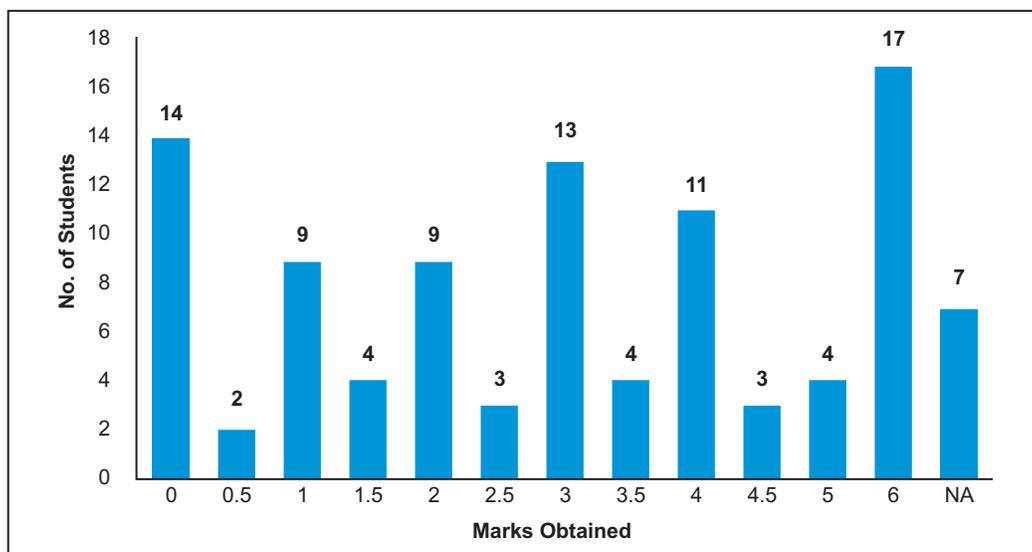
Since per rupee MU_x is lower than per rupee MU_y , the consumer will buy less of x and more of y. As a result due to Law of Diminishing Marginal Utility, MU_x will rise and MU_y will fall till $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$

(Diagram not required)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	4.5 Marks	5.0 Marks	5.5 Marks	6.0 Marks	Mean Score	%Mean Score
Percentage	7	14	2	9	4	9	3	13	4	11	3	4	0	17	2.946	49.10





Common Errors:

- Most of the students have not given or given wrongly the :
Condition of $MU_x/P_x = MU_y/P_y$
- Students have made a common error in substituting the values from the question paper.
- Dis-equilibrium of $MU_x/P_x < MU_y/P_y$ is not explained by many students.
- Students have given the schedule/diagram of 'Equi-Marginal' utility and also elaborated at length, leading to time- wastage.

Suggestions:

- Teachers must convey to students the importance of the Condition of Consumer's Equilibrium
 $MU_x/P_x = MU_y/P_y$
- Teachers must instruct the students about the relevance of dis-equilibrium condition $\{MU_x/P_x < MU_y/P_y\}$ while teaching the concept of consumer's equilibrium since most of the students do not explain it.
- Students should take care while substituting the values given in the question paper.
- Students must understand the importance of utilizing their time in the examination hall and they should avoid giving schedule/diagram wherever not asked/required.

OR

Common Errors:

- Most of the students are stating wrong condition for consumers Equilibrium.
- The substitution is wrongly done by some students in the formula.
- The explanation for the numerical part how to reach equilibrium by purchasing more of good X is incomplete.
- Some students are elaborating utility concept.

Suggestions:

- The teacher must elaborate the conditions of consumers Equilibrium.
- Students should carefully substitute values in relevant formulae after reading the question.
- Teacher must instruct the students to write to the point answer for a numerical without wasting time.





Question No. 18 **6 Marks** **Type of question: Higher Order Thinking Skill (HOTS)**

A consumer consumes only two goods X and Y both priced at Rs. 3 per unit. If the consumer chooses a combination of these two goods with Marginal Rate of Substitution equal to 3, is the consumer in equilibrium? Give reasons. What will a rational consumer do in this situation? Explain.

Or

A consumer consumes only two goods X and Y whose prices are Rs. 4 and Rs. 5 per unit respectively. If the consumer chooses a combination of the two goods with marginal utility of X equal to 5 and that of Y equal to 4, is the consumer in equilibrium? Give reasons. What will a rational consumer do in this situation? Use utility analysis.

Answer:

Given $P_x = 3$, $P_y = 3$ and $MRS = 3$, A consumer is said to be in equilibrium when $MRS = \frac{P_x}{P_y}$
 Substituting values we find that $3 > \frac{3}{3}$ i.e. $MRS > \frac{P_x}{P_y}$ Therefore consumer is not in equilibrium.

$MRS > \frac{P_x}{P_y}$ means that consumer is willing to pay more for one more unit of X as compared to what market demands.

The consumer will buy more units of X. As a result MRS will fall due to the Law of Diminishing Marginal Utility

This will continue till $MRS = \frac{P_x}{P_y}$ and consumer is in equilibrium **(Diagram not required)**

OR

Given $P_x = 4$, $P_y = 5$ and $MU_x = 5$, $MU_y = 4$, a consumer will be in equilibrium when

$$\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$$

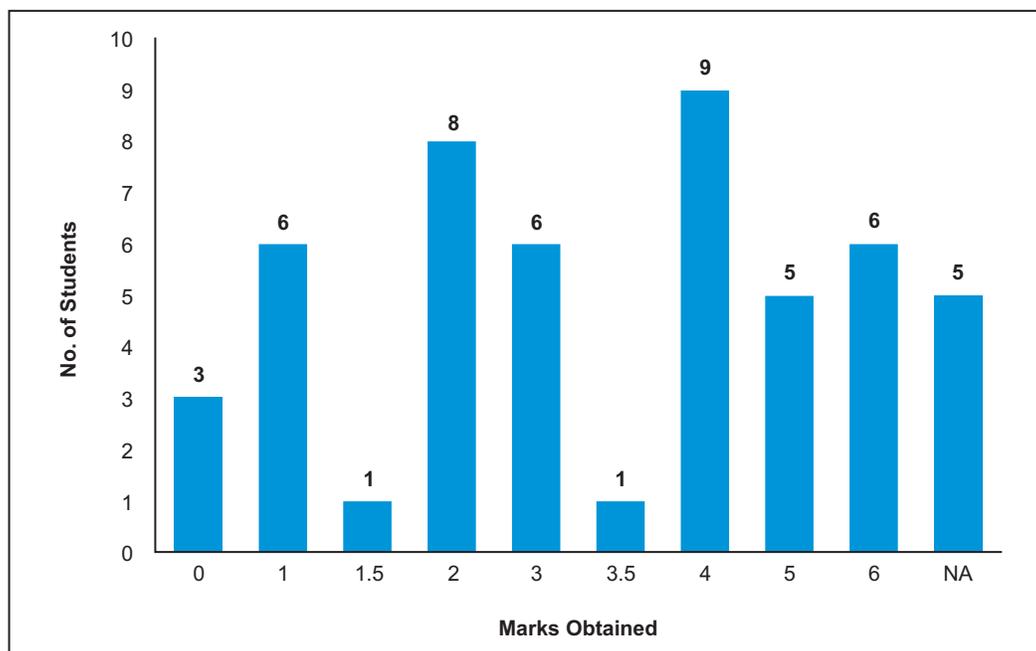
Substituting values, we find that $\frac{5}{4} > \frac{4}{5}$ Or $\frac{MU_x}{P_x} > \frac{MU_y}{P_y}$ Since per rupee MU_x is higher than per rupee MU_y , consumer is not in equilibrium.

The consumer will buy more of X and less of Y. As a result MU_x will fall and MU_y will rise. The reaction will continue till $\frac{MU_x}{P_x}$ and $\frac{MU_y}{P_y}$ are equal and consumer is in equilibrium.

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	4.5 Marks	5.0 Marks	5.5 Marks	6.0 Marks	Mean Score	%Mean Score
Percentage	5	3	0	6	1	8	0	6	1	9	0	5	0	6	3.1555	52.592





Common Errors:

- Most of the students have not given or given wrongly the :
Condition of $MU_x/P_x = MU_y/P_y$
- Students have made a common error in substituting the values from the question paper.
- Dis-equilibrium of $MU_x/P_x < MU_y/P_y$ is not explained by many students.
- Students have given the schedule/diagram of 'Equi-Marginal' utility and also elaborated at length, leading to time- wastage.

Suggestions:

- Teachers must convey to students the importance of the Condition of Consumer's Equilibrium

$$MU_x/P_x = MU_y/P_y$$

- Teachers must instruct the students about the relevance of dis-equilibrium condition $\{MU_x/P_x < MU_y/P_y\}$ while teaching the concept of consumer's equilibrium since most of the students do not explain it.
- Students should take care while substituting the values given in the question paper.
- Students must understand the importance of utilizing their time in the examination hall and they should avoid giving schedule/diagram wherever not asked/required.
- Students should know clearly the effect of disequilibrium on the consumption pattern of the consumer.





Question No. 19

6 Marks

Type of question: HOTS

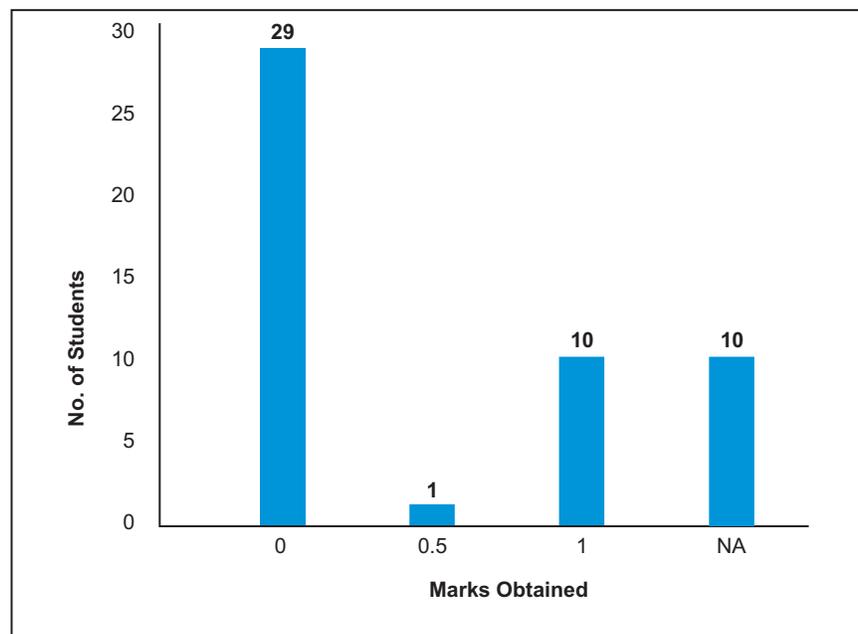
Give equation of Budget Set.

Answer:

$$P_1X_1 + P_2X_2 \leq m$$

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	Mean Score	% Mean Score
Percentage	10	29	1	10	0.2625	26.25



Common Errors:

- Many students instead of giving numerical equation defined budget line.
- Some Student did not attempt this question.
- Many students were only giving numerical examples of Budget line without elaborating P_1 & P_2 in value terms.

Suggestions:

- The teacher should explain the concept of Budget line clearly with numerical example and the generic form of the Budget line/constraint.
- Teacher should provide clear instructions to the students to write to the point answers.





Unit-3

Producer's Behavior & Supply

Question No. 1

4 Marks

Type of question: Understanding

What is the behavior of (a) Average Fixed Cost and (b) Average Variable Cost as more and more units of a good are produced?

OR

Define Average Revenue. Show that Average Revenue and Price are same.

Answer:

(a) AFC falls continuously as more and more output is produced.

(b) AVC falls initially and after a level of output, starts rising as more and more output are produced.

OR

Average revenue equals Total Revenue divided by the output produced.

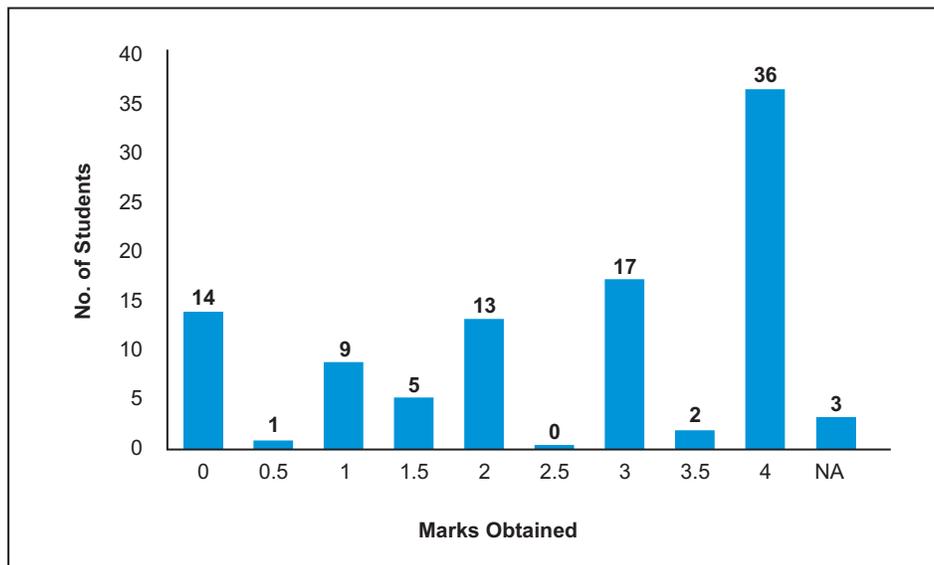
$$TR = P \times Q$$

$$AR = \frac{TR}{Q}$$

$$\text{And } AR = \frac{P \times Q}{Q} = P$$

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	Mean Score	% Mean Score
Percentage	3	14	1	9	5	13	0	17	2	36	2.5258	63.14





Common Errors:

- Students have not stated the behavior of Average Fixed Cost and Average Variable Cost. This shows lack of concept clarity on the part of students.
- Most of the students have missed out on explaining that Average Variable Cost falls initially and starts rising after its minimum level / least cost combination.
- Some students have written lengths about 'rectangular hyperbola' shape of Average Fixed Cost using diagram and schedule.
- Some students have provided wrong/irrelevant examples in their answers.
- Diagram is not asked for in this question still many students had put it leading to time wastage during the examination.
- Most of the students have not written the 'continuously falling' trait of Average Fixed Cost.

Suggestions:

- Teachers must explain in detail to students the behavior of Average Fixed Cost, Average Variable Cost and other short run costs. E.g. the 'continuously falling' trait of Average Fixed Cost must be explained to students so that they can comprehend such value points in examination.
- Students should avoid providing wrong/irrelevant examples in their answers.
- Wherever diagram/ example is not asked for in any question students must not provide them so as to save time during the examination.

Or

Common Errors:

- Some students have explained the relation between Average Revenue and Price using diagram which is not required in the question.
- A few students have defined Average Price instead of Average Revenue.

Suggestions:

- Teachers must provide proper definition for various concepts of Revenue.
- Students should avoid providing wrong/irrelevant examples in their answers.
- Wherever diagram is not asked for in any question students must not provide so as to save time during the examination.
- A clear distinction among the behaviour of AR, MR & TR must be given to students.
- Formula/concept of Price = Average Revenue must be clearly explained to students.





Question No. 2

4 Marks

Type of question: Remembering

Define cost. State the relation between marginal cost and average variable cost.

OR

Define revenue. State the relation between marginal revenue and average revenue.

Answer:

Cost in economics refers to the sum of actual money expenditure on inputs and the imputed expenditure in the form of inputs supplied by the owners including normal profit.

If $MC < AVC$, then AVC falls

If $MC = AVC$, then AVC is constant

If $MC > AVC$, then AVC rises **(Diagram not required)**

OR

Revenue in Economics refers to the market value of output produced or receipts from sale of output produced.

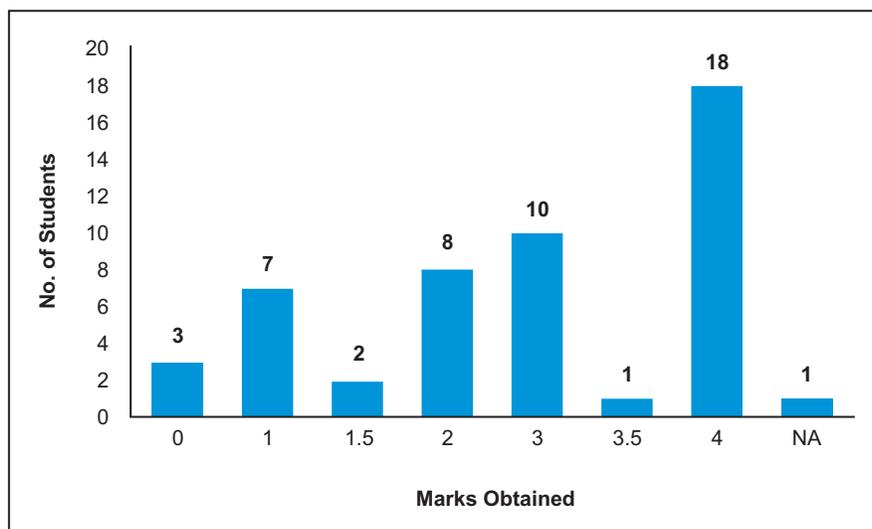
If $MR > AR$, AR rises

If $MR = AR$, AR is constant

If $MR < AR$, AR Falls. **(Diagram not required)**

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	Mean Score	% Mean Score
Percentage	1	3	0	7	2	8	0	10	1	18	2.6836	67.0918



Common Errors:

- Many students did not mention imputed value of factors of production as a component of cost in Economics.
- A large number of student did not mention normal profits as component of cost.





- Some students defined MC & AVC, did not state the relation.
- Some students used diagram for explaining the relation whereas that was not required in the Question.
- Many students did not write proper definition of cost, at all.

Suggestions:

- Teachers should explain to students that cost in Economics is :
Cost = Money cost (Explicit cost) + Implicit cost + Normal Profits.
- Teachers should tell students not to draw diagram wherever not asked.
- Teachers should clarify the relation between MC & AVC properly to students.

OR

Common Errors:

- Students wrote incorrect definition of Revenue.
- Some students mentioned the definition of profits instead of Revenue.
- Some students gave numerical example to explain Revenue – Total Revenue, Average Revenue & Marginal Revenue.
- Many students provided diagram for explaining Average Revenue & Marginal Revenue, which was not required
- Some students did not clearly provide the relation required to be explained.

Suggestions:

- Teachers should teach the concepts of Total Revenue, Average Revenue & Marginal Revenue clearly to students.
- Teachers should tell students not to waste time in drawing diagram & schedule, wherever not required.
- Teachers must explain the Mathematical relation between Average Revenue & Marginal Revenue so as to clarify their diagrammatic relation properly.





Question No. 3

6 Marks

Type of question: Understanding

State the different phases of changes in Total Product and Marginal Product in the Law of Variable Proportions. Also show the same in a single diagram.

Answer:

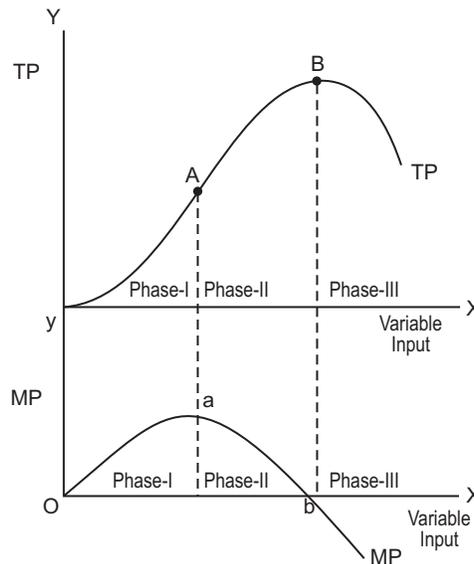
The Phases are :

Phase : I TP rises at increasing rate i.e. upto A in diagram.

MP rises i.e. upto 'a'

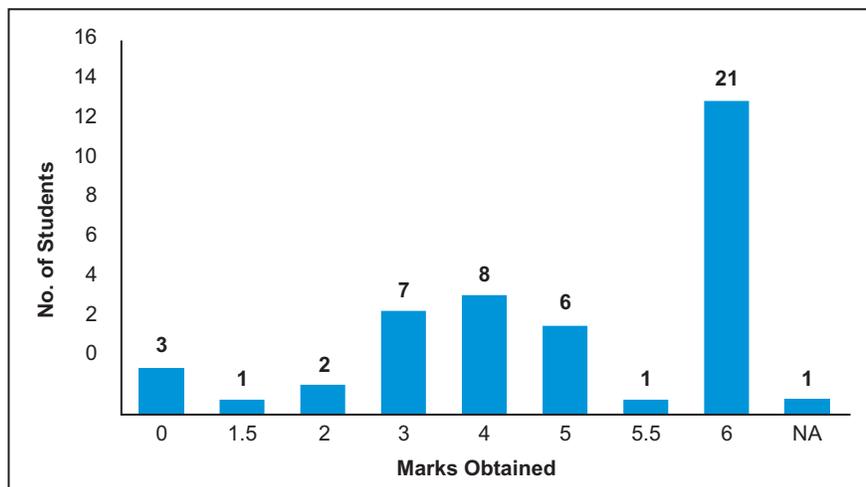
Phase : II TP rises at decreasing rate i.e. between A and B. MP falls and remains positive between 'a' and 'b'.

