Marking Scheme
SECTION - A (Macro Economics)

Ques. No	Description	Marks
1	Decreases	1
2	An intermediate good refers to that good which is purchased during the year by a firm from another for the purpose of further production/resale.	1
3	b) Zero	1
4	i) CRR, ii) SLR, iii) Bank Rate, iv) Repo rate, v) Reverse repo rate (any two) Or Demand deposits are the deposits which can be withdrawn on demand by the depositors from banks.	½+ ½ 1
5	a) price stability in the economy.	1
6	Zero	1
7	True	1
8	Primary Deficit = Fiscal Deficit - Interest Payments	1
9	c) Remittances to relative staying abroad - (iii) Debit side of current Account of Balance of Payments	1
10	Revenue	1
11	Generally it is considered that an increase in the Gross Domestic Product (GDP) of any economy (India in this case) ensures increase in welfare of the people of the country. However, this may not always be correct. Some of the prime reasons for the same are: a) unequal distribution and composition of GDP, b) non-monetary transactions in the economy which are not accounted for in GDP, and c) occurrence of externalities in the economy (both positive and negative).	3
12	We know that consumption function is: $C = \bar{c} + MPC.Y$ At equilibrium level of Income in the economy Y = C + I Given, Autonomous Consumption $(\bar{C})$ = ₹ 500 crores and Ex-ante Investments (I) = ₹ 4000 crores 18,000 = 500 + MPC(18,000) + 4,000 MPC(18,000) = 18000 – 4500 MPC = 13,500/18,000 MPC = 0.75 Or MPS = $(\frac{\text{Change in Savings}}{\text{Change in Income}})$=$(\frac{\Delta S}{\Delta Y})$ = $\frac{20}{100}$ = 0.20 Investment Multiplier (K) = $\frac{1}{MPS} = \frac{1}{0.20} = 5$ Investment Multiplier (K) = $\frac{\text{Change in Income}}{\text{Change in Investment}} = (\frac{\Delta y}{\Delta I})$ $5 = \frac{₹6,000}{\text{Change in Investment } (\Delta I)}$ Change in Investment (ΔI) = ₹ 1200 crores Increase in investment by ₹ 1200 crores is required to attain additional income of ₹ 6000 crores.	½ ½ ½ ½ ½ ½ 1 ½ ½ ½ ½

13	**Central Bank as government's bank -** The Central Bank acts as a banker to both central as well as state governments. The Central Bank accepts receipts and makes payments for the government and carries out exchange, remittance and other banking operations. It advances credit/loan to the government to meet its requirements in case of crisis. It also acts as an agent to buy and sell government securities & advises the government on various financial matters. Or **Open Market Operations by Central Bank -** Open Market Operations refers to buying and selling of government securities (bonds) by the Central Bank from/to the general public. It is an important step which may be undertaken to control money supply in the economy. The Central Bank may sell government securities to reduce the money supply in the hands of general public and vice-versa.	4 4
14	Selling of securities by Foreign Institutional Investors (FII's) in Indian capital market will lead to fall in the supply of foreign currency in the economy. This situation might lead to excess demand of foreign currency at the prevailing foreign exchange rate. As a result, a new equilibrium rate of foreign exchange will be determined which will be higher than the prevailing foreign exchange rate, leading to depreciation of domestic currency. **Or** Investments by large multinational corporations (MNCs) in India will ensure greater inflow of foreign exchange, leading to an increase in the supply of foreign currency. This situation may result into excess supply of foreign currency in the economy at the prevailing foreign exchange rate. As a result, a new equilibrium rate of foreign exchange will be determined which will be lower than the prevailing foreign exchange rate, leading to appreciation of domestic currency.	4 4
15	**Reallocation of resources -** Government through its budgetary policies tries to reallocate resources to ensure fulfillment of various socio-economic objectives. The government may influence the allocation of resources through: (a) Taxation policy - Heavy taxes may be imposed on harmful products to discourage their production and subsidies may be provided on the production of socially useful products to encourage their production. b) Government may directly undertake production of certain goods and services in the areas where private sector may not be willing to participate in production activities.	4
16	a) The given statement is correct. Real Gross Domestic Product (GDP) is a better indicator of economic growth than Nominal Gross Domestic Product (GDP) as it is not affected by changes in general price level. Numerical Example:	1