Phase : III TP falls i.e. after B. MP falls and is negative i.e. after 'b'



Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	4.5 Marks	5.0 Marks	5.5 Marks	6.0 Marks	Mean Score	%Mean Score
Percentage	1	0	0	3	1	2	0	7	0	8	0	6	1	21	4.5510	75.8503





Common Errors:

- Most of the students lack clarity of the concept of law of variable proportions also Students have not written reasons behind the application of the law, which were clearly asked for in the question.
- Total Physical Product/Average Physical Product explained with schedule and diagram, whereas not required in the question.
- Some of the students have explained assumption of the law in detail which must have been avoided.
- A few students have written MR instead of MP in the diagram and explanation.
- A few students have also explained reasons behind the law which lead to time wastage in examination.
- Most of the students did not draw the diagram properly.
- A large number of students did not use Marginal Product to explain the law.

Suggestions:

- Teachers must convey to students the correct meaning & concept of law of variable proportions also explain to students the reasons behind the application of the law.
- Students should avoid explaining Total Physical Product/Average Physical Product Marginal Product with schedule and diagram, wherever not required in the question.
- Students can avoid explaining assumption of the law,
- Students have taken care while writing the answer any error like putting MR instead of MP in the diagram and explanation, will make the scoring nil for the students.
- Teachers must tell students to read the question carefully so as to avoid errors like not explaining MP in the question.

Question No. 4

6 Marks

Type of question: Understanding

Why is the equality between marginal cost and marginal revenue necessary for a firm to be in equilibrium? Is it sufficient to ensure equilibrium? Explain.

Answer:

The producer's equilibrium conditions are: (i) $MC = MR$ and (ii) $MC > MR$ after equilibrium.

Suppose $MC > MR$. In this situation it will be profitable for the firm to produce more or less depending upon relative changes in MC and MR till $MC = MR$. Suppose $MC < MR$. It will be profitable for the producer to produce more till $MC = MR$.

$MC = MR$ is not a sufficient condition to ensure equilibrium. Given $MC = MR$, suppose the behavior of MC and MR is such that if one more unit is produced. MC becomes less than MR.



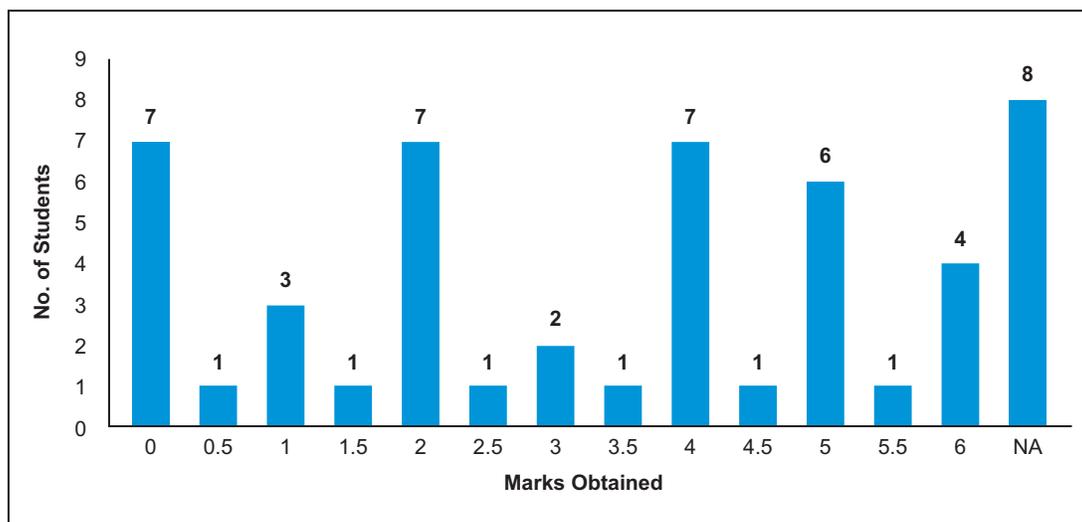


Then in this case it will be profitable for the firm to produce more. Therefore, in this case though $MC = MR$ the producer is not in equilibrium. However, if after $MC = MR$ output MC becomes greater than MR , it will be most advantageous for the firm to produce only upto $MC = MR$.

(Diagram not required)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	4.5 Marks	5.0 Marks	5.5 Marks	6.0 Marks	Mean Score	%Mean Score
Percentage	8	7	1	3	1	7	1	2	1	7	1	6	1	4	2.9285	48.8095



Common Errors:

- Most of the students are confused between the concepts of Consumer's Equilibrium and Firm's Equilibrium, they have written wrong definition and conditions.
- Students have drawn diagram and stated schedule which were not required in the question, this has led to a lot of undue time consumption of the students.
- Some students have mixed up the concept and stated $AR=AC$ (condition of normal profits under short run,) instead of $MR=MC$. Apart from this some students had used diagram and schedule of AR, AC as well.

Suggestions:

- Teachers must clarify the difference between the concepts of Consumer's Equilibrium and Firm's Equilibrium to the students. Also they must stress on writing correct definition and conditions.
- Teachers should tell students not to get mixed up between the concepts of normal profits $AR=AC$ and firm's equilibrium $MR=MC$.
- Students should avoid drawing diagram and stating schedule whenever not required in the question to save time.





Question No. 5

6 Marks

Type of question: Remembering

What are the different phases in the Law of Variable Proportions in terms of marginal product? Give reason behind each phase. Use diagram.

Answer:

The Phases are:

Phase: I MP rises upto A

Phase: II MP falls but is positive i.e. between A and B.

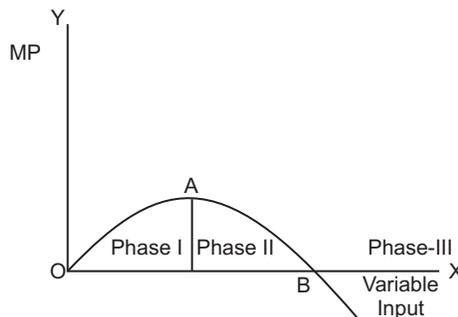
Phase: III MP falls and is negative i.e. after B

Reasons

Phase I : Initially variable input is too small as compared to the fixed input, As production is increased there is specialization of variable inputs and efficient use of the fixed input leading to rise in productivity of the variable input. As a result MP rises.

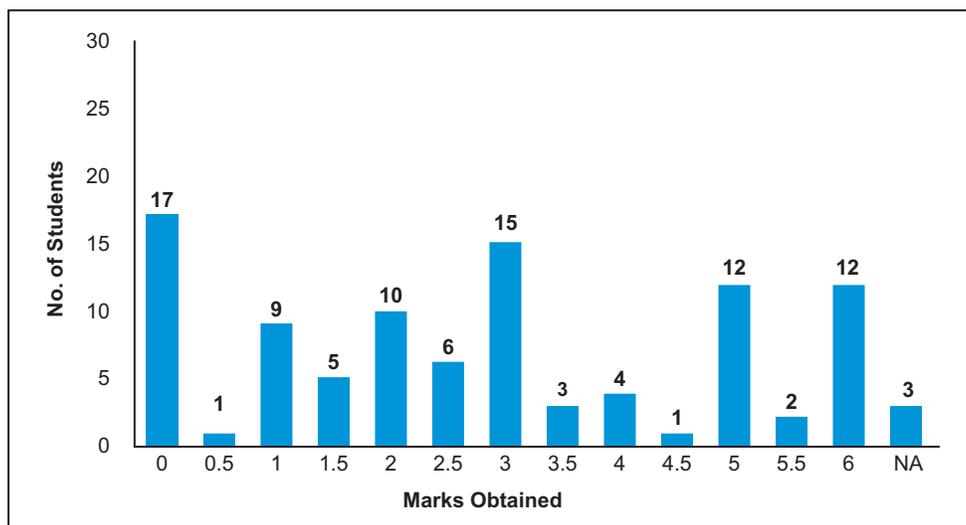
Phase II: After a level of output a pressure on fixed input leads to fall in productivity of the variable input. MP starts falling but remains positive.

Phase III: The amount of variable input becomes too large in comparison to the fixed input causing decline in total product. MP becomes negative.



Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	4.5 Marks	5.0 Marks	5.5 Marks	6.0 Marks	Mean Score	%Mean Score
Percentage	3	17	1	9	5	10	6	15	3	4	1	12	2	12	2.7938	46.56





Common Errors:

- Most of the students lack clarity of the concept of law of variable proportions also students have not written reasons behind the application of the law, this was clearly asked for in the question.
- Total Physical Product/Average Physical Product explained with schedule and diagram, whereas not required in the question.
- Some of the students have explained assumption of the law in detail which must have been avoided.
- A few students have written MR instead of MP in the diagram and explanation.

Suggestions:

- Teachers must convey to students the correct meaning & concept of law of variable proportions also explain to students the reasons behind the application of the law.
- Students should avoid explaining Total Physical Product/Average Physical Product Marginal Product with schedule and diagram, wherever not required in the question.
- Students can avoid explaining assumption of the law,
- Students have taken care while writing the answer any error like putting MR instead of MP in the diagram and explanation, will make the scoring nil for the students.

Question No. 6

6 Marks

Type of question: Application

Explain why a producer will not be in equilibrium if the conditions of equilibrium are not met.

Answer:

The equilibrium conditions are: **(i)** $MC = MR$ and **(ii)** $MC > MR$ after equilibrium

Suppose $MC = MR$ condition is not met. Let $MC > MR$. In this it will be profitable for the firm to produce more or less depending upon the relative changes in MC and MR till $MC = MR$. Similarly, if $MC < MR$ it will also be profitable to produce more till $MC = MR$.

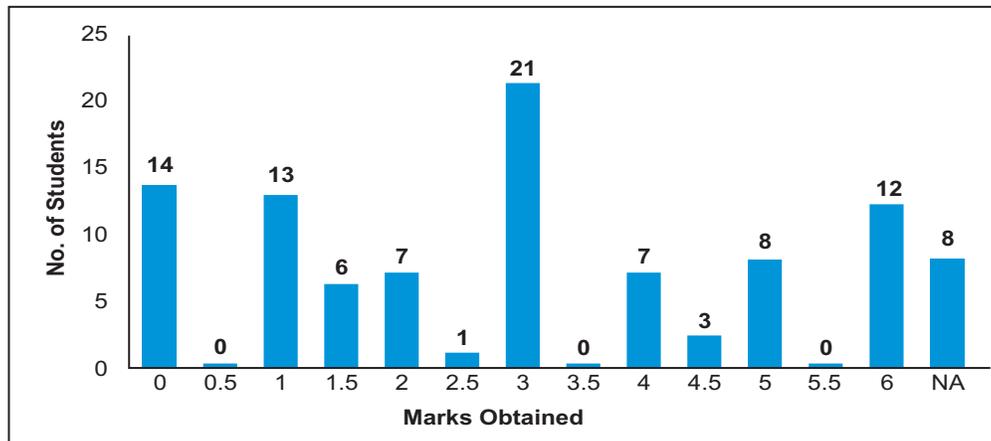
Now Suppose ' $MC > MR$ after equilibrium condition is not met' and $MC < MR$ after equilibrium. In this case the firm will not be in equilibrium, because it can increase its profits by producing more.

(Diagram not required)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	4.5 Marks	5.0 Marks	5.5 Marks	6.0 Marks	Mean Score	%Mean Score
Percentage	8	14	0	13	6	7	1	21	0	7	3	8	0	12	2.7717	46.19





Common Errors:

- Most of the students are confused between the concepts of Consumer's Equilibrium and Firm's Equilibrium, they have written wrong definition and conditions.
- Students have drawn diagram and stated schedule which was not required in the question, this has led to a lot of undue time consumption of the students.
- Some students have mixed up the concept and stated $AR=AC$ (condition of normal profits under short run,) instead of $MR=MC$. Apart from this some students had used diagram and schedule of AR, AC as well.

Suggestions:

- Teachers must clarify the difference between the concepts of Consumer's Equilibrium and Firm's Equilibrium to the students. Also they must stress on writing correct definition and conditions.
- Teachers should tell students not to get mixed up between the concepts of normal profits $AR=AC$ and firm's equilibrium $MR=MC$.
- Students should avoid drawing diagram and stating schedule whenever not required in the question to save time.





Unit-4

Main Market & Simple Application of Perfect Competition

Question No. 1

3 Marks

Type of question: Understanding

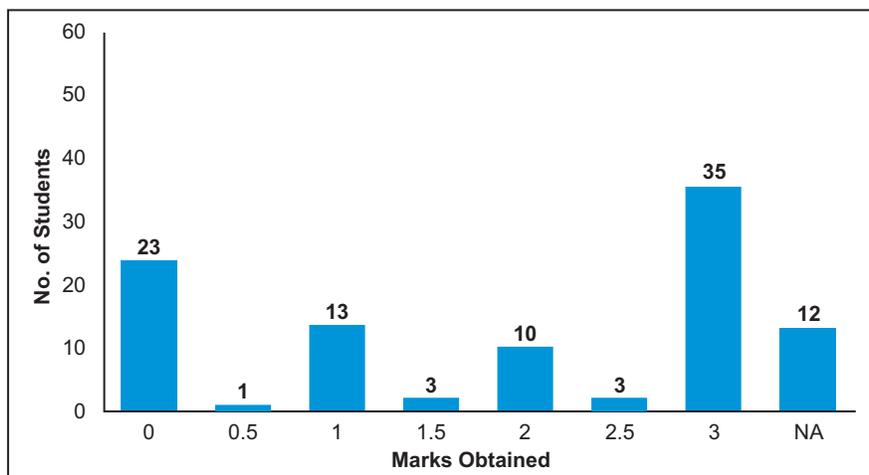
In a perfectly competitive market the buyers treat products of all the firms as homogeneous. Explain the significance of this feature.

Answer:

This implies that buyers do not differentiate between products of different firms in the industry. As such they are willing to pay only the same price for the products of all the firms. As a result a uniform price prevails in the market.

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	Mean Score	% Mean Score
Percentage	12	23	1	13	3	10	3	35	1.7102	57.01



Common Errors:

- Students lack clarity of meaning of homogenous products and also the difference between perfect substitutes and close substitutes.
- Many students have not mentioned uniform price as a result of homogeneity of goods.
- Students have explained other features of perfect competition like freedom of entry/exit etc.
- AR, MR explained and perfectly elastic demand curve was also drawn.

Suggestions:

- Meaning of homogenous products should be made clear.
- Teachers should explain that homogenous nature of product under perfect competition is the reason for uniform price.





Question No. 2

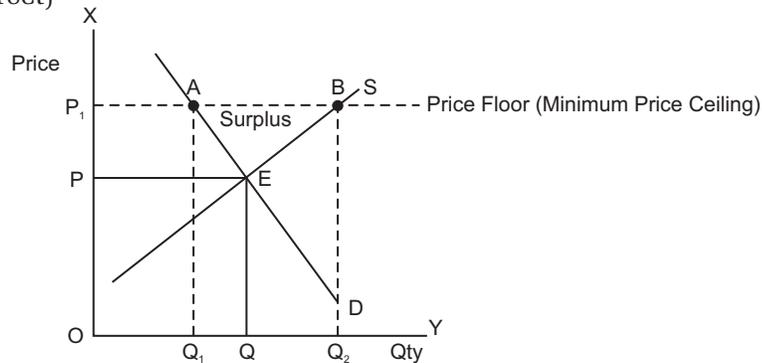
3 Marks

Type of question: Remembering

What are the effects of ‘price-floor’ (minimum price ceiling) on the market of a good? Use diagram.

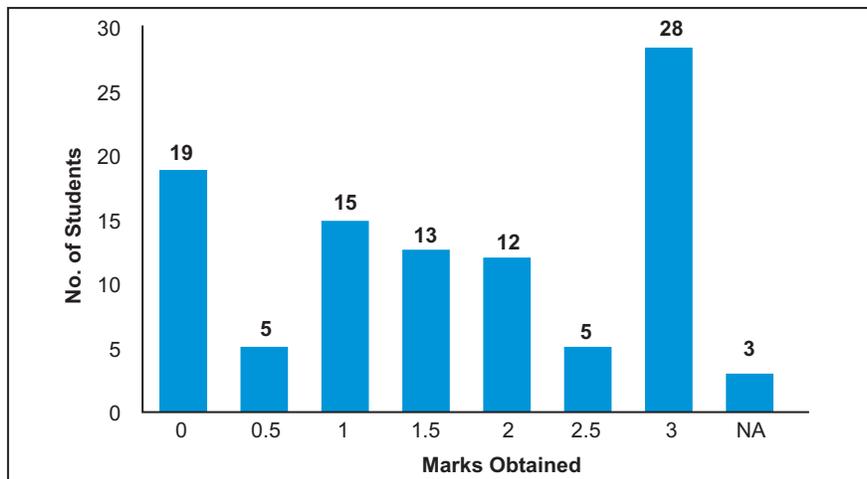
Answer:

When government imposes lower limit on a price that may be charged for a particular good or service, it is called minimum price ceiling e.g. price OP_1 . At this price the producers are willing to supply P_1B or (OQ_2) While consumers demand only P_1A ($=OQ_1$). Unable to sell all they want to sell, the producers may try to illegally sell below the minimum price. (Answer based on minimum wages is also correct)



Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	Mean Score	% Mean Score
Percentage	3	19	5	15	13	12	5	28	1.6237	54.12



Common Errors:

- Students have not properly understood the concept of ‘price floor’.
- Some students have mixed up the concept of ‘price floor’ (minimum price ceiling) with ‘price ceiling’ (maximum price ceiling).
- Students have not explained the ‘illegal selling / black marketing’ as an effect of the price flooring as a step taken by the government.
- Some students have un-necessarily elaborated the concept of surplus/shortage instead of focusing to the question.





- Diagram required in this question is either not drawn by the students or not properly labeled, which has been a major cause of marks deduction.

Suggestions:

- Teachers should clarify the concept of ‘price floor’ & the distinction between the concepts of ‘price floor’ (minimum price ceiling) with ‘price ceiling’ (maximum price ceiling).
- Students should have discussed ‘illegal selling / black marketing’ as an effect of the price flooring step taken by the government, this being the essential value point of the question.
- Students should not waste time in explaining the concept which is not asked in the question, they should focus on the information sought in the question.
- A well labeled diagram must not be omitted as required in this question.

Question No. 3 **3 Marks** **Type of question: Understanding**

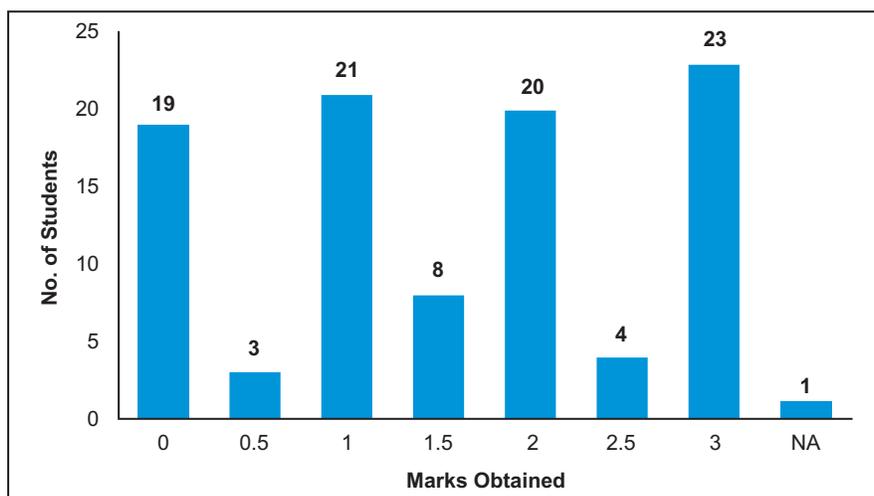
Explain the implication of non-price competition in an oligopoly market.

Answer:

Non-Price competition means competition between firms on the basis of methods other than price. Firms try to avoid price competition for the fear of price-war. They use other methods like advertising, better services to customers. etc. to compete with each other.

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	Mean Score	% Mean Score
Percentage	1	19	3	21	8	20	4	23	1.5663	52.21



Common Errors:

- Students tend to list and explain all the characteristics of Oligopoly market.
- Students link non price competition in Oligopoly to Non collusive Oligopoly.
- Wrong examples like Patents, Cartel have been given to explain non price competition.
- Undue elaboration of Price wars with wrong examples has been done in the answer.





Suggestions:

- The teacher should make the concept of non-Price competition clear with the relevant examples.
- Unnecessary examples and explanations should be avoided.

Question No. 4

3 Marks

Type of question: HOTS

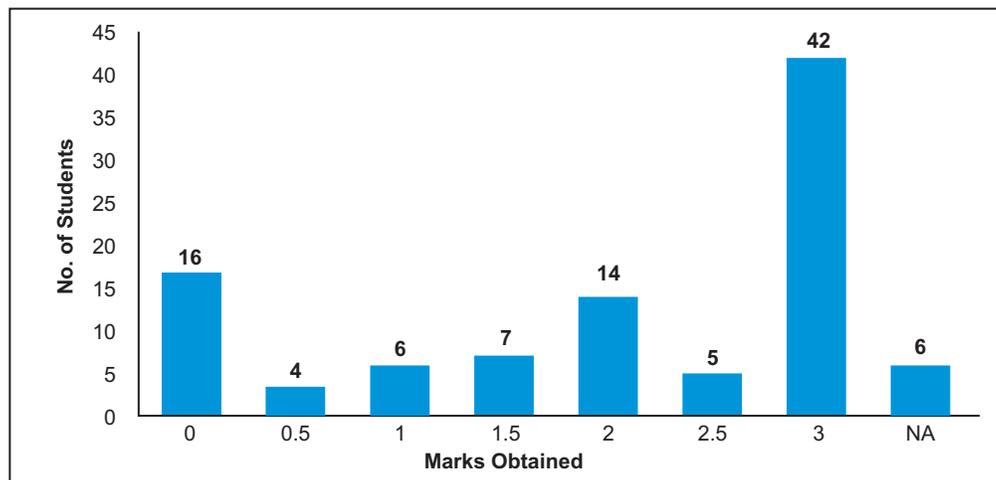
Distinguish between cooperative and non-cooperative oligopoly.

Answer:

When firms in an oligopoly market co-operate with each other in determining price or output or both, it is called co-operative oligopoly. When the firms compete with each other it is called non-co-operative oligopoly.

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	Mean Score	% Mean Score
Percentage	6	16	4	6	7	14	5	42	1.968	65.60



Common errors:

- Many students have written general features of Oligopoly.
- A few numbers of students elaborated the non-price competition.
- A few numbers of students wrote that cooperative oligopoly is when producers work/come together, there was no reference to determining price/ output or both.
- Students seemed to be confused between cooperative oligopoly with cartels.
- Many students wrote cooperative oligopoly as when buyers collectively take decision to buy a good.

Suggestions:

- Teachers should explain features of oligopoly very clearly.
- Teachers should explain meaning of cooperative and non-cooperative oligopoly with examples.



**Question No. 5****3 Marks****Type of question: Understanding**

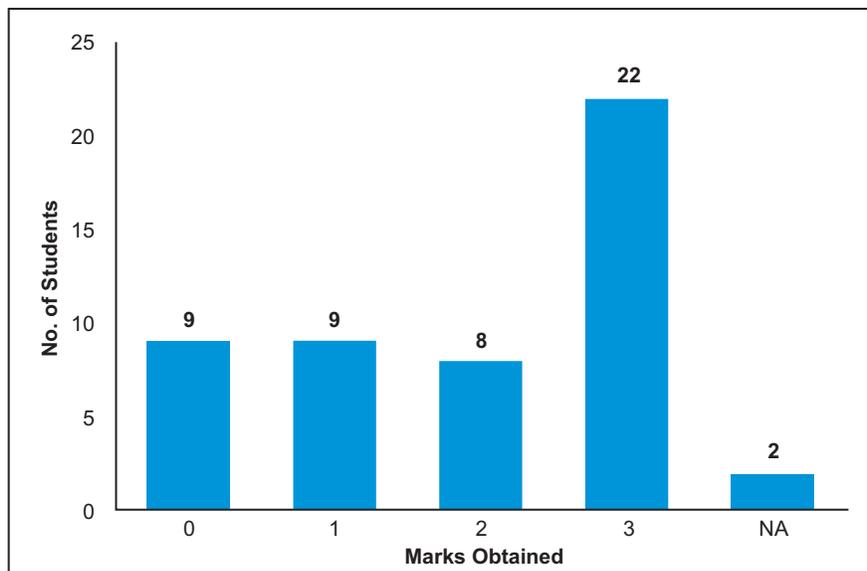
There are large numbers of buyers in a perfectly competitive market. Explain the significance of this feature.

Answer:

The feature signifies that the number of buyers in a perfectly competitive market is so large that any individual buyer is not in a position to influence the market price on its own by purchasing more or less. It is because the individual buyer's share in total purchase in the market is insignificant.

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	Mean Score	% Mean Score
Percentage	2	9	0	9	0	8	0	22	1.8958	63.1944

**Common Errors:**

- Many students explained all features of Perfectly Competitive market and did not focus only on significance of large number of buyers.
- Many students just explained how consumers benefit in Perfect Competition.
- Some students wrote there would be less number of sellers because number of buyers was large, thus exhibiting clear lack of understanding of the concept.
- A few students probably misread the question in a hurry and explained implication of large 'sellers' instead of 'buyers'.
- Some students explained general benefits of large number of buyers and sellers like large production and more income and did not relate it to its influence on market price.

Suggestions:

- Teachers must explain implications of all features of all market forms very properly to students.
- Students should read questions carefully and then answer.



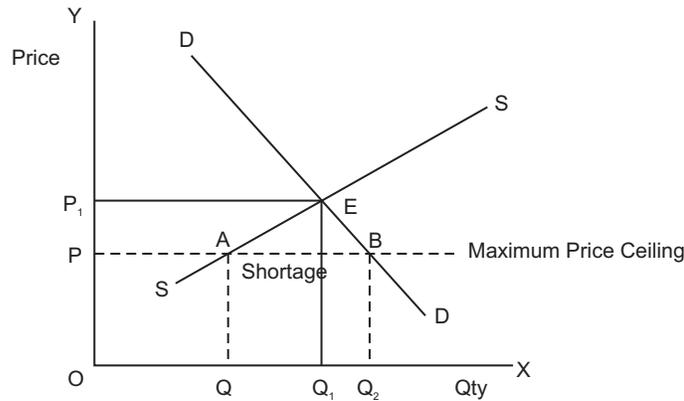
Question No. 6

3 Marks

Type of question: Remembering

Explain the effects of 'maximum price ceiling' on the market of a good. Use diagram.

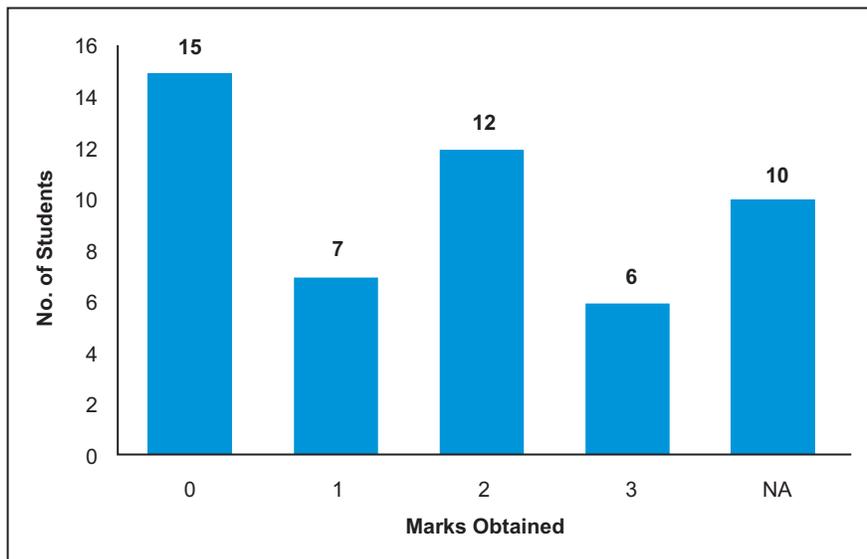
Answer:



Maximum price ceiling refers to imposition of upper limit on the price of a good by the government. For example, in the diagram OP is price ceiling while equilibrium price is OP₁. At this price the producers are willing to supply only PA (Or OQ) while consumers demand PB (Or OQ₂). The effect of the ceiling is that shortage, equal to AB (QQ₂), is created, which may further lead to black marketing.

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	Mean Score	% Mean Score
Percentage	10	15	0	7	0	12	0	6	1.225	40.83



Common Errors:

- Students have not properly understood the concept of price ceiling.
- Some students have mixed up the concept of price floor with price ceiling.





Suggestions:

- Students should be clarified with the basic difference between price ceiling & price flooring.
- A well labeled diagram must not be committed as required in this question.

Question No. 7

6 Marks

Type of question: Application

Market for a good is in equilibrium. The demand for the good ‘decreases’. Explain the chain of effects of this change.

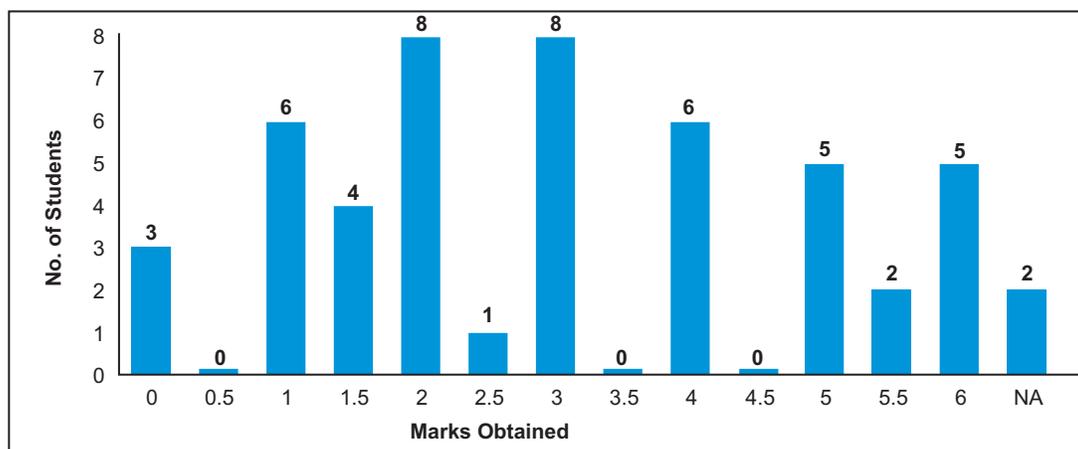
Answer:

- Given equilibrium, demand ‘decreases.’
- Price remaining unchanged, excess supply emerges.
- Excess supply leads to competition among sellers causing price to fall.
- Fall in price causes rise (expansion) in demand and fall (contraction) in supply.
- The price continues to fall till the market is in equilibrium again at a lower price.

(Diagram not required)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	4.5 Marks	5.0 Marks	5.5 Marks	6.0 Marks	Mean Score	%Mean Score
Percentage	2	3	0	6	4	8	1	8	0	6	0	5	2	5	3.010	50.1736



Common Errors:

- Some students did not explain the chain effect properly.
- Students gave the diagram when it was not required in the answer.
- A large number of students were drawing wrong diagrams. For example students are drawing both DD and SS and moving both DD and SS, when only demand for good was to be decreased.
- Some students were linking, Aggregate Demand and Aggregate Supply concepts in the questions relating to Macroeconomics.





Suggestions:

- Teacher should elaborate the concept of chain effect when dynamics of equilibrium are taught.
- Teachers should provide clear instructions to the students when diagram is to be given in support of the answer.
- Teacher should provide clear instructions for avoiding unnecessary explanation.

Question No. 8

6 Marks

Type of question: Application

Market for a good is in equilibrium. The supply of the good “increases”. Explain the chain of effects of this change.

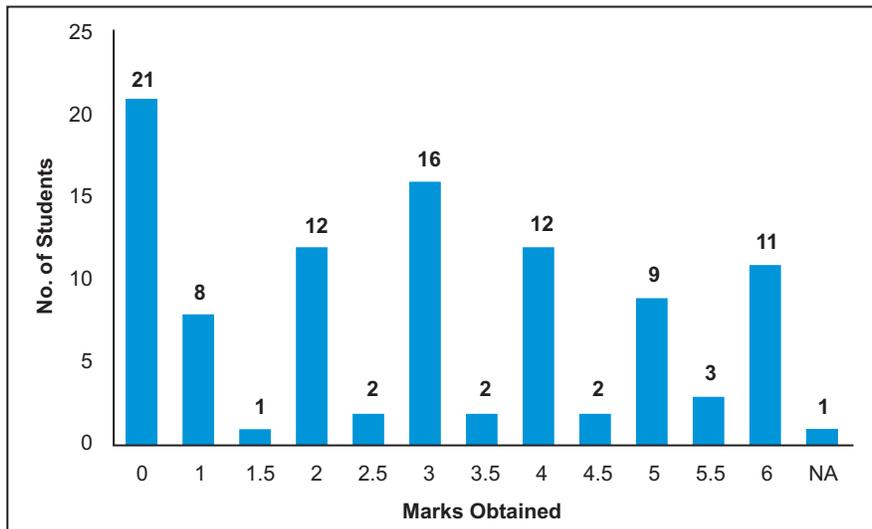
Answer:

- Given equilibrium, supply ‘increases.’
- Price remaining unchanged, excess supply emerges.
- Excess supply leads to competition among sellers causing price to fall.
- Fall in price causes rise (expansion) in demand and fall (contraction) in supply.
- These changes continue till the market is in equilibrium again at a lower price.

(Diagram not required)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	4.5 Marks	5.0 Marks	5.5 Marks	6.0 Marks	Mean Score	%Mean Score
Percentage	1	21	0	8	1	12	2	16	2	12	2	9	3	11	2.8	46.80



Common Errors:

- Most of the students have not discussed the chain effect properly.
- Some of the students got confused between AD > AS and DD > SS.





- Many students have labelled the Demand and Supply curves wrongly in the diagram, losing marks for the same.
- Some students had answered the question without properly understanding it. Some of the students used multiple diagrams for the answer.
- Instead of 'decrease' in supply students have taken 'increase' in supply/demand, leading to error in explaining chain effect.

Suggestions:

- Teachers must explain to the students the chain effect resulting from the change in demand/supply/both properly so that they don't lose marks.
- Teachers must explain to the students the difference between $AD > AS$ and $DD > SS$.
- Students must read and understand the question properly.

Question No. 9

6 Marks

Type of question: Application

Market for a good is in equilibrium. Demand for the good "increases". Explain the chain of effects of this change.

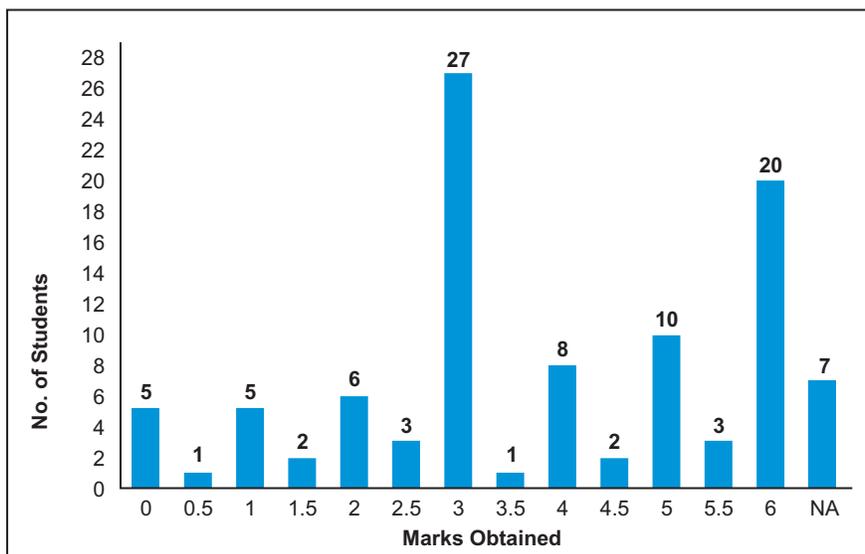
Answer:

- Given equilibrium, demand increases.
- Price remaining unchanged, excess demand emerges.
- This leads to competition between buyers causing price to rise.
- Rise in price causes fall (contraction) in demand and rise (expansion) in supply.
- The price continues to rise till the market is in equilibrium again.

(Diagram not required)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	4.5 Marks	5.0 Marks	5.5 Marks	6.0 Marks	Mean Score	%Mean Score
Percentage	7	5	1	5	2	6	3	27	1	8	2	10	3	20	3.6559	60.93





Common Errors:

- Many students explained the reasons for 'increase' in demand-which were not required.
- A large number of students explained factors affecting demand.
- A large number of students have shown the simultaneous shift in both demand and supply curves.
- Many students have shown the shift in demand and supply curves in separate diagrams.

Suggestions:

- Students should understand that when change occurs only in one market force, then only that curve is to be shifted.
- The chain effect involving expansion and contraction in demand and supply should be understood.





Unit-5

National Income & Related Aggregates

Question No. 1

3 Marks

Type of question: Application

If the Real GDP is ₹ 400 and Nominal GDP is ₹ 450, calculate the Price Index (base = 100).

Answer:

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

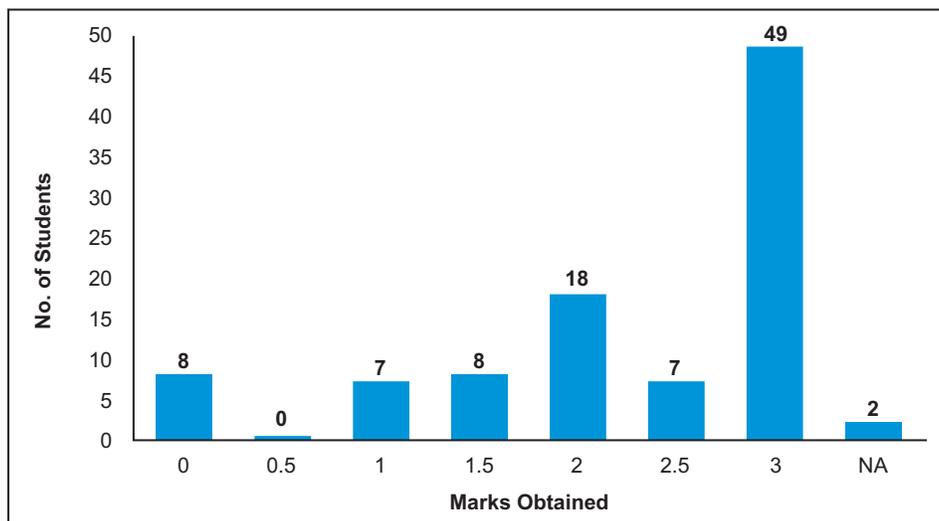
$$400 = \frac{450}{\text{Price Index}} \times 100$$

$$\text{Price Index} = \frac{450}{400} \times 100 = 112.5$$

(No marks if only the final answer is given)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	Mean Score	% Mean Score
Percentage	2	8	0	7	8	18	7	49	2.2755	75.85



Common errors:

- Students have applied wrong formula and most common error was $\text{Nominal GDP} = (\text{Real GDP} / \text{Price Index}) * 100$ and a few also subtracted nominal and real GDP to arrive at Price Index.
- Calculation errors like wrong division and not completing the calculation upto one decimal etc were common.
- Some students ignored the base 100 despite it being mentioned in the question.





Suggestions:

- Teacher should emphasize on concepts of Real GDP and Nominal GDP and the reason why this conversion is important. The meaning of Price index should also be stated while teaching same.
- Students should understand the meaning of base year price and reason of taking base year price. Question should also be read thoroughly before attempting.
- Students should carefully calculate the answer and should also avoid calculation error.

Question No. 2 **3 Marks** **Type of question: Application**

If the Real GDP is ₹ 500 and Price Index (base = 100) is 125, calculate the Nominal GDP.

Answer:

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

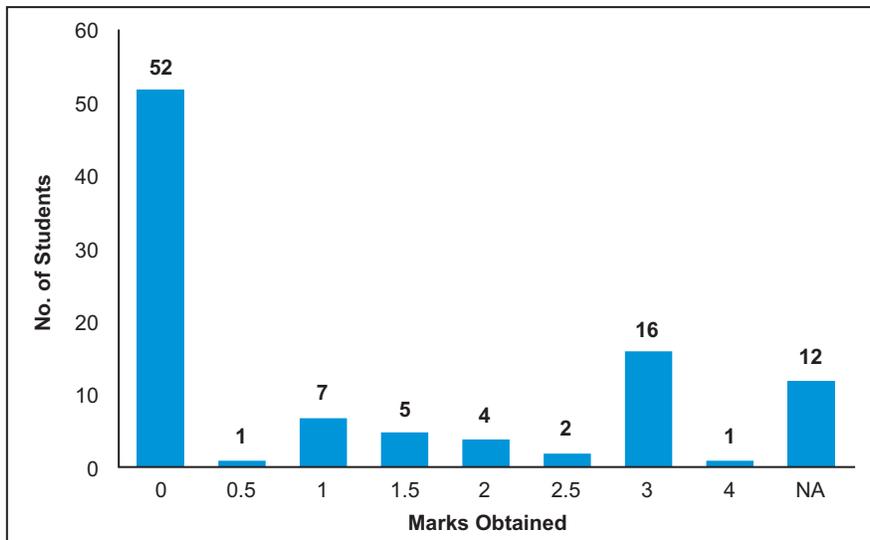
$$500 = \frac{\text{Nominal GDP}}{125} \times 100$$

Nominal GDP = ₹ 625

(No marks if only the final answer is given)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	Mean Score	% Mean Score
Percentage	12	52	1	7	5	4	2	16	0.909	30.30



Common Errors:

- Many students have applied wrong formula and most common error was Nominal GDP = (Real GDP/ Price Index)* 100 and a few also subtracted nominal and real GDP to arrive at Price Index.
- Calculation errors like wrong division and not completing the calculation upto one decimal etc were common.
- Some students ignored the base 100 despite it being mentioned in the question.