Goods	Price of Current Year (P_1) (in ₹)	Price of Base Year (P_0) (in ₹)	Quantity of Current Year (Q_1) (in units)	Nominal GDP (P_1Q_1)	Real GDP (P_0Q_1)
A	20	10	100	2,000	1,000
B	10	5	200	2,000	1,000
C	30	20	50	1,500	1,000
				$\sum P_1Q_1$ =5,500	$\sum P_0Q_1$ =3,000

In the above example the difference between Real GDP ($\sum P_0Q_1$) and Nominal GDP ($\sum P_1Q_1$) is 5,500-3,000 = ₹2,500. 3

This is only the monetary difference as the quantity sold in the market remains unchanged and the variation in the value of GDP is merely due to the change in the prices in the economy.

b)

$$Depreciation\ on\ capital\ asset = \frac{Cost of the\ capital\ asset\ \ -Scrap\ Value}{Estimated\ life\ of\ the\ capital\ asset}$$ 1

$$Depreciation = \frac{1000-0}{20}$$ ½

$$Depreciation = ₹50\text{ crores}$$ ½

Or

a) Yes, the given statement is correct. In a two sector economy, the firms produce goods and services and make factors payments to the households. The factor income earned by the households will be used to buy the goods and services which would be equal to income of firms. The aggregate consumption expenditure by the households in the economy is equal to the aggregate expenditure on goods and services produced by the firms in the economy (Income of the producers). 3

b) Compensation of Employees = (iii) – (v) – (iv) – (vi+ii+i+vii) 1 ½

= 200 – 50 -10 – (25+45+20+5) 1

= ₹45 crores. ½

17 An economy is said to be operating at under employment equilibrium level, if the planned aggregate expenditure falls short of available output in the economy, corresponding to the full employment level. It results into excess of output available over the anticipated aggregate demand at full employment level. 2

To tackle such a situation the aggregate demand has to be increased up to the level that the stocks can be cleared.

Following measures may be taken for the same:

i) **Decrease in taxes:** The government under its fiscal policy may decrease the rate of taxes (both direct and indirect taxes). This will ensure greater purchasing power in the hands of general public. This will help to increase aggregate demand and remove the deflationary gap. 2

	ii) **Increase in money supply:** Central bank through its expansionary monetary policy can increase the money supply in the economy. Central bank can use tools like bank rate, cash reserve ratio, repo and reverse repo rates etc. to ensure greater money in the hands of general public which would in turn increase the aggregate demand in the economy and be helpful in reducing/removing the deflationary gap.	2
	SECTION-B (Indian Economic Development)	
18	Value added tax, service tax, excise duty, sales tax. (any two correct alternatives)	½ + ½
19	True	1
20	b) iii , iv, i , ii	1
21	d) Credit taken to meet agriculture expenditure.	1
22	Disguised **Or** Work force participation rate	1
23	Development of small scale industries	1
24	d) ii , iv , i, iii	1
25	Photovoltaic cell	1
26	b) iv, ii, i, iii	1
27	c)1988	1
28	The given statement is quite appropriate. Indian traditional practices were environment friendly and worked as complementary to the system and not its controller. The traditional agriculture system, healthcare system, housing, transport etc. were intrinsically environment friendly. The traditional practices used natural products and processes which are more or less free from side effects. For example by adopting medicinal plants/products we can conserve the resources and achieve the objective of sustainable development. **Or** The given statement states about the insufficiency of the installed capacity of production of power in India. If the Indian economy wants to touch the GDP growth rate between 7-8% it must target to produce electricity with a growth rate of 7% which is not possible with the present production capacity in the power sector. Thus, we need to work in two directions to improve installed capacity: i. increased investments (by both public and private players) in the power generation sector. ii. better utilization of the present infrastructure.	3 3
29	Investment in education system in India has been a woeful failure. The fact of the matter is that, in 1952 we were spending a meager 0.6% of our GDP on education that rose to only 4% in 2014. This has fallen well short of 6% target as proposed by the Education Commission, 1964. Moreover, throughout this period the increase in education expenditure has not been uniform and there has been irregular rise and fall. This shows the apathy of the government towards investment in the education system. One can imagine, if the recommended 6% p.a. of the GDP would have been spent properly the present education system would have reached unforeseen heights.	3