Suggestions:

- Teacher should emphasize on concepts of Real GDP and Nominal GDP and the reason why this conversion is important. The meaning of Price index should also be stated while teaching same.
- Students should understand the meaning of base year price and reason of taking base year price. Question should also be read thoroughly before attempting.
- Students should carefully calculate the answer and should also avoid calculation error.

Question No. 3

3 Marks

Type of question: Application

If the Nominal GDP is Rs. 600 and Price Index (base = 100) is 120, calculate the Real GDP.

Answer:

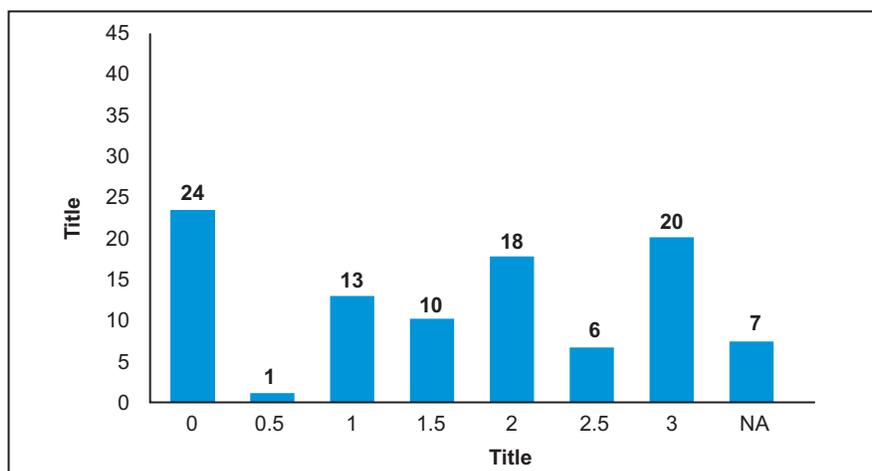
$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

$$\text{Real GDP} = \frac{600}{120} \times 100 = 500$$

(No marks if only the final answer is given)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	Mean Score	% Mean Score
Percentage	7	24	1	13	10	18	6	20	1.543	51.43



Common errors:

- Many students have applied wrong formula and most common error was $\text{Nominal GDP} = (\text{Real GDP} / \text{Price Index}) \times 100$ and a few also subtracted nominal and real GDP to arrive at Price Index.
- Calculation errors like wrong division and not completing the calculation upto one decimal etc were common.
- Some students ignored the base 100 despite it being mentioned in the question.





Suggestions:

- Teacher should emphasize on concepts of Real GDP and Nominal GDP and the reason why this conversion is important. The meaning of Price index should also be stated while teaching same.
- Students should understand the meaning of base year price and reason of taking base year price. Question should also be read thoroughly before attempting.
- Students should carefully calculate the answer and should also avoid calculation error.

Question No. 4

3 Marks

Type of question: Application

If the Nominal GDP is Rs. 1200 and Price Index (with base = 100) is 120, calculate Real GDP.

Answer:

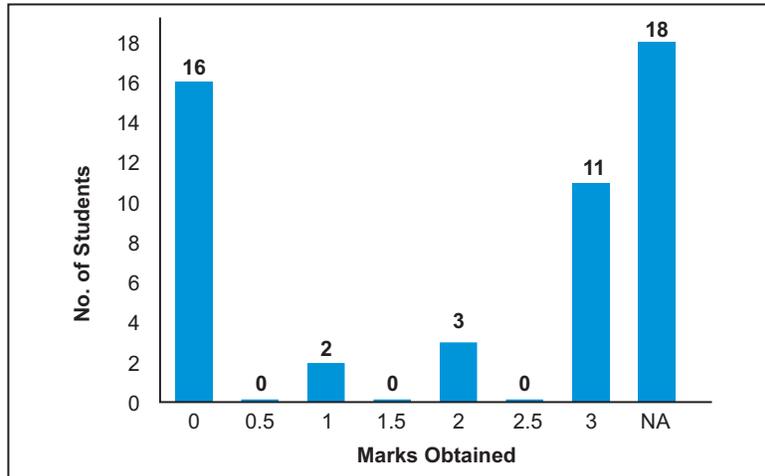
$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{Price Index}} \times 100$$

$$\text{Real GDP} = \frac{1200}{120} \times 100 = 1000$$

(No marks if only the final answer is given)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	Mean Score	% Mean Score
Percentage	18	16	0	2	0	3	0	11	1.28125	42.7083



Common Errors:

- Many students have applied wrong formula and most common error was $\text{Nominal GDP} = (\text{Real GDP} / \text{Price Index}) * 100$ and a few also subtracted nominal and real GDP to arrive at Price Index.
- Calculation errors like wrong division and not completing the calculation up to one decimal etc. were common.
- Some students ignored the base 100 despite it being mentioned in the question.





Suggestions:

- Teacher should emphasize on concepts of Real GDP and Nominal GDP and the reason why this conversion is important. The meaning of Price index should also be stated while teaching same.
- Students should understand the meaning of base year price and reason of taking base year price. Question should also be read thoroughly before attempting.
- Students should carefully calculate the answer and should also avoid calculation error.

Question No. 5

6 Marks

Type of question: Understanding

Giving reason explains how the following should be treated in estimation of national income:

- (i) Payment of interest by a firm to a bank
- (ii) Payment of interest by a bank to an individual
- (iii) Payment of interest by an individual to a bank

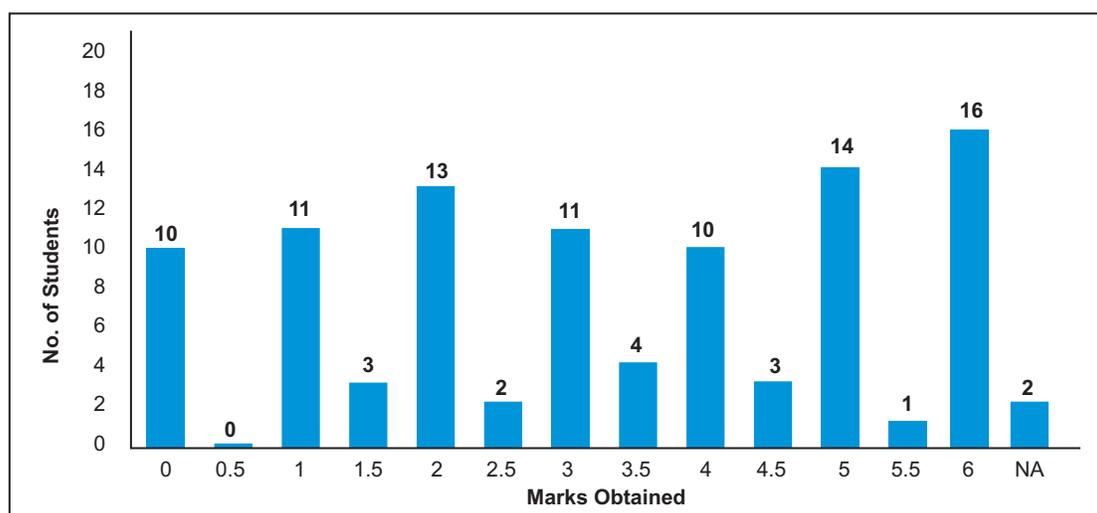
Answer:

- (i) Payment of interest by a firm to bank is treated as a factor payment by the firm because the firm borrows money for carrying out production and therefore included in national income.
- (ii) Payment of interest by bank to an individual is a factor payment because bank borrows for carrying out banking services and therefore included in national income.
- (iii) Payment of interest by an individual to bank is not included in national income because the individual borrows for consumption and not for production.

(No marks if reason is not given)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	4.5 Marks	5.0 Marks	5.5 Marks	6.0 Marks	Mean Score	%Mean Score
Percentage	2	10	0	11	3	13	2	11	4	10	3	14	1	16	3.25	54.16





Common Errors:

- Many students have included interest and a part of Mixed Income.
- A few students do not have clear concepts of national income and private income.
- Some students do not know that Interest is a part of operating surplus it has been considered as part of compensation of employees.

Suggestions:

- The teachers should explain the distinction between an interest on a loan for productive purpose and loan for consumption purpose.
- It must be explained that interest on loan for consumption purpose is a transfer payment where as interest on loan for production purpose is a factor payment.

Question No. 6 **6 Marks** **Type of question: Application**

Calculate the ‘National Income’ and ‘Private Income’: (₹crores)

(i) Rent	200
(ii) Net factor income to abroad	10
(iii) National debt interest	15
(iv) Wages and salaries	700
(v) Current transfers from government	10
(vi) Undistributed profits	20
(vii) Corporation tax	30
(viii) Interest	150
(ix) Social security contributions by employers	100
(x) Net domestic product accruing to government	250
(xi) Net current transfers to rest of the world	5

Answer:

$$\begin{aligned}
 \text{N.I.} &= (\text{iv} + \text{ix}) + \text{i} + \text{vii} + (\text{vi} + \text{viii} + \text{xii}) - \text{ii} \\
 &= 700 + 100 + 200 + 150 + 20 + 30 + 50 - 10 \\
 &= ₹ 1240 \text{ Crore}
 \end{aligned}$$

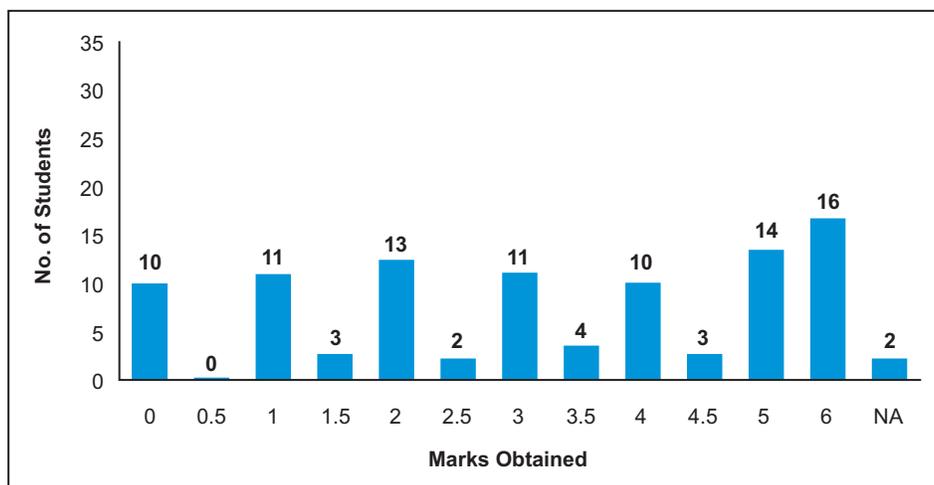
$$\begin{aligned}
 \text{Private Income} &= \text{N.I.} - \text{x} + \text{iii} - \text{xi} + \text{v} \\
 &= 1240 - 250 + 15 - 5 + 10 \\
 &= ₹ 1010 \text{ Crore}
 \end{aligned}$$

(No marks if only the final answer is given)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	4.5 Marks	5.0 Marks	5.5 Marks	6.0 Marks	Mean Score	%Mean Score
Percentage	2	10	0	11	3	13	2	11	4	10	3	14	1	16	3.25	54.16





Common mistakes:

- Many students have treated NFIA as net factor income to abroad.
- A few students were not clear with the meaning of compensation of employees clear.
- Some students have treated undistributed profits/ corporation tax wrongly.
- Many students have calculated mixed income using different variables.
- A large number of students have not treated social security contribution by employers as a part of compensation of employees

Suggestions:

- Teachers should explain clearly the components of NFIFA so as to avoid my confusion between FIFA & FITA.
- The concepts of compensation of employees need to be made clear to students so that the difference between social security contribution by employers and by employees and their treatment.
- The students need to be told clearly that Mixed Income should be ignored if not given in the question.
- Transfer payments are not the part of the national income of the country.

Question No. 7

6 Marks

Type of question: Application

Calculate 'Net National Product at Market Price' and 'Personal Income': (₹ crores)

(i) Transfer payments by government	7
(ii) Government final consumption expenditure	50
(iii) Net imports	(-)10
(iv) Net domestic fixed capital formation	60
(v) Private final consumption expenditure	300
(vi) Private income	280
(vii) Net factor income to abroad	(-)5
(viii) Closing stock	8





(ix) Opening stock	8
(x) Depreciation	12
(xi) Corporate tax	60

Answer:

$$\text{NNP}_{\text{mp}} = v + \text{ii} + (\text{iv} + \text{viii} - \text{ix}) - \text{iii} - \text{vii}$$

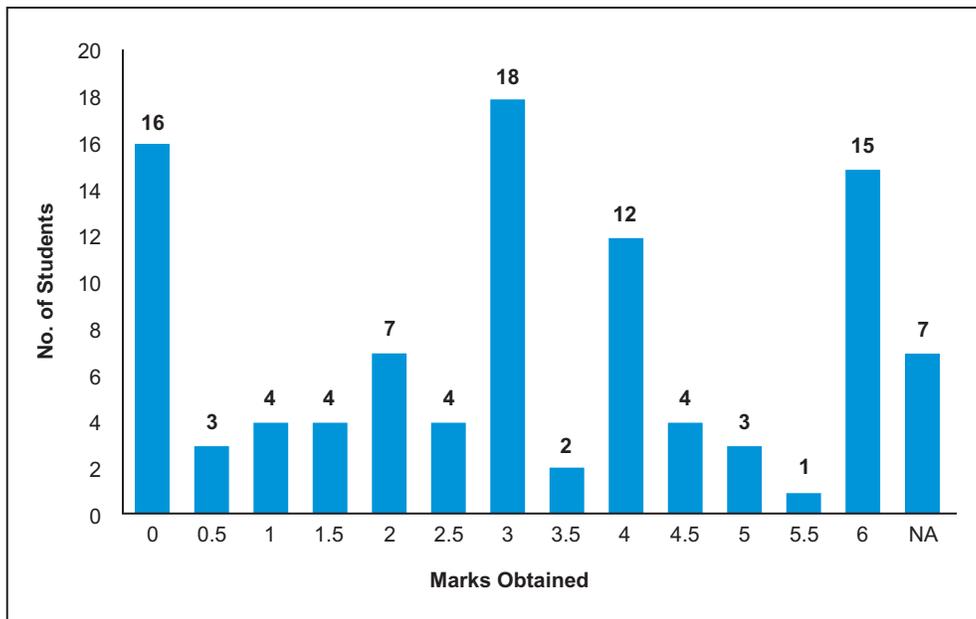
$$= 300 + 50 + 60 + 8 - 8 - (-10) - (-5) = ₹425 \text{ crore}$$

$$\text{Personal Income} = \text{vi} - \text{xi} - \text{xii}$$

$$= 280 - 60 - 20 = ₹200 \text{ Crore}$$

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	4.5 Marks	5.0 Marks	5.5 Marks	6.0 Marks	Mean Score	%Mean Score
Percentage	7	16	3	4	4	7	4	18	2	12	4	3	1	15	2.935	48.92



Common mistakes:

- Many students have treated net factor income to abroad. As net factor income from a broad.
- A few students were not clear with the meaning of compensation of employees clear.
- Some students have treated undistributed profits/ corporation tax wrongly.
- Many students have calculated mixed income using different variables.
- A large number of students have not treated social security contribution by employers as a part of compensation of employees

Suggestions:

- Teachers should explain clearly the components of NFIFA so as to avoid my confusion between FIFA & FITA.





- The concepts of compensation of employees need to be made clear to students so that the difference between social security contribution by employers and by employees and their treatment.
- The students need to be told clearly that Mixed Income should be ignored if not given in the question.
- Transfer payments are not the part of the national income of the country.

Question No. 8

6 Marks

Type of question: Application

Calculate 'Net Domestic Product at Market Price' and 'Gross National Disposable Income' :
(Rs.crores)

(i) Private final consumption expenditure	400
(ii) Opening stock	10
(iii) Consumption of fixed capital	25
(iv) Imports	15
(v) Government final consumption expenditure	90
(vi) Net current transfers to rest of the world	5
(vii) Gross domestic fixed capital formation	80
(viii) Closing stock	20

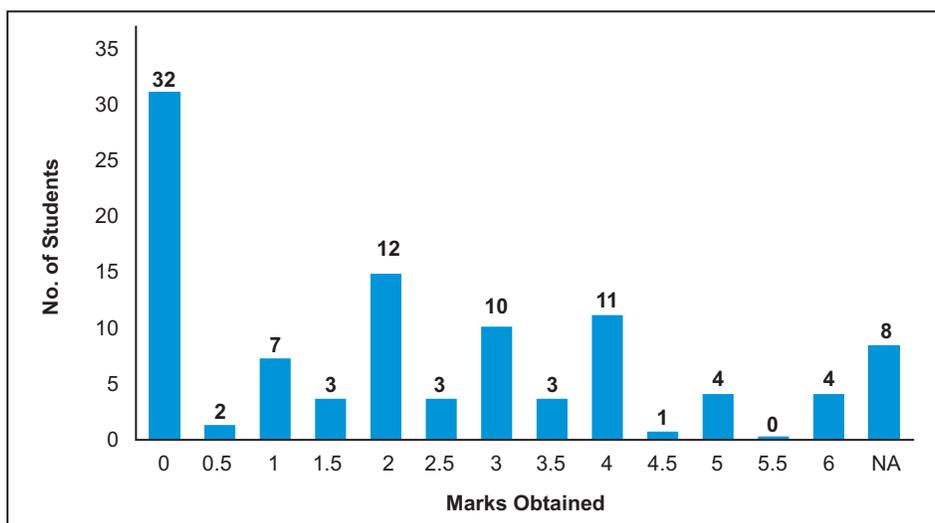
Answer:

$$\begin{aligned} \text{NDP}_{\text{mp}} &= \text{i} + \text{v} + (\text{vii} + \text{viii} - \text{ii}) + (\text{ix} - \text{iv}) - \text{iii} \\ &= 400 + 90 + 80 + 20 - 10 + 10 - 15 - 25 = ₹ 550 \text{ Crore} \end{aligned}$$

$$\begin{aligned} \text{GNDI} &= \text{NDP}_{\text{mp}} + \text{iii} - \text{x} - \text{vi} \\ &= 550 + 25 - (-5) - (5) = ₹ 575 \text{ Crore} \end{aligned}$$

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	4.5 Marks	5.0 Marks	5.5 Marks	6.0 Marks	Mean Score	%Mean Score
Percentage	8	32	2	7	3	12	3	10	3	11	1	4	0	4	1.9239	32.06





Common errors:

- Many students used wrong formula (opening stock-closing stock) in calculation of change in stock.
- In calculation of NDPmp, many students did not add change in stock.
- Many students did not subtract 'depreciation' to convert GDPmp to NDPmp.
- Many students did not add depreciation to NDPmp to convert it to GNDI.
- Many students did not notice that factor income was 'to' abroad.
- Some students took wrong values under the given item heads.
- Some students lacked conceptual clarity of expenditure method.

Suggestions:

- Students should practice lot of numerical problems based on methods of calculation of national income.
- Students should read very carefully the items given in question paper(for example, net imports, net factor income 'to' abroad)
- Teachers should explain meaning and treatment of all items of all three methods and give adequate practice to students

Question No. 9 **6 Marks** **Type of question: Understanding**

Giving reason explains how the following should be treated in estimation of national income:

- (i) Expenditure by a firm on payment of fees to a chartered accountant
- (ii) Payment of corporate tax by a firm
- (iii) Purchase of refrigerator by a firm for own use

Answer:

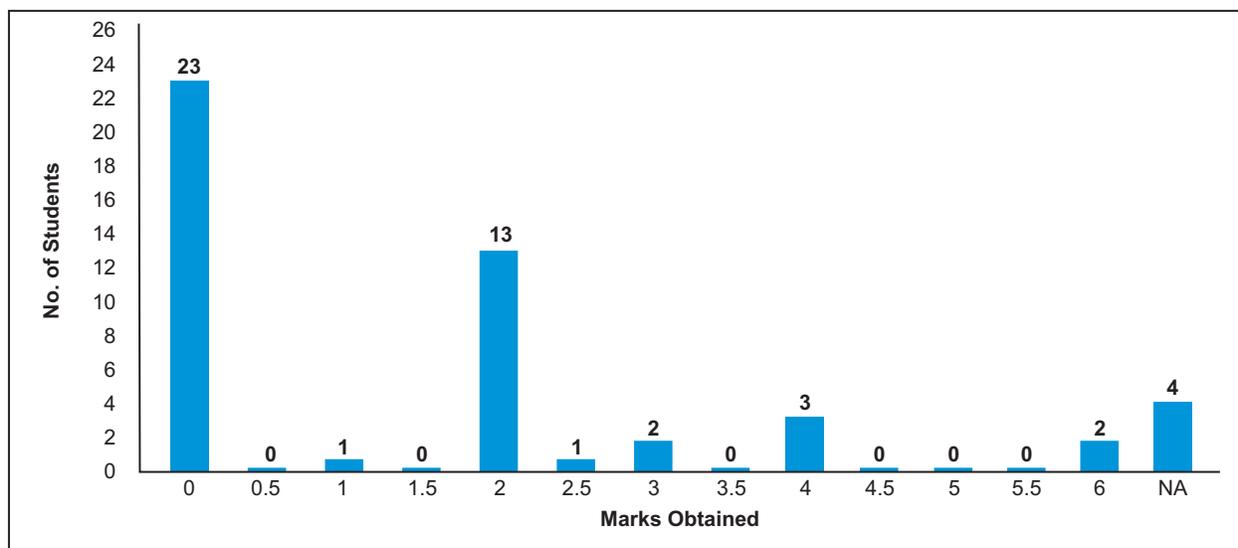
- (i) Payment of fees to chartered accountant by a firm is intermediate cost to the firm and, therefore not included.
- (ii) Payment of corporate tax by a firm is a transfer payment and thus not included.
- (iii) Purchase of a refrigerator by a firm for own use is investment expenditure and thus included.

(No marks if reason is not given)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	4.5 Marks	5.0 Marks	5.5 Marks	6.0 Marks	Mean Score	%Mean Score
Percentage	4	23	0	1	0	13	1	2	0	4	0	0	0	2	1.38	23.00





Question No. 10

6 Marks

Type of question: Application

Calculate 'Gross National Product at Market Price' and 'Net National Disposable Income':

	₹ crore
(i) Rent	100
(ii) Net current transfers to rest of the world	30
(iii) Social security contributions by employers	47
(iv) Mixed income	600
(v) Gross domestic capital formation	140
(vi) Royalty	20
(vii) Interest	110
(viii) Compensation of employees	500
(ix) Net domestic capital formation	120
(x) Net factor income from abroad	(-)10
(xi) Net indirect tax	150
(xii) Profit	200

Answer:

$$\begin{aligned} \text{GNP}_m &= \text{viii} + (\text{i} + \text{vi}) + \text{vii} + \text{xii} + \text{iv} + (\text{v} - \text{ix}) + \text{x} + \text{xi} \\ &= 600 + 100 + 20 + 110 + 200 + 600 + (140 - 120) + (-10) + 150 \\ &= ₹1690 \text{ crore} \end{aligned}$$

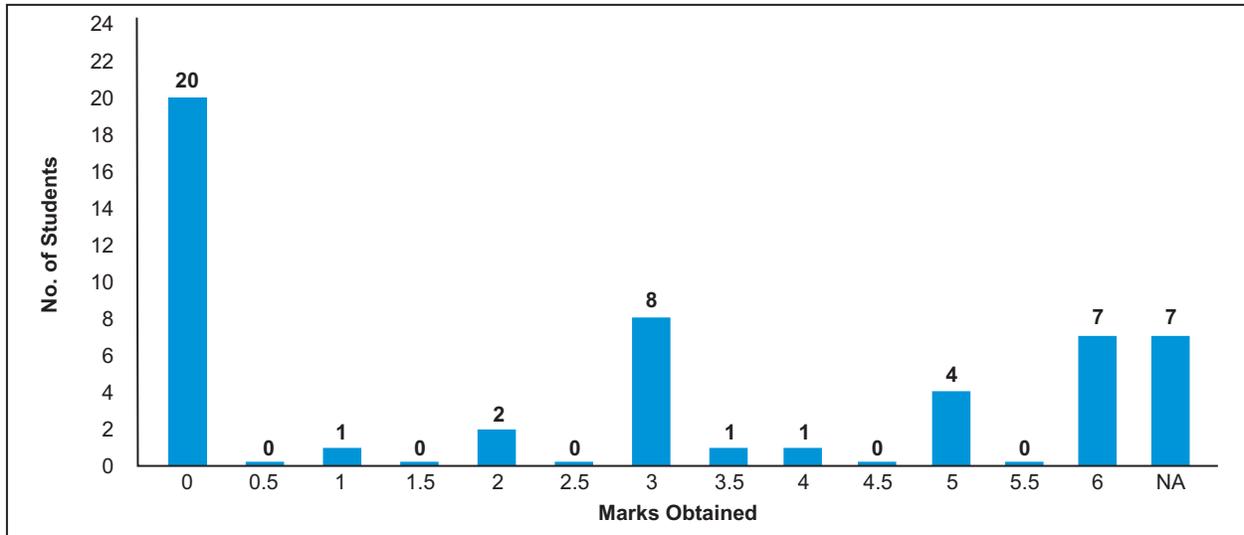
$$\begin{aligned} \text{NNDI} &= \text{GNP}_m - (\text{v} - \text{ix}) - \text{ii} \\ &= 1690 - (140 - 120) - 30 \\ &= ₹1640 \text{ crore} \end{aligned}$$

(No marks if only the final answer is given)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	4.5 Marks	5.0 Marks	5.5 Marks	6.0 Marks	Mean Score	%Mean Score
Percentage	7	20	0	1	0	2	0	8	1	1	0	3	0	7	2.1744	36.2403





Common Errors:

- The students did not attempt the numerical on NNDI concept
- Many students could not calculate the depreciation.
- Many Students were careless and they did not treat “Net current transfers to rest of the world” properly.
- Few students added Social security contributions when COE was already given.
- Many Students did Calculation mistakes.

Suggestions :

- Students should be given adequate practice of Numerical.
- Teachers should help students in revising formulas and their application.
- Teacher should explicitly explain the “Concept and formula of Net National Disposable Income” to the students.
- The teacher should elaborate the components of Compensation of employees, so that the children do not make mistakes in the numerical.

Question No. 11

6 Marks

Type of question: Application

Calculate ‘Net Domestic Product at Factor Cost’ and ‘Gross National Disposable Income’

	₹ Crore
(i) Net current transfers to abroad	15
(ii) Private final consumption expenditure	800
(iii) Net imports	(-)20
(iv) Net domestic capital formation	100
(v) Net factor income to abroad	10
(vi) Depreciation	50
(vii) Change in stocks	17
(viii) Net indirect tax	120





- (ix) Government final consumption expenditure 200
 (x) Exports 30

Answer:

$$\text{NDP}_{fc} = \text{ii} + \text{ix} + \text{iv} - \text{iii} - \text{viii}$$

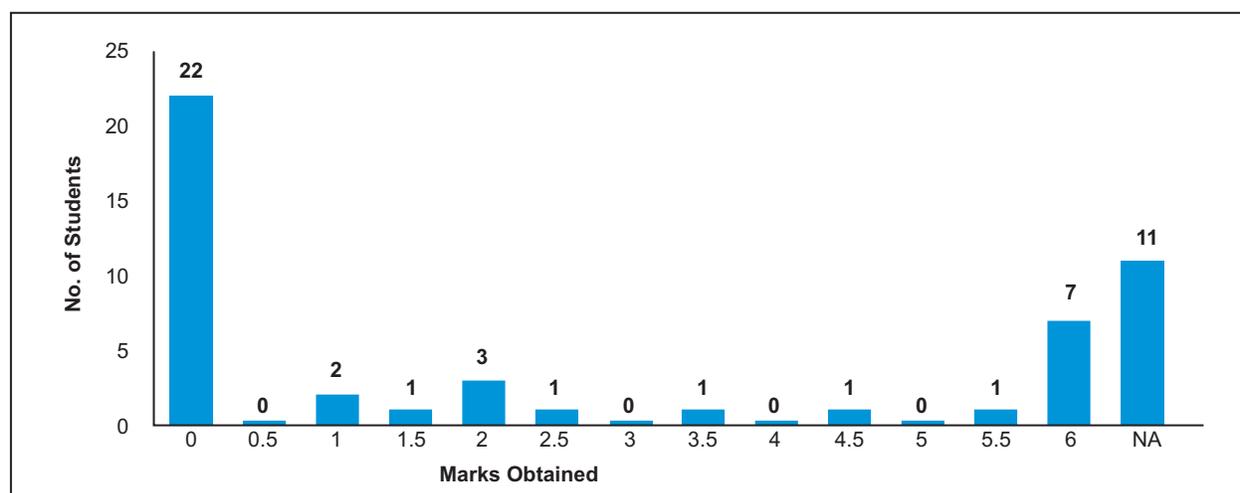
$$= 800 + 200 + 100 - (-20) - 120 = ₹1000 \text{ crore}$$

$$\text{GNDI} = \text{NDP}_{fc} + \text{vi} - \text{v} + \text{viii} - \text{i}$$

$$= 1000 + 50 - 10 + 120 - 15 = ₹1145 \text{ crore}$$

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	4.5 Marks	5.0 Marks	5.5 Marks	6.0 Marks	Mean Score	%Mean Score
Percentage	11	22	0	2	1	3	1	0	1	0	1	0	1	7	1.7307	28.8461



Common Errors:

- The students did not attempt the numerical on GNDI concept
- Many students could not calculate the depreciation.
- Many Students were careless and they did not treat “Net current transfers to rest of the world” properly.
- Few students added Social security contributions when COE was already given.
- Many Students did Calculation mistakes.

Suggestions:

- Students should be given adequate practice of Numerical, Questions of National Income Accounting.
- Teachers should help students in revising formulas and their application.
- Teacher should explicitly explain the “Concept and formula of Gross National Disposable Income” to the students.
- The teacher should elaborate the components of Compensation of employees, so that the children do not make mistakes in the numerical.



Unit-6

Money & Banking



Question No. 1

4 Marks

Type of question: Remembering

Explain the “Bankers’ Bank function” of the central bank.

OR

Explain the “Bank of Issue function” of the central bank.

Answer:

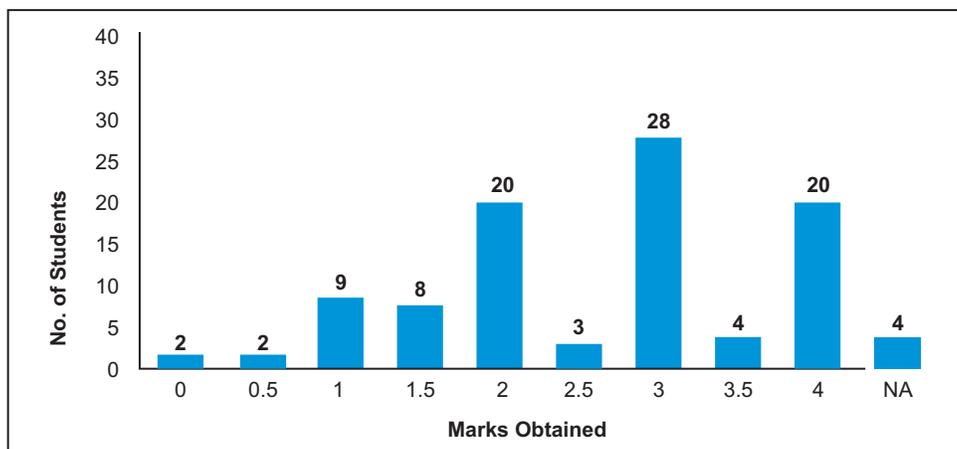
As the banker to the banks, the Central Bank holds a part of the cash reserves of commercial banks. From these reserves it lends to commercial banks when they are in need of funds. Central bank also provides cheque clearing and remittance facilities to the commercial banks.

OR

The central bank is the sole authority for the issue of currency in the country. It promotes efficiency in the financial system. It leads to uniformity in the issue of currency, and it gives Central Bank control over money supply.

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	Mean Score	% Mean Score
Percentage	4	2	2	9	8	20	3	28	4	20	2.5781	64.45



Common Errors:

- A few students have not made any reference to ‘clearing house function’.
- Many students have confused bankers bank with banker to the government.
- A large number of students have unnecessarily explained all the functions of Central bank.

Suggestions:

- The students should be writing to the point answers & save time should be explained that they should be writing to the point answers, so avoid wastage of time.
- Teachers should emphasize on clear understanding of Bankers bank function and bank of Issue function.



**Question No. 2****4 Marks****Type of question: Application**

Currency is issued by the central bank, yet we say that commercial banks create money. Explain. How is this money creation by commercial banks likely to affect the national income? Explain.

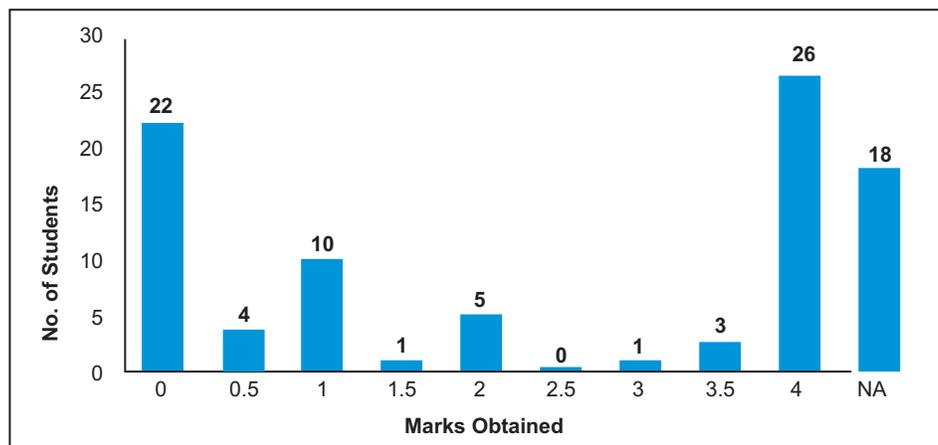
Answer:

Money supply has two components: Currency and demand deposits with commercial banks. Currency is issued by the central bank while deposits are created by commercial banks by lending money to the people. In this way commercial banks also create money.

Commercial banks lend money mainly to investors. The rise in investment in the economy leads to rise in national income through the multiplier effect.

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	Mean Score	% Mean Score
Percentage	18	22	4	10	1	5	0	1	3	26	1.7195	42.98

**Common Errors:**

- Many students have made conceptual error regarding money creation function of commercial bank.
- Some students have unnecessarily explained the process of money creation function of commercial bank instead of explaining the impart of money creation National Income
- A large number of students have explained many functions of commercial banks.
- Many students have written that commercial bank uses whole of its deposits to give loan.

Suggestions:

- Teacher should explain the monopoly right of Central Bank for issuing the currency & its beneficial impact on the economy.
- The children should be explained that they should be writing to the point answers, so as to avoid wastage of time.
- The students should give a small reference of money creation and how it affects National Income needs to be explained in detail.





Question No. 3

4 Marks

Type of question: Remembering

Explain the 'bank of issue' function of the central bank.

Or

Explain 'Government's Bank' function of central bank.

Answer:

The central bank is the sole authority for the issue of currency in the country. It promotes efficiency in the financial system. Firstly, because it leads to uniformity in the issue of currency, Secondly, because it gives Central Bank control over money supply.

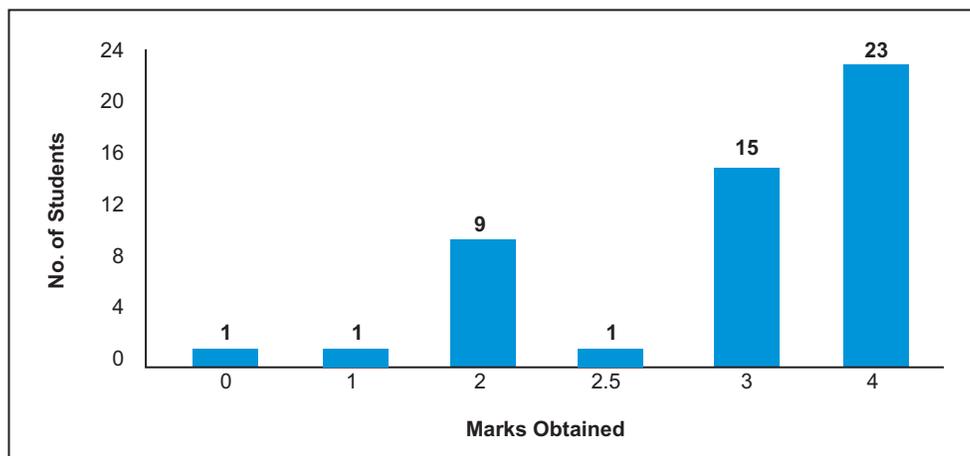
OR

The Central Bank acts as a banker to the government. The central bank accepts receipts and makes payments for the government and carries out exchange, remittance and other normal banking operations for the government. The central bank manages public debt and also lends to government.

(To be marked as a whole)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	Mean Score	% Mean Score
Percentage	0	1	0	1	0	9	1	15	0	23	3.1699	79.25



Common Errors:

- A few students have not made any reference to 'clearing house function'.
- Many students have confused bankers bank with banker to the government.
- A large number of students have unnecessarily explained all the functions of Central bank.

Suggestions:

- The students should be writing to the point answers & save time should be explained that they should be writing to the point answers, so avoid wastage of time.
- Teachers should emphasize on clear understanding of Bankers bank function and bank of Issue function.



**Question No. 4****4 Marks****Type of question: Evaluation**

Government of India has recently launched 'Jan-DhanYojna' aimed at every household in the country to have at least one bank account.

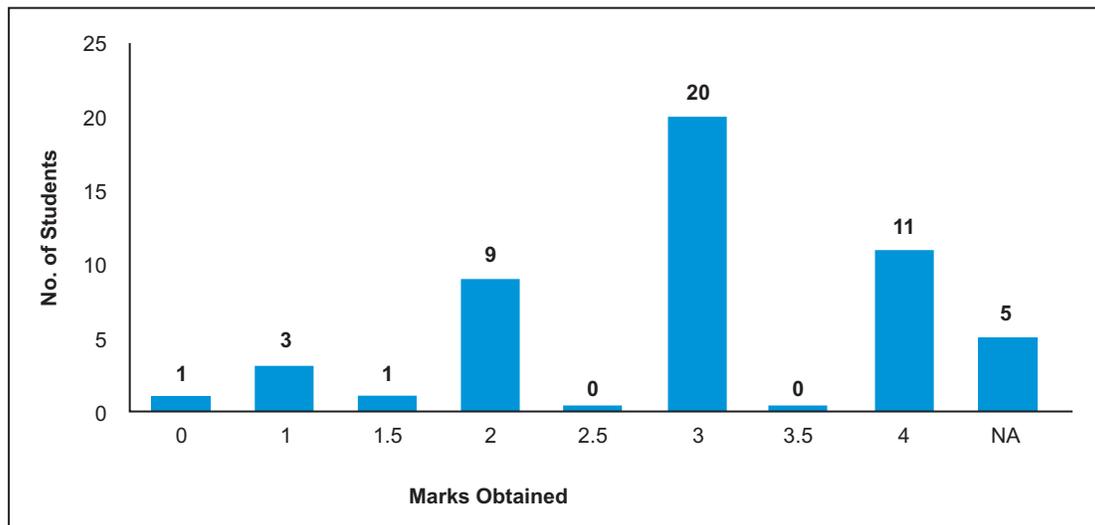
Explain how deposits made under the plan are going to affect national income of the country.

Answer:

- Opening more bank accounts means more bank deposits.
- More deposits mean increase in the lending capacity of the commercial banks.
- More lending by banks means more investment in the country.
- More investment means more national income.

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	Mean Score	% Mean Score
Percentage	5	1	0	3	1	9	0	20	0	11	2.8111	70.2777

**Common Errors:**

- Some students only explained 'Jan- Dhan Yojana' without explaining the effect on national Income.
- Most of the students did not have any idea about the Jan- Dhan Yojana.
- Some students vaguely answered the questions.

Suggestions:

- Teachers should stress on knowing correct economic affairs of the country & the world for this newspaper reading can be a great tool.
- Teachers should arrange a few sessions on the latest economic developments within & outside the country & their likely impacts on the economy as a whole.
- Students should develop understanding of events by around them happening.



Unit-7

Determination of Income & Employment



Question No. 1

4 Marks

Type of question: Remembering

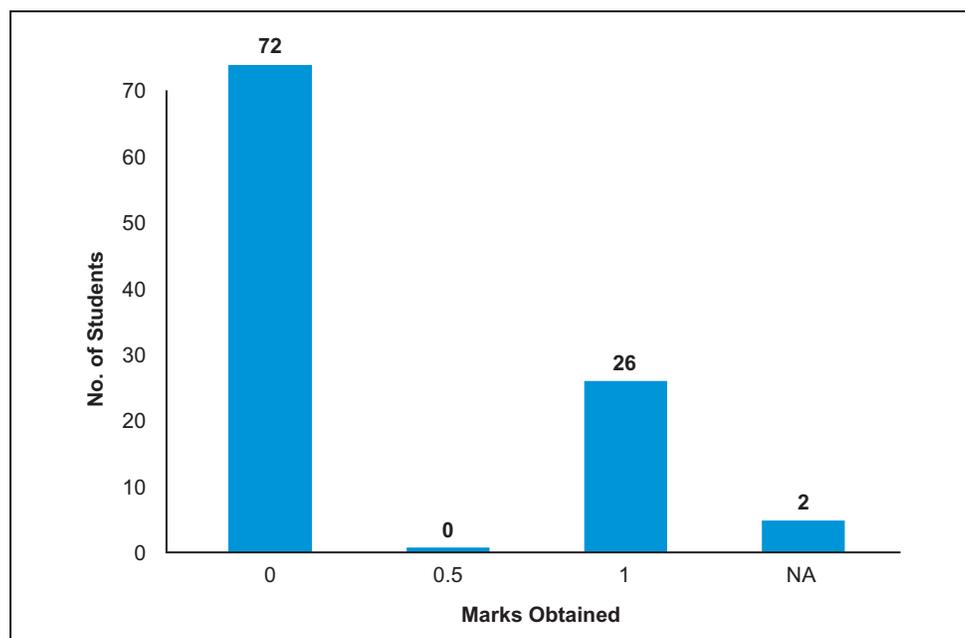
What is 'aggregate demand' in macroeconomics?