30	The given statement is true to its character. The foreign investments, both Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII), have increased from about US $100 million in 1990-91 to US $ 74 billion recently. This has changed the status of India from a 'begging bowl' in 1990's to a 'self-dependent' economy in the present ages. Due to the opening up of the Indian Economy, she has become one of the largest foreign exchange reserve holders in the world. India been able to register an increase in the foreign exchange reserves from about US $ 6 billion in 1990-91 to about US $ 321 billion in 2014-15.	2 2
31	a) Disinvestment: Privatisation of the public sector enterprises (PSEs) by selling off a part/whole of the equity to the general public or any private sector player is known as disinvestment. b) Outsourcing: Hiring of regular service from external sources, mostly from foreign countries, which was previously provided internally or from within the country is known as outsourcing. **OR** a) Import Substitution: The policy aimed at replacing or substituting imports with domestic production by protecting the domestic industries from foreign competition is known as Import Substitution. b) Quota : Quantitative restrictions on imports for the protection of the domestic firms from foreign competition. Under this quantity of goods which can be imported is specified by the state.	2 2 2 2
32	a) The given data shows that the annual growth rate of population is maximum in Pakistan standing at 2.1%, whereas; the same stands at a meager 0.5% in case of China (might be a direct result of the One Child Policy adopted). The annual population growth rate of India is in the danger zone of more than 1% p.a. India will be overtaking China as the most populous country in the world in near future. b) Amongst the three countries stated above, India has most skewed data sex ratio (929 female per 1000 male). This is one of the major concerns for the demographers in India.	3 1
33	Mahatma Gandhi had always maintained that the real growth of India lies in the growth of villages. The importance of rural development in India lies in the fact that 2/3rd of the population still (directly or indirectly) depends on agriculture and around 1/3rd of the rural population still lives in abject poverty. Some of the prime areas for the development of the rural India may be quoted as follows: • **Infrastructure development** – is the key to any development process. Basic infrastructure requirement like electricity, irrigation, credit availability, transport facilities, construction of village roads and feeder	2

	roads to nearby highways, etc. are the area which still need attention of the government so as to gain commanding heights. • **Alleviation of poverty** - poverty in rural India is an area that should be taken up as a mission for improvement in the living conditions of particularly those living at the bottom of pyramid. This problem may be tackled by emphasizing on greater access to productive employment opportunities. • **Development of Human Capital** – Rural human capital must be developed by taking sincere steps in the direction of education and health.	2 2
34	The health system in India has undoubtedly improved over the years but the pace of improvement has been unreasonably slow and truly we carry an unhealthy health system. Following may be the most important concerns ailing Indian health system: • **Low Public Expenditure** – In India the health expenditure as a percentage of GDP is abysmally low as compared to some of the major developing countries. It stood at around 4.7% of the total GDP in the year 2014-15. • **Urban Rural Divide –** People living in rural India do not have sufficient medical infrastructure. Nearly 70% of the population lives in rural areas which have only 20% of the total hospitals of the country. • **Women and child health issues -** More than 50 per cent of married women in the age group of 15–49 years have iron deficiency, which has contributed to maternal deaths. Infant Mortality Rate per 1,000 live births in India is 34. Malnutrition and inadequate supply of vaccines lead to the death of millions of children every year. **Or** The period between 1990 to 2012 had been a significant one. Introduction of Economic Reforms in India has changed everything in India. Variables shown in the given graph show that GDP growth rate has taken an upwards tread over the years whereas the situation of Employment growth rate has seen major fluctuations while going down in overall trend. GDP growth rate has increased from a meager 3.4% in 1991 to 7.8% in 2012. However the employment growth rate has shown declining trends from 1.5% in 1991 to 1.12% in 2012. Between the period 1999-2005 the employment generation rate was at peak since independence i.e. 2.28% p.a. with the corresponding GDP growth rate standing at a decent 6.1% p.a. The gap between the two variables is maximum between the period 2005-10 when the employment growth rate hit the lowest in history of Independent India i.e. 0.28%. In the same period the GDP growth rate had hit the highest level since independence to the tune of 8.7% p.a. Indian economy has witnessed the peculiar phenomena of 'jobless growth' over all these years. Learning from the situation government had put in serious efforts on employment front and brought it to a level of 1.12% p.a. between the period 2010-12. In all the period between 1990-2012 has been a real roller coaster ride for the India economy on the two front of GDP and Employment Growth rate.	2 2 2 6