Answer:

Value of final products the buyers are planning to buy during a given period at a given level of income.

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	Mean Score	% Mean Score
Percentage	2	72	0	26	0.2653	26.53



Common Errors:

- Most of students have missed out 'during a given period of one year' & 'planning to buy' in definition which is a very important component of answer.
- A few students got confused between Aggregate Demand and Market Demand.
- Components of Aggregate Demand were stated by many students which was not asked in the question.
- A few students got confused with the concept of country and economy. It is to be understood that Aggregate Demand is in context with economy and not country.





Suggestions:

- Students should crisply give the definition which should have all elements like ‘demand of all the final goods & services; ‘related to economy’;’ at a given level of income’ and planned during a given period of time.
- Students should not waste time in unnecessarily stating and explaining what has not been asked in question.
- Many students stated the components of Aggregate demand and a few gave the functional relationship too, which was not asked for in the question.
- Students should understand that concepts of micro economics and macroeconomics though interrelated but are separate. For Example Market demand is demand of ONE GOOD by all consumers in an economy whereas Aggregate Demand is demand of ALL FINAL GOODS and SERVICES by all sectors in an economy.

Question No. 2

1 Marks

Type of question: Remembering

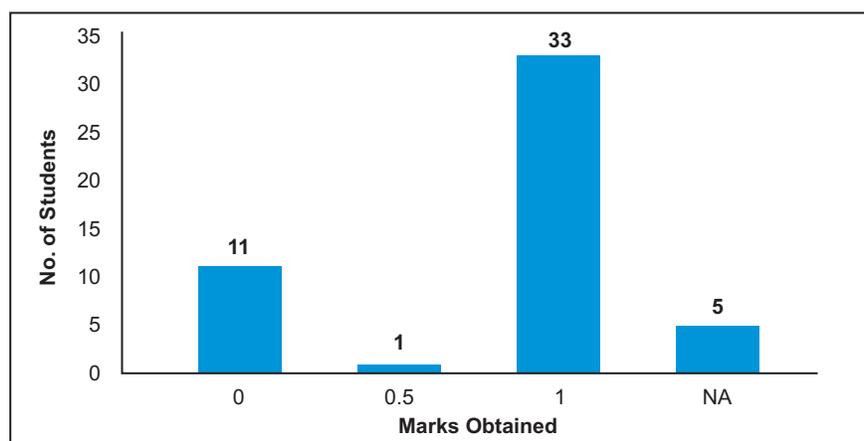
What is ‘aggregate supply’ in macroeconomics?

Answer:

Aggregate supply is the value of total quantity of final goods and services planned to be produced in an economy during a period.

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	Mean Score	% Mean Score
Percentage	5	11	1	33	0.7555	75.555



Common errors:

- Many students wrote definition of Market supply instead of Aggregate Supply.
- Some students missed out vital points like “final goods & services” & “planned from the definition of Aggregate Supply.

Suggestions:

- Teachers should tell students the correct definition of Aggregate Supply & also stress them to write the correct definition without missing vital points.





Question No. 3

1 Marks

Type of question: Understanding

If $MPC = 1$, the value of multiplier is: (Choose the correct alternative)

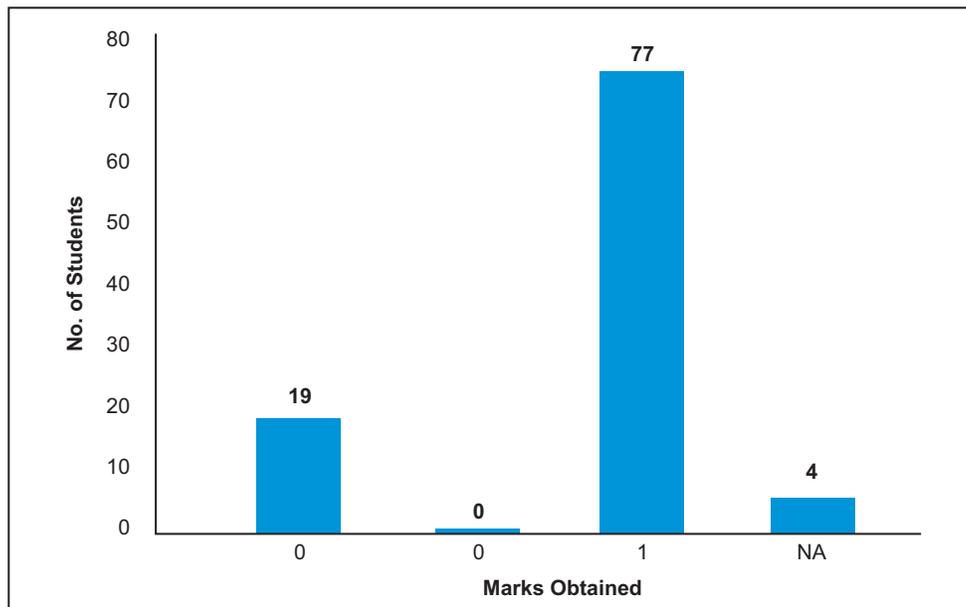
- (a) 0
- (b) 1
- (c) Between 0 and 1
- (d) Infinity

Answer:

(d) Infinity

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	Mean Score	% Mean Score
Percentage	4	19	0	77	0.8021	80.21



Common Errors:

- Few students have probably interpreted MPC as MPS and were confused with the two concepts.
- Many students have derived the answer. The explanation/ reason/derivation was not asked in the question.

Suggestions:

- Students should understand the relation of multiplier with MPC clearly.
- Students should answer what is asked in the exam and not what they know about the concept.
- Teacher should emphasize that students should answer to the point.



**Question No. 4****1 Marks****Type of question: Remembering**

The value of multiplier is : (choose the correct alternative)

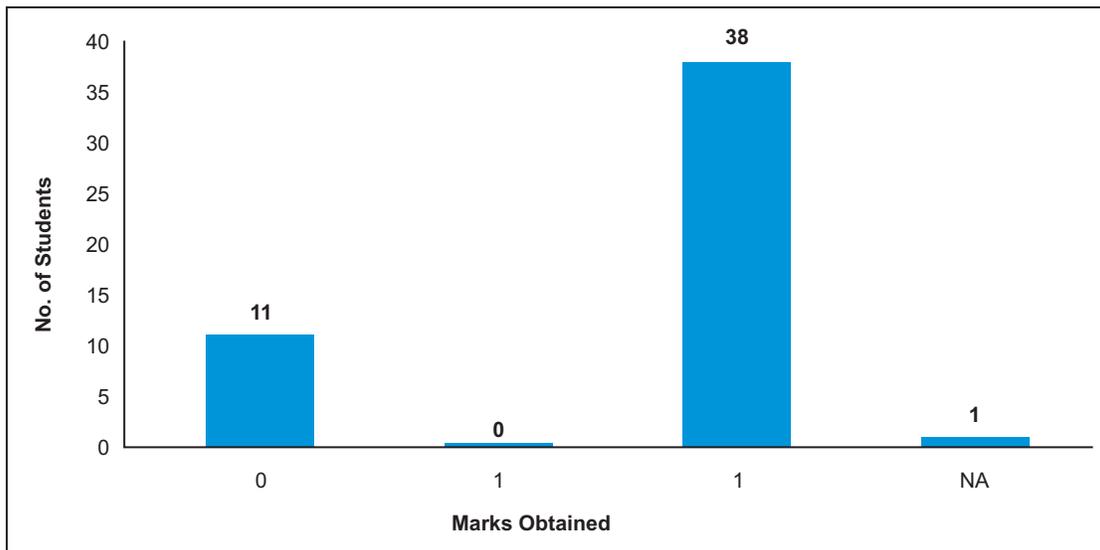
- (a) $\frac{1}{MPC}$ (b) $\frac{1}{MPS}$ (c) $\frac{1}{1 - MPS}$ (d) $\frac{1}{MPC - 1}$

Answer:

- (b) $\frac{1}{MPS}$

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	Mean Score	% Mean Score
Percentage	1	11	0	38	0.77551	77.5510

**Common Errors:**

- Few students have probably interpreted MPC as MPS hence have chosen the wrong option.
- Many students have derived the answer, which was not required.

Suggestions:

- Students should understand the relation of multiplier with MPC and MPS clearly.
- Students should answer what is asked in the exam and not what they know about the concept.
- Teacher should emphasize that students should answer to the point.





Question No. 5

4 Marks

Type of question: Application

An economy is in equilibrium. Calculate the Investment Expenditure from the following:

National Income = 800

Marginal Propensity to Save = 0.3

Autonomous Consumption = 100

Answer:

$$Y = \bar{C} + MPC(Y) + I$$

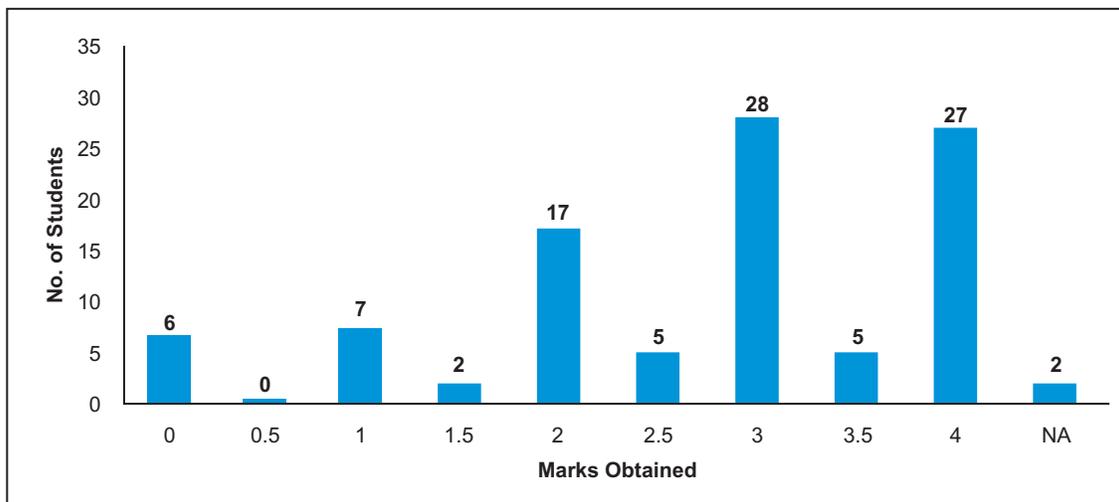
$$800 = 100 + (1 - 0.3) 800 + I$$

$$I = 800 - 100 - 560 = 140$$

(No marks if only the final answer is given)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	Mean Score	% Mean Score
Percentage	2	6	0	7	2	17	5	28	5	27	2.7653	69.92



Common Errors:

- Many students are not clear about the income identity. $Y=C+S$, in two sector model.
- Many students have wrongly linked Investment with savings.
- Some students have even made calculation mistakes.
- A few students did not have the idea of relation between MPC & MPS.

Suggestions:

- Teacher should work on conceptual clarity of concepts under Keynesian Economics.
- The students need to study the concepts of equilibrium clearly with reference to AD (C+I) & AS (C+S).
- The students should be made to practice the numerical containing such equations.





Question No. 6

4 Marks

Type of question: Remembering

What is 'deficient demand'? Explain the role of 'Bank Rate' in removing it.

OR

What is 'excess demand'? Explain the role of 'Reverse Repo Rate' in removing it.

Answer:

Deficient Demand: is the amount by which the aggregated demand falls short of aggregate supply at full employment level. It causes fall in price level.

Bank Rate: is the rate of interest at which central bank lends to commercial banks for long term. The central bank can reduce deficient demand by lowering Bank Rate. When central bank lowers bank rate. Commercial banks also lower their lending rates. Since borrowing becomes cheaper, people borrow more. This leads to rise in aggregate demand and thus helps in reducing deficient demand.

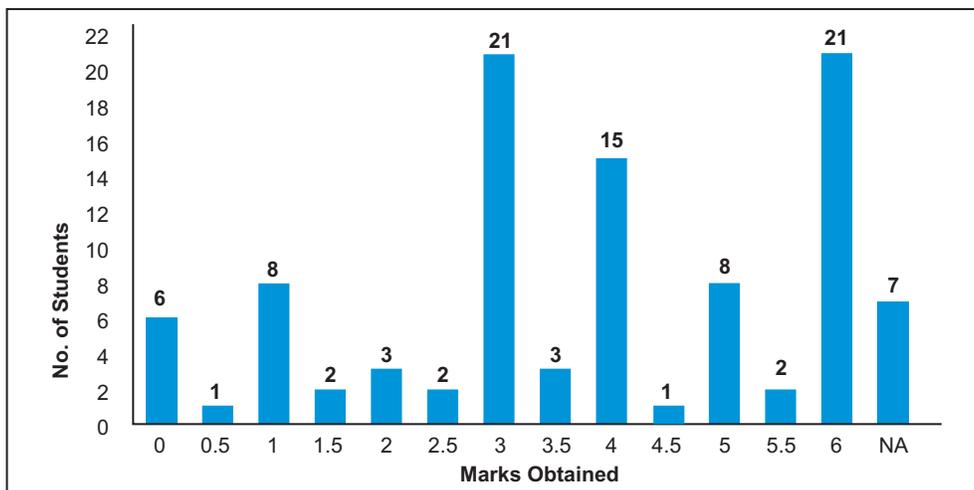
OR

Excess Demand: is the amount by which the aggregated demand exceeds aggregate supply corresponding to full employment level. It causes inflation.

Reverse Repo Rate: is the rate of interest paid by the central bank on deposits by commercial banks. Central Bank can reduce excess demand by raising the Reverse Repo Rate. When the rate is raised, it encourages the commercial banks to park their funds with the central bank. This reduces lending capacity of the commercial banks. Lending by the commercial banks to public declines leading to fall in aggregate demand.

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	4.5 Marks	5.0 Marks	5.5 Marks	6.0 Marks	Mean Score	%Mean Score
Percentage	7	6	1	8	2	3	2	21	3	15	1	8	2	21	3.6290	60.48



Common Errors:

- A large number of students have missed out 'at full employment level' which is a vital component of the definition.
- Many students have drawn the diagram even when it was not required.





- Many students have explained the concepts of deficit demand/ excess demand.
- Some students have confused deficit demand / excess demand with different types of demand.
- Some students were not aware of the tools like Repo Rate/Reverse Repo rate/Bank rate as a measure to control Excess/Deficient Demand.
- Many students were not aware of the impact of these corrective measures on Aggregate Demand.

Suggestions:

- Students should be taught clearly about the concepts of corrective steps to control excess/deficient demand situation, along with their impact on the economy.
- The children should be explained by teachers that they should be writing to the point answers, so as to avoid wastage of time.

Question No. 7 **4 Marks** **Type of question: Application**

An economy is in equilibrium. Calculate the Marginal Propensity to save from the following:
 National Income = 1000
 Autonomous Consumption = 100
 Investment = 120

Answer:

$$Y = + MPC (Y) + I$$

$$1000 = 100 + MPC (1000) + 120$$

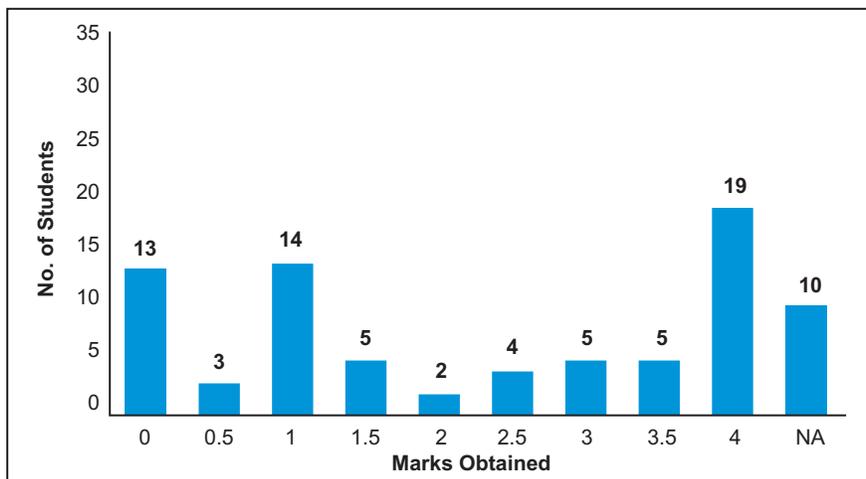
$$MPC = (1000 - 220) \div 100 = 0.78$$

$$MPS = 1 - MPC = 1 - 0.78 = 0.22$$

(No marks if only the final answer is given)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	Mean Score	% Mean Score
Percentage	10	13	3	14	5	2	4	5	5	19	1.616	40.41





Common Errors:

- Many students are not clear about the income identity. $Y=C+S$, in two sector model and have incorrectly linked Investment with savings.
- Some students have even made calculation mistakes.
- A few students did not have the idea of relation between MPC & MPS.

Suggestions:

- Teacher should work on conceptual clarity of concepts under Keynesian Economics.
- The students need to study the concepts of equilibrium clearly.
- The students should be made to practice the numerical containing such equations.

Question No. 8

4 Marks

Type of question: Application

An economy is in equilibrium. Calculate the National Income from the following:

Autonomous Consumption = 120

Marginal Propensity to Save = 0.2

Investment Expenditure = 150

Answer:

$$Y = C + MPC(Y) + I$$

$$= 120 + (1 - 0.2)Y + 150$$

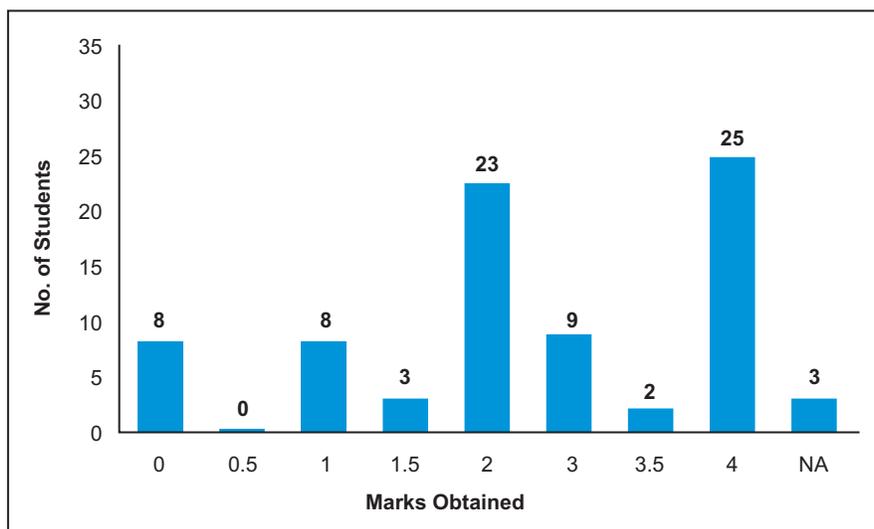
$$0.2Y = 270$$

$$Y = 1350$$

(No marks if only the final answer is given)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	Mean Score	% Mean Score
Percentage	3	8	0	8	3	23	9	19	2	25	2.5257	63.14





Common errors:

- Many students did not convert MPS to MPC.
- Some students did the solution in rough work and wrote only the final answer.
- Many students don't seem to be familiar with concept of equilibrium in the economy, thus they don't know the formula $Y=C+I$ and its application.
- Many students did calculation mistakes.

Suggestions:

- Teachers need to explain the concept of equilibrium in the economy & its relative identify.
 - Students should practice numerical questions based on this concept.
- Teachers should instruct the students to show calculations clearly & compulsorily with the answer.

Question No. 9

4 Marks

Type of question: Application

An economy is in equilibrium. Calculate national income from the following:

Autonomous consumption = 100

Marginal propensity to save = 0.2

Investment expenditure = 200

Answer:

$$Y = C + MPC (Y) + I$$

$$Y = 100 + (1-0.2) Y + 200$$

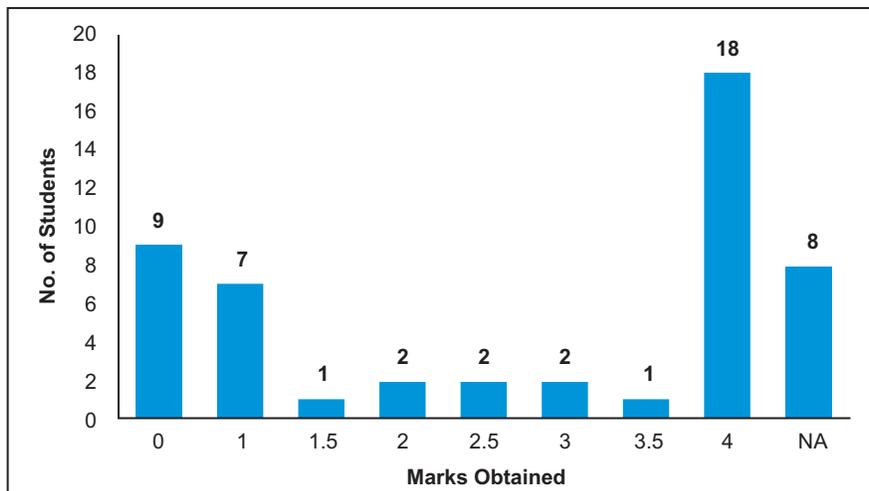
$$0.2 Y = 300$$

$$Y = 1500$$

(No marks if only the final answer is given)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	Mean Score	% Mean Score
Percentage	8	9	0	7	1	2	2	2	1	18	2.3571	58.9285





Common errors:

- Many students did not convert MPS to MPC.
- Some students did not show the workings clearly.
- Many students were not familiar with concept of equilibrium in the economy, thus they know the formula $Y=C+I$ and its application.
- Many students did calculation mistakes.

Suggestions:

- Teachers need to clarify the concept of equilibrium in the economy & its identify.
- Students should practice numerical questions based on this concept.

Question No. 10 **4 Marks** **Type of question: Understanding**

An economy is in equilibrium. Find 'autonomous consumption' from the following:

National income = 1000

Marginal propensity to consume = 0.8

Investment expenditure = 100

Answer:

$$Y = C + MPC (Y) + I$$

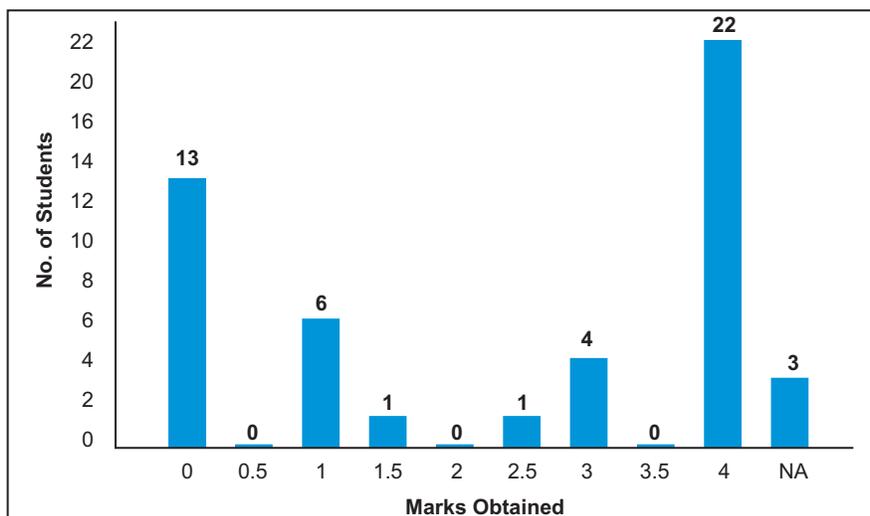
$$1000 = + 0.8 (1000) + 100$$

$$= 1000 - 800 - 100 = 100$$

(No marks if only the final answer is given)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	Mean Score	% Mean Score
Percentage	3	13	0	6	1	0	1	4	0	22	2.3404	58.5106





Common errors:

- Some students did not show the workings clearly.
- Many students did not know the concept of equilibrium in the economy, thus they did not know the formula $Y=C+I$ and its application.
- Many students did calculation mistakes.

Suggestions:

- Teachers should explain the equilibrium along with its identity $Y = C+I$ of equilibrium in the economy.
- Students should practice numerical questions based on this concept.

Question No. 11

4 Marks

Type of question: Remembering

Explain the concept of Inflationary Gap. Explain the role of Repo Rate in reducing this gap.

Or

Explain the concept of Deflationary Gap and the role of ‘Open Market Operations’ in reducing this gap.

Answer:

The Inflationary Gap is the amount by which the aggregate demand exceeds aggregate supply at the full employment level. It is called inflationary because it leads to rise in price level.

Repo Rate is the rate of interest at which central bank lends to commercial banks for a short period. When central bank raises Repo Rate, the borrowings by the commercial banks become costly. This forces the commercial banks to raise their lending rates. People borrow less, and therefore spend less. This helps in reducing inflationary gap.

(Diagram not required)

OR

Deflationary Gap is the amount by which the aggregate demand falls short of aggregate supply at the full employment level. It is called deflationary because it leads to a fall in price level.

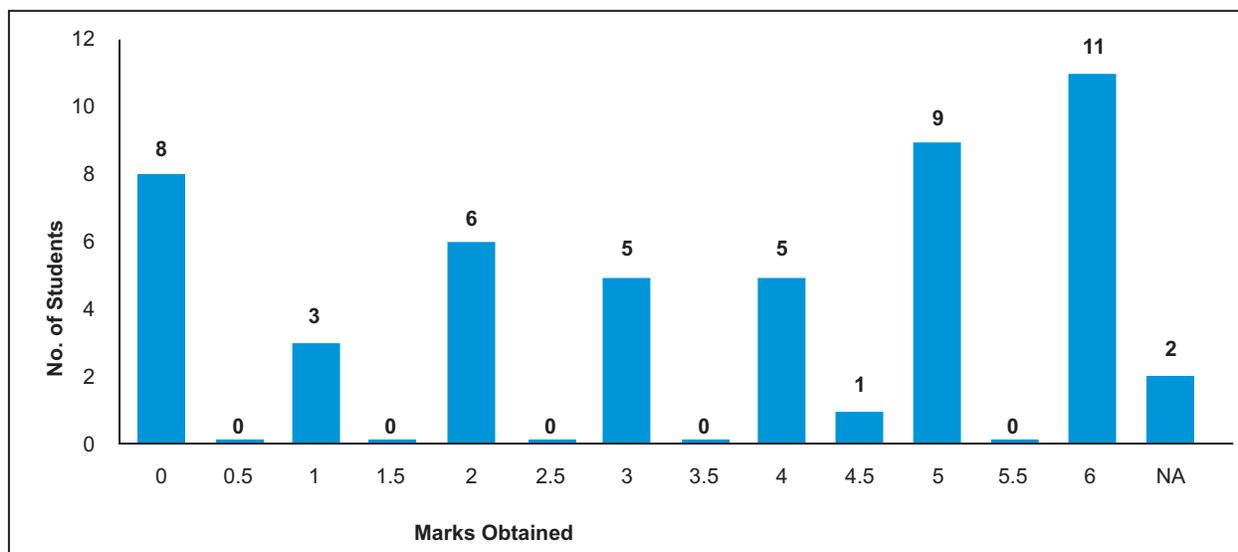
(Diagram not required)

Open Market Operations refer to buying and selling of government securities by the central bank in the open market. Central bank can reduce deflationary gap by buying securities. Those who sell receive payments by cheques from the central bank. The money flows out from Central bank into the commercial banks. This raises lending capacity of commercial banks. Banks lend more. Spending rises which reduces deflationary gap.

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	4.5 Marks	5.0 Marks	5.5 Marks	6.0 Marks	Mean Score	%Mean Score
Percentage	2	8	0	3	0	6	0	5	0	5	1	9	0	11	3.4479	57.4652





Common Errors:

- A large number of students were not clear with the meaning of inflationary gap and deflationary gap.
- Many students have drawn the diagram even when it was not required.
- Many students have explained the concepts of deficit demand/ excess demand.
- Some students instead of explaining deficit demand / excess demand explained different types of demand.

Suggestions:

- Teachers have to guide students to write to the point answers and avoid wastage of time.
- Teachers must clarify the concepts of Deficient/Excess Demand and their causes.
- The impact of various corrective policies on the inflationary and deflationary gap should be made clear to students by teachers.



Unit-8

Government Budget & the Economy



Question No. 1

1 Marks

Type of question: Remembering

Primary deficit in a government budget is: (Choose the correct alternative)

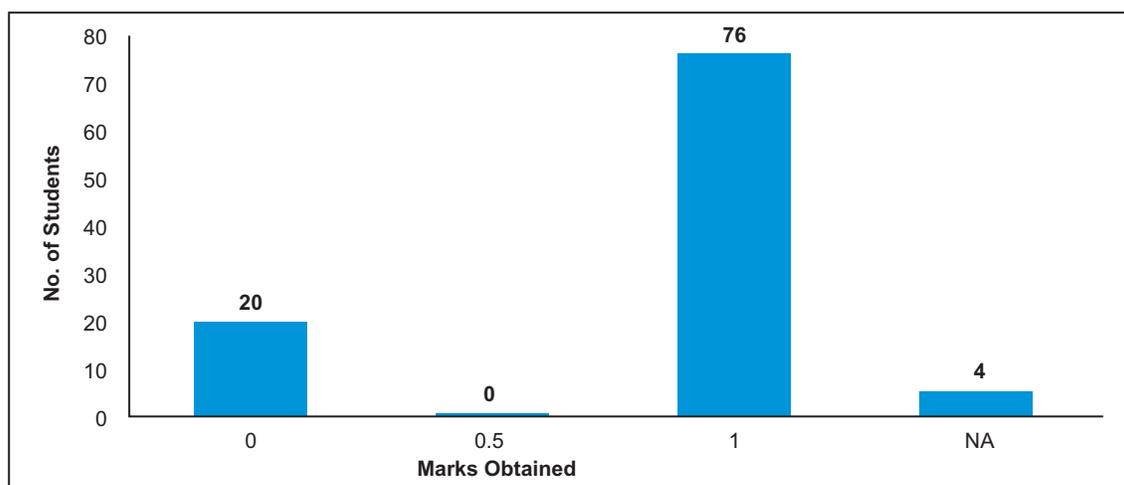
- (a) Revenue expenditure – Revenue receipts
- (b) Total expenditure – Total receipts
- (c) Revenue deficit – Interest payments
- (d) Fiscal deficit – Interest payments

Answer:

- (d) Fiscal deficit *minus* interest payment

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	Mean Score	% Mean Score
Percentage	4	20	0	76	0.7917	79.17



Common Errors:

- A few students were confused with the basic meaning of Primary Deficit and Fiscal Deficit.
- The reason of deducting interest payment which was not asked was also answered by some students.

Suggestions:

- Teachers while explaining the deficit should also differentiate among various types of the budget deficits.
- Students should not explain the reason of choosing an MCQ.



**Question No. 2****1 Marks****Type of question: Remembering**

Direct tax is called direct because it is collected directly from: (Choose the correct alternative)

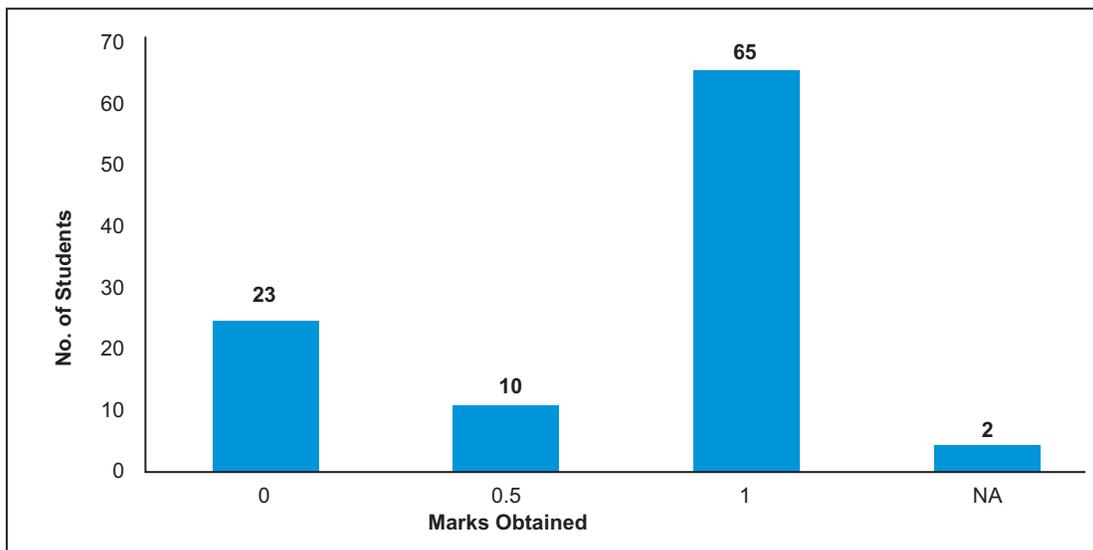
- (a) The producers on goods produced
- (b) The sellers on goods sold
- (c) The buyers of goods
- (d) The income earners

Answer:

- (d) The income earners**

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	Mean Score	% Mean Score
Percentage	2	23	10	65	0.7142	71.42

**Common Errors:**

- A few students got confused with the concept of direct & indirect taxes.
- Some students have unnecessarily explained the types of tax; impact and incidence of tax.

Suggestions:

- Students should not unnecessarily waste time in explaining what is not asked.
- Teachers should classify the group of tax payers and the values on which tax is paid i.e. the taxable income for groups. For example income earned for direct tax or quantum of Production/Sales for Indirect Taxes.





Question No. 3

1 Marks

Type of question: Remembering

The non-tax revenue in the following is: (choose the correct alternative)

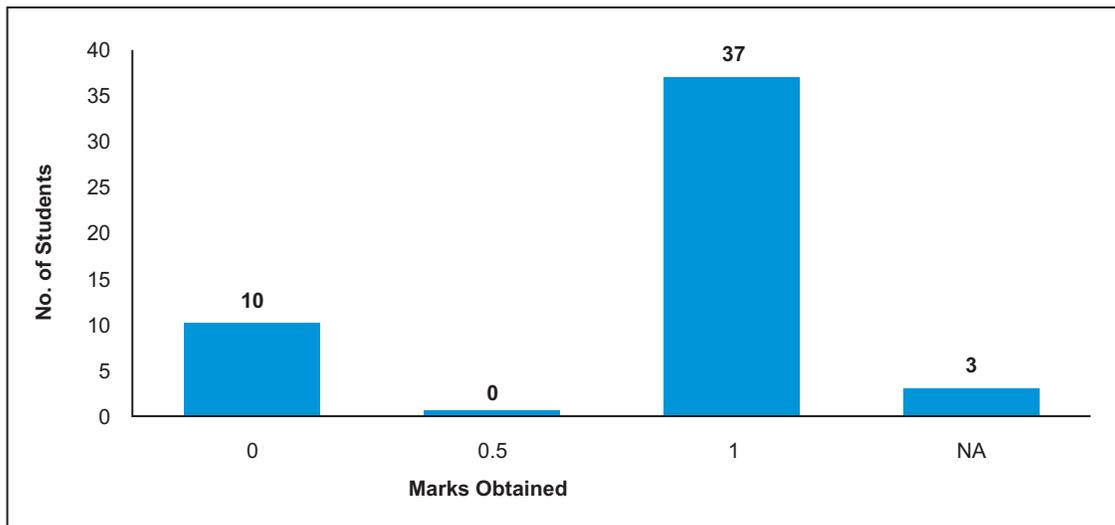
- (a) Export duty
- (b) Import duty
- (c) Dividends
- (d) Excise

Answer:

- (c) Dividends

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	Mean Score	% Mean Score
Percentage	3	10	0	37	0.7872	78.7234



Common Errors:

- A few students were not clear with the element of compulsion of tax lack conceptual clarity.
- A few students were confused as to how to differentiate a receipt as a tax or a non tax revenue.

Suggestions:

- Teachers must clearly tell the concepts of non-tax Revenue & its sub- components.

It should be made clear to students that tax revenues are always associated with an element of compulsion which doesn't exist in case of non tax revenue.





Question No. 4

1 Marks

Type of question: Remembering

Borrowing in government budget is: (choose the correct alternative)

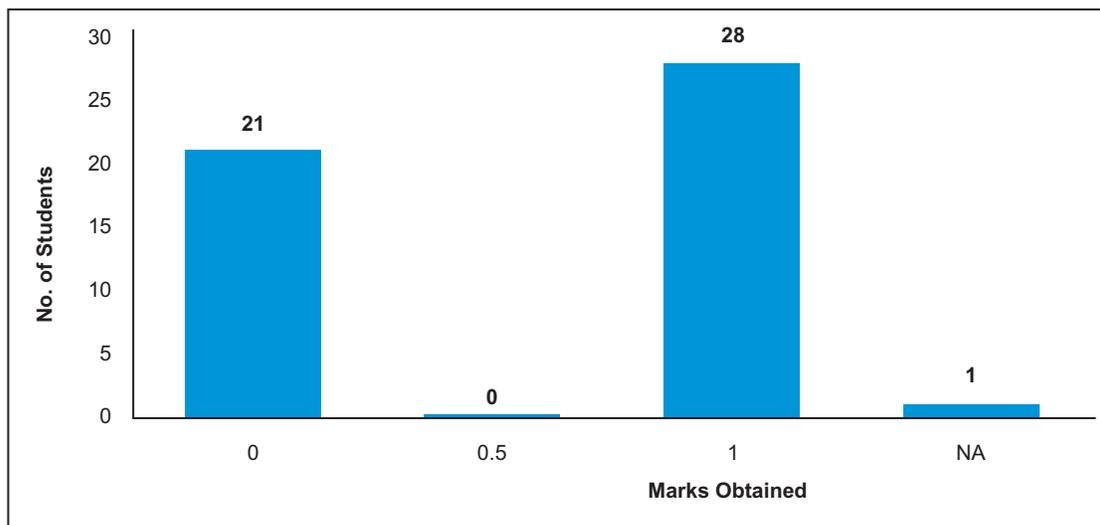
- (a) Revenue deficit
- (b) Fiscal deficit
- (c) Primary deficit
- (d) Deficit in taxes

Answer:

b) Fiscal deficit

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	Mean Score	% Mean Score
Percentage	1	21	0	28	0.5714	57.1428



Common Errors:

- Most of the students could not correlate the borrowing requirements of the government with the fiscal deficit.

Suggestions:

- Teachers while explaining the deficit should also differentiate the types of budget deficit.
- Students should not explain the reason of choosing an MCQ.
- The fiscal deficit should be explained to the students as the gap between the total receipts & total expenditure (Planned/Budgeted) & this is bridged by the borrowings of the government. Therefore the burrowings are of started as fiscal deficit.





Question No. 5

6 Marks

Type of question: Understanding

Explain the role the government can play through the budget in influencing allocation of resources.

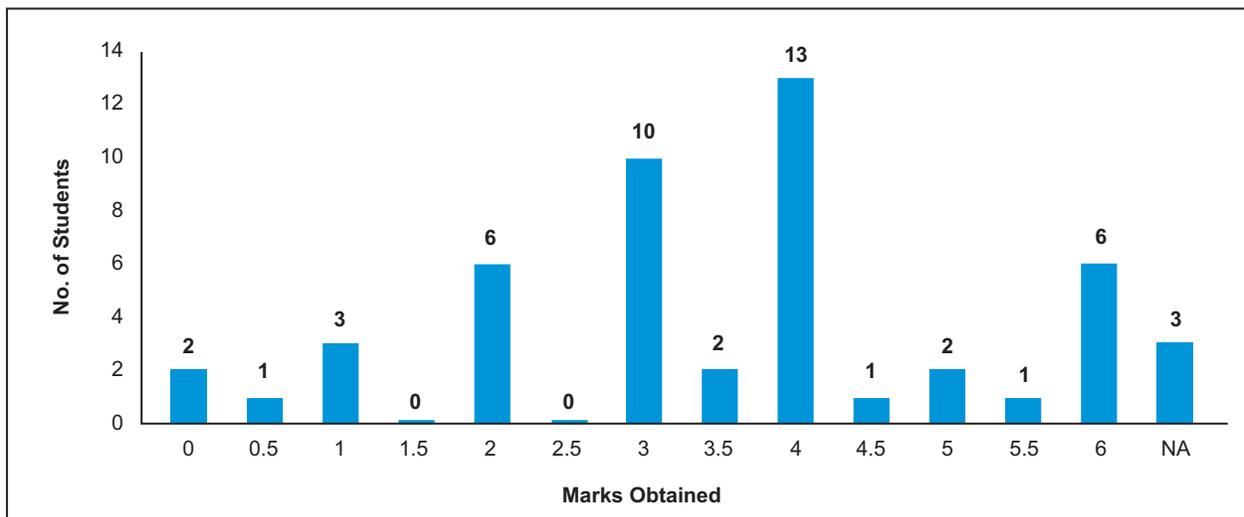
Answer:

Government can influence allocation of resources by influencing market mechanism through taxes, subsidies and direct participation in production. Heavy taxes can be imposed on production units engaged in producing harmful products like liquor, cigarettes etc. Tax concessions and subsidies can be given to encourage production of products useful for the masses. Government can directly produce goods and services normally ignored by the private sector due to lack of enough profits.

(To be marked as a whole)

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	4.5 Marks	5.0 Marks	5.5 Marks	6.0 Marks	Mean Score	%Mean Score
Percentage	3	2	1	3	0	6	0	10	2	13	1	2	1	6	3.4148	56.9148



Common Errors:

- Many students are not clear about the concept of reallocation of sources as a tool of budgetary policy.
- Many students are not clear about the impact of reallocation of resources.
- Students were not aware that one of the main aim of govt. budget is to maximise Social benefits.

Suggestions:

- The children should be explained budgetary policy with special reference to reallocation of resources.
- They do not need to explain all the direct/ indirect / progressive taxes.
- Students should be taught how this tool works & how it reduces disparity between rich & poor.





Question No. 6

6 Marks

Type of question: Understanding

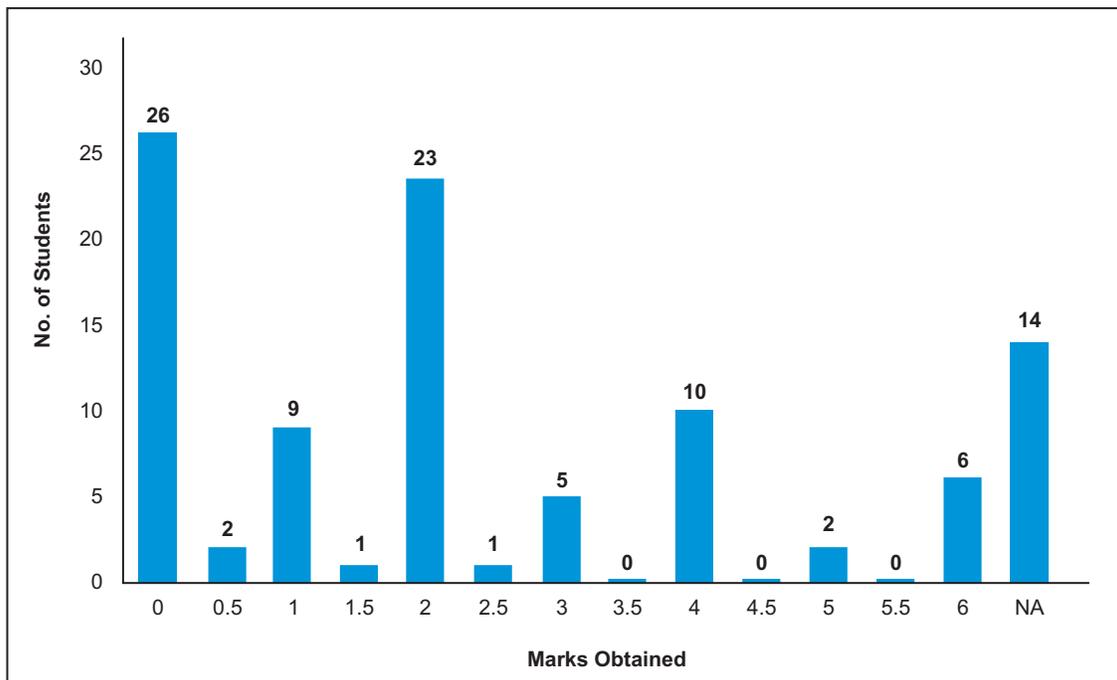
Explain how the government can use the budgetary policy in reducing inequalities in incomes.

Answer:

Government can reduce inequalities through its tax and expenditure policy. Government can charge higher rate of tax from higher income groups by imposing higher rate of income tax and higher rate on goods and services purchased by the rich. The money so collected can be spent on the poor in the form of free education, free medical facilities, cheaper housing etc. in order to raise their disposable income.

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	3.5 Marks	4.0 Marks	4.5 Marks	5.0 Marks	5.5 Marks	6.0 Marks	Mean Score	%Mean Score
Percentage	14	26	2	9	1	23	1	5	0	10	0	2	0	6	1.9418	32.36



Common Errors:

- Many students are not clear about the concept of budgetary policy.
- Many students are not clear about how the government
- Many students do not know why redistribute the income and what impacts does redistribution make.

Suggestions:

- The children should be explained budgetary policy in detail and the impact that budgetary policy.
- They do not need to explain all the direct/ indirect / progressive taxes.



Unit-9



Balance of Payments

Question No. 1

1 Marks

Type of question: Application

Other things remaining the same, when in a country the market price of foreign currency falls, national income is likely: (Choose the correct alternative)

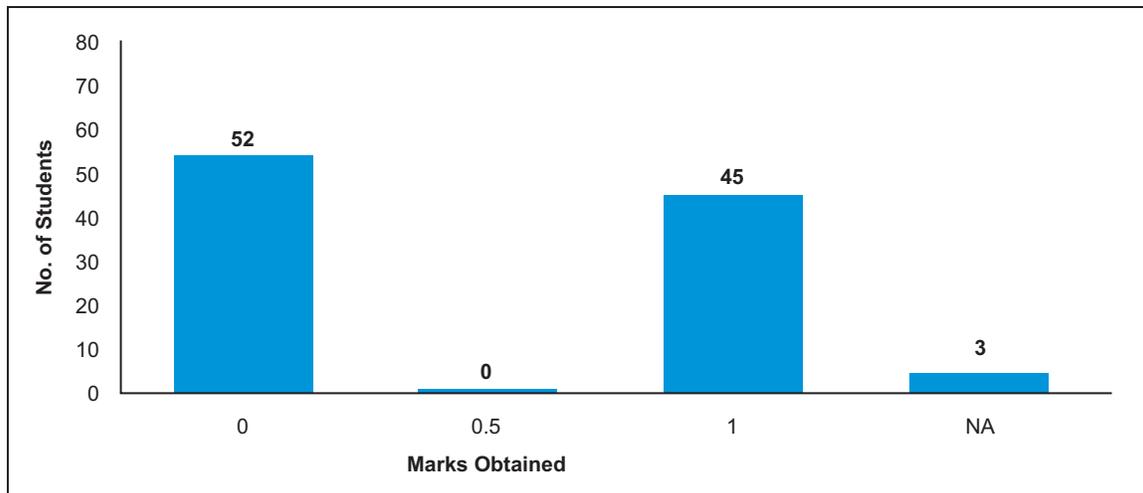
- (a) to rise
- (b) to fall
- (c) to rise or to fall
- (d) to remain unaffected

Answer:

(b) to fall

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	Mean Score	% Mean Score
Percentage	3	52	0	45	0.4639	46.39



Common Errors:

- Most of the students were confused with option (a) and (b).
- The effect of fall in foreign currency on national income was not clear to them.

Suggestions:

- Teacher should clarify the relation between the market price of foreign currency and its impact on the national income of the country.



**Question No. 2****1 Marks****Type of question: Application**

Other things remaining unchanged, when in a country the price of foreign currency rises, national income is : (choose the correct alternative)

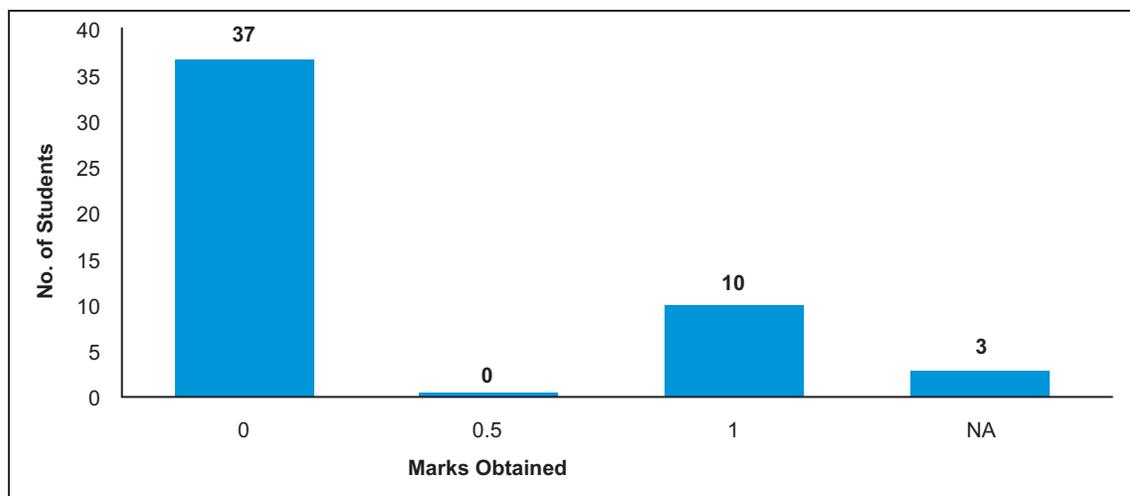
- (a) Likely to rise
- (b) Likely to fall
- (c) Likely to rise and fall both
- (d) Not affected

Answer:

- (a) Likely to rise

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	Mean Score	% Mean Score
Percentage	3	37	0	10	0.2127	21.27

**Common Errors:**

- Most of the students got confused with option (a) and (b).
- The effect of fall in foreign currency on national income was not clear to them.

Suggestions:

- Teacher should clarify the relation between market price of foreign currency and its impact on national income of the country.





Question No. 3**3 Marks****Type of question: Remembering**

What are fixed and flexible exchange rates?

OR

Explain the meaning of Managed Floating Exchange Rate.

Answer:

Fixed Exchange Rate is the exchange rate fixed by the government / central bank and is not influenced by the demand and supply of foreign exchange.

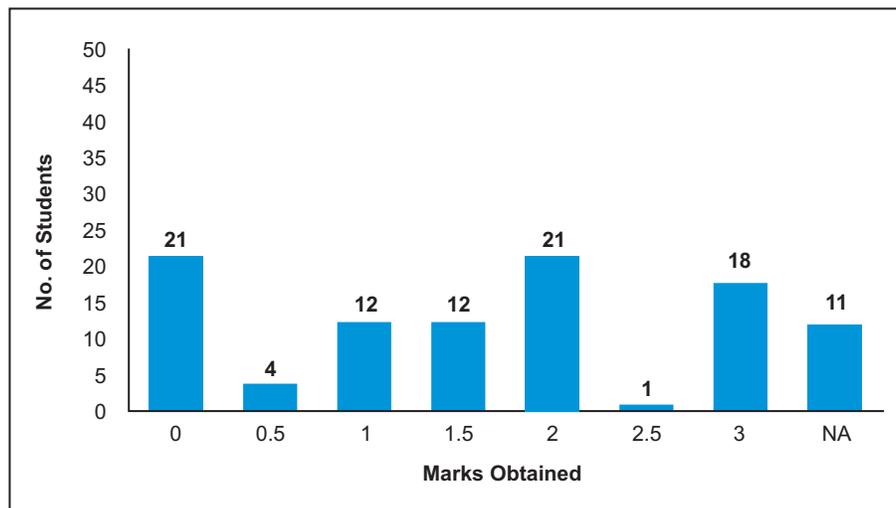
Flexible exchange rate is the exchange rate determined by the forces of demand and supply of foreign exchange in the market and is influenced by the market forces.

OR

Managed floating exchange rate is the flexible exchange rate with intervention by the central bank through the market for foreign exchange to reduce fluctuations in the rate. When foreign exchange rate is too high, the central bank starts selling the foreign currency from its reserves. When it is too low central bank starts buying foreign currency in the market.

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	Mean Score	% Mean Score
Percentage	11	21	4	12	12	21	1	18	1.4663	0.4888



Common Errors:

- The important element in 'fixed exchange rate is fixed by Govt./ central bank' is not mentioned by many students. Similarly flexible exchange rate is influenced by market forces are missed out by quite a few students.
- Many students have explained the types of fixed exchange rate system (Gold and Bretten Wood) and a few have also stated merits and demerits of Fixed and Flexible Exchange Rate System.
- A few students explained the reasons for maintaining reserve in details which was not asked.





- The need of change from fixed to flexible exchange rate system which was not required was also explained by some students.

Suggestions:

- Students should be guided by the teachers to mention all elements of definition, like while explaining fixed exchange rate system it should be explained that it is “fixed by Government/Central Bank”.
- Unnecessary detail is to be avoided as far as possible; it leads to wastage of precious time which causes shortage of time for other questions.

Or

Common Errors:

- The important element of ‘ Intervention by Central Bank’ and through ‘Market forces of Foreign Exchange’ market was not mentioned by many students.
- Role played by Central bank to correct foreign exchange rate when it is too high and too low was overlooked.
- Some students have explained merits and demerits of Managed floating exchange rate system which was not asked in the question.
- Some students explained the significance of maintaining reserves which was not asked and a many did not mention as to when is foreign currency sold and when purchased in the market.

Suggestions:

- Students should mention all elements like ‘intervention by CENTRAL BANK’ and ‘to reduce FLUCTUATION in foreign exchange rate.’ **clearly**.
- Teacher should clearly guide students that private sector plays no role to correct and reduce fluctuation in managed floating exchange rate system. A few students were confused in the same.
- Teacher should clearly explain the role played by Central Bank to reduce fluctuation when foreign exchange rate is too high is too low.

Question No. 4 **3 Marks** **Type of question: Remembering**

Where is ‘borrowings from abroad’ recorded in the Balance of Payments Accounts? Give reasons.

Answer:

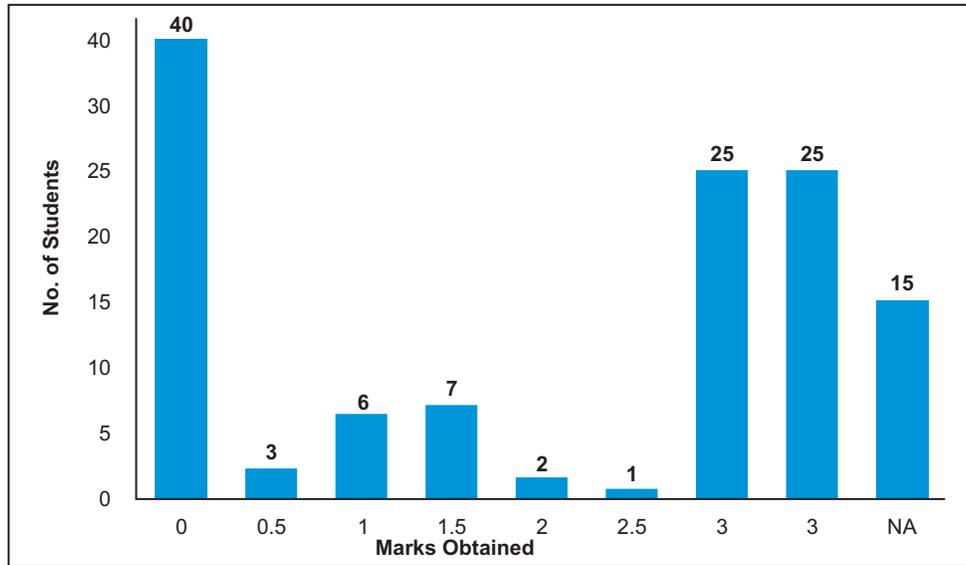
‘Borrowings from abroad’ is recorded in the ‘capital account’ of BOP account because it increases international liability of the country.

It is recorded on the credits side because it brings in foreign exchange into the country.

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	Mean Score	% Mean Score
Percentage	15	40	3	6	7	2	1	25	1.2176	40.58





Common Errors:

- Most of the students were confused with debit and credit side of Balance of Payment Account.
- Some of the students who posted the 'borrowing from capital' on correct side many were not able to correctly state the reason for posting.
- A few students unnecessarily explained the capital and current accounts and their components.
- Some students also explained the effect of borrowings on National Income which was not asked.

Suggestions:

- Teachers should explain the reason of posting the borrowings from abroad in capital account and also state the reason of placing it on credit side of account.
- Students should specifically answer what is asked in the question and not show the vastness of their knowledge.

Question No. 5

3 Marks

Type of question: Understanding

Name the broad categories of transactions recorded in the 'capital account' of the Balance of Payments Accounts.

Or

Name the broad categories of transactions recorded in the 'current account' of the Balance of Payments Accounts.

Answer:

- (1) Borrowings from and to abroad
- (2) Investments from and to abroad.
- (3) Decreases and increases in foreign exchange reserves.

OR

- (1) Exports and imports of goods
- (2) Exports and imports of services



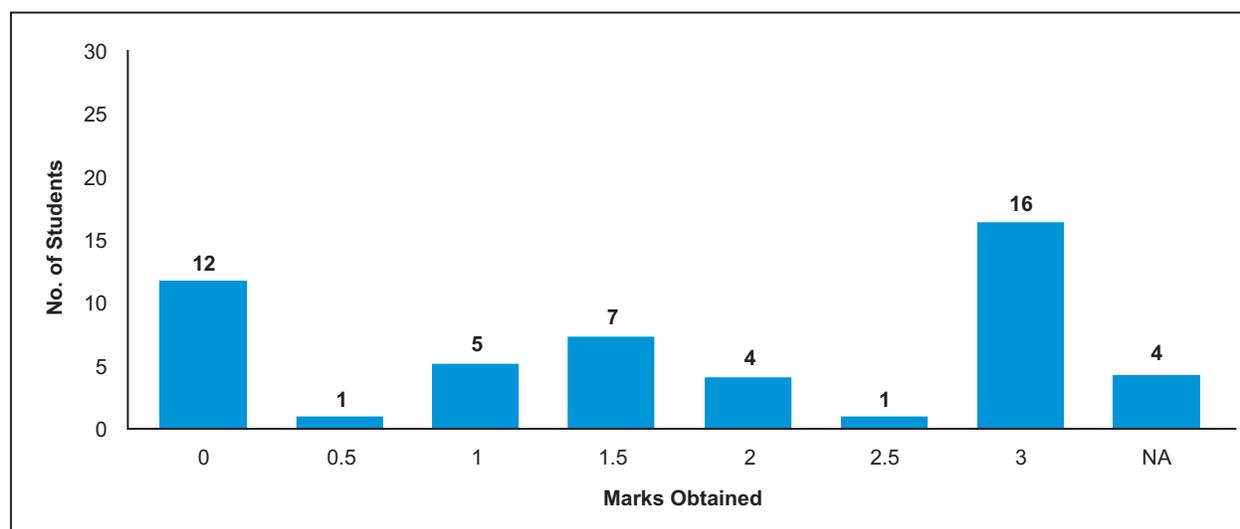


(3) Factor income receipts from abroad and payments to abroad.

(4) Transfers from and to abroad. **(Any Three)**

Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	Mean Score	% Mean Score
Percentage	4	12	1	5	7	4	1	16	1.6195	53.9855



Common Errors:

- Most of the students got confused in the transaction of capital & current account of Balance of payments.
- Some students elaborated the categories in detail, whereas the question clearly asked about the names of broad categories.

Suggestions:

- Teachers should clarify the concept of capital & current account of BOP, giving suitable examples.
- Teachers must tell students to read question carefully and then answer to avoid any unnecessary explanations.

Question No. 6

3 Marks

Type of question: Understanding

Where will sale of machinery to abroad be recorded in the Balance of Payments Accounts? Give reasons.

Answer:

Sale of machinery to abroad is export of goods and thus recorded in the Current Account.

Sale of machinery to abroad brings in foreign exchange and thus recorded on the credit side.

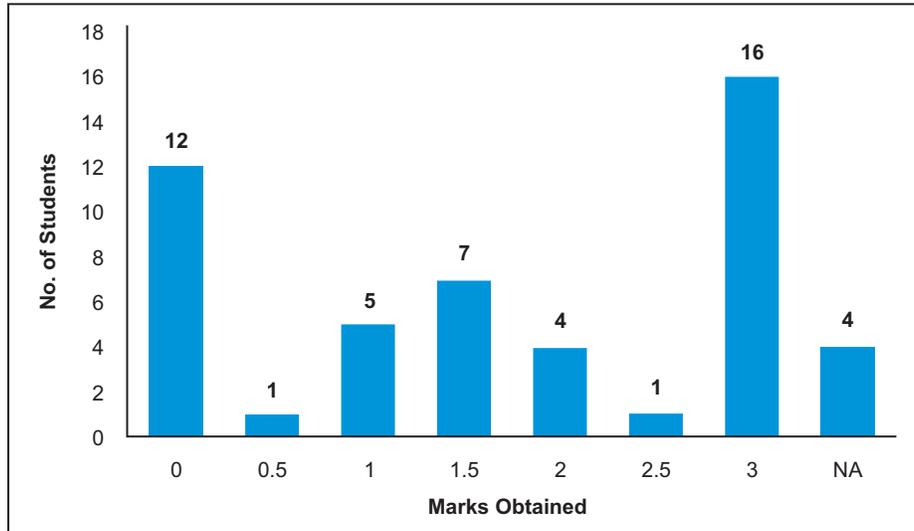
(No marks if the reasons are not given)





Performance:

Marks	NA	0 Mark	0.5 Mark	1 Mark	1.5 Marks	2.0 Marks	2.5 Marks	3.0 Marks	Mean Score	% Mean Score
Percentage	4	12	1	5	7	4	1	16	1.6195	53.9855



Common Errors:

- Most of the students were confused in considering machinery as a Capital/Current account item.
- Students lack clarity on the treatment of visible exports in Balance of Payment Account.

Suggestions:

- Teacher must explain to students that when machinery/any other fixed asset is purchased/ domestically they are treated as current account item.
- If machinery or such other fixed assets are purchased/transacted for the purpose of investment only then they are then as capital items.







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