**Practice Paper 1st**

**Section – A Macro Economics**

TIME: 3 HOURS M.M. – 80

GENERAL INSTRUCTIONS:

1. This question paper contains two sections: Section A – Macro Economics Section B – Indian Economic Development

2. This paper contains 20 Multiple Choice Questions type questions of 1 mark each.

3. This paper contains 4 Short Answer Questions type questions of 3 marks each to be answered in 60 to 80 words.

4. This paper contains 6 Short Answer Questions type questions of 4 marks each to be answered in 80 to 100 words.

5. This paper contains 4 Long Answer Questions type questions of 6 marks each to be answered in 100 to 150 words.

SECTION A – MACRO ECONOMICS

Q 1. Read the following statements carefully:

Statement 1: APS is always greater than zero.

Statement 2: APS rise with increase in income as the proportion of income saved keeps on increasing.

Choose the correct alternative

1. Statement 1 is true and Statement 2 is false.
2. Statement 1 is false and Statement 2 is true.
3. Both Statements 1 and 2are true.
4. Bothe statements 1 and 2 are false.

Q 2. One of the major cause for fall in rupees is foreign investors withdrawing money from Indian Markets.

Identify the most likely impact on the BOP of the Indian Economy.

1. Exports cheaper
2. Imports Cheaper
3. Rise in foreign travels by Indians
4. Studying abroad will become cheaper

Q 3. State whether the following is true or false:

‘M1 is also known as transaction money.’

Q 4. Unrequited transfers are also known as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

1. Bilateral transfers
2. Unilateral transfers
3. Multilateral transfers
4. None of the above

Q 5. Read the following statements carefully:

Statement 1: Depreciation refers to loss in the value of assets due to unforeseen obsolescence.

Statement 2: Depreciation doesn’t hamper the production process.

Choose the correct alternative

1. Statement 1 is true and Statement 2 is false.
2. Statement 1 is false and Statement 2 is true.
3. Both Statements 1 and 2are true.
4. Bothe statements 1 and 2 are false.

Q 6. The consumption function of the economy is C = 60 + 0.6Y. Calculate Break-even level of income.

1. 15
2. 360
3. 150
4. 200

Q 7. Money supply in India may increase if \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

1. RBI injects more money in circulation
2. Commercial banks expand their credit operations
3. Tax rates are reduced by central government.
4. RBI increases the bank rate.

Alternatives:

1. (a), (b) & (c) are correct
2. (b), (c) & (d) are correct
3. (a), (c) & (d) are correct
4. (a), (b) &(d) are correct

Q 8. The following information is given for an imaginary country:

|  |  |
| --- | --- |
| Items | Amount (in ₹ 000 crore) |
| External assistance to abroad | 1.5 |
| Commercial borrowings | 4 |
| Commercial lendings | 3 |

Balance on capital account will be \_\_\_\_\_ of ₹ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ thousand crore.

1. Deficit, 4.5
2. Surplus, 0.5
3. Deficit, 0.5
4. Surplus, 4.5

Q 9. Read the following statement -Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

Assertion (A): APS is a flow concept.

Reason (R): APS is the ratio of savings to income at a particular point of time.

Alternatives:

1. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
2. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
3. Assertion (A) is true but Reason (R) is false.
4. Assertion (A) is false but Reason (R) is true.

Q 10. Read the following statement -Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

Assertion (A): Saving curve makes a negative intercept on the vertical axis at zero level of income.

Reason (R): Saving function refers to the functional relationship between saving and income.

Alternatives:

a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).

c) Assertion (A) is true but Reason (R) is false.

d) Assertion (A) is false but Reason (R) is true.

Q 11. Firm A sells to firm B for ₹ 50 crores and for ₹ 70 crores to private consumption. Firm B sells for ₹ 80 crores to firm C. Firm C sells for ₹ 100 crores to private consumption. Calculate value added by Firm A, B and C.

Q 12. Explain the merits and demerits of flexible exchange rate system.

Q 13. The equilibrium level of income in an economy is ₹ 5,000 crores. The autonomous consumption expenditure is equal to ₹ 250 crores and investment expenditure ₹ 1,000 crores Calculate: (i) Consumption expenditure at equilibrium level of national income; (ii) Marginal Propensity to save; (iii) Saving Function; (iv) Investment Multiplier; (v) Break-even level of Income.

Q 14. As per the following news published:

The policy repo rate was increased from 4.00% to 4.40%, an increase of 40 basis points (bps), on 4 May, 2022, and then from 4.40% to 4.90% on 8 June, 2022, an increase of 50 basis points. The rate was again increased on 8 August from 4.90% to 5.40%, an increase of 50 basis points to control credit creation in the economy.

Identify the likely cause and the consequences behind, this type of action plan of the Reserve Bank.

Q 15. ‘Reserve Ratio and Credit Creation are inversely related. Do you agree with the given statement? Justify your answer with a suitable numerical example.

Q 16. a) State and discuss any two precautions to be considered while estimating national income by Income Method.

b) From the following data, calculate National Income.

|  |  |
| --- | --- |
| Particulars | ₹ in Crores |
| 1. Compensation of employees 2. Rent 3. Wages and salaries 4. Net exports 5. Net Factor income from abroad 6. Profit 7. Interest 8. Depreciation | 800  200  750  (-) 30  (-) 20  300  100  50 |

17. a) Explain the objective of redistribution of income and Reducing regional disparities of government budget.

b) Identify the following as revenue expenditure and capital expenditure. Give reasons.

(i) Interest paid on National Debt.

(ii) Expenditure on collection of taxes.

(iii) Repayment of loans.

SECTION B – INDIAN ECONOMIC DEVELOPMENT

Q 18. First Industrial Policy Resolution of Independent India was announced in the year\_\_\_\_\_\_ (Fill in the blank with the correct alternative)

1. 1947
2. 1948
3. 1951
4. 1956

Q 19. What was the biggest contribution of British rule for Indian Economy?

1. Commercialized agriculture
2. Infrastructure
3. Railways
4. Capital good industries

Q 20. \_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_ announces their first five year plan in 1951 and 1953 respectively.

1. Pakistan
2. India
3. People’s republic of China
4. Afghanistan

Alternatives:

1. I and II
2. II and III
3. III and IV
4. I and IV

Q 21. In China, which of the following sector was not reformed in the initial phase?

(a) Foreign trade and investment sector

(b) Agricultural sector

(c) Industrial sector

(d) None of the above

Q 22. From the set of the development indicators given in column I and corresponding facts given in Column II, choose the correct pair of statement:

|  |  |
| --- | --- |
| COLUMN I | COLUMN II |
| (i) Liberty Indicator  (ii) Infant Mortality Rate  (iii) Human Development Index  (iv) Maternal Mortality Rate | A. Indicates performance of Economic reforms  B. Death of infants before reaching 1 year of age per 1000 live births in a year  C. Studies the growth of nation's economic development  D. Indicates the number of females living in a nation |

Alternatives:

(a) (i) - A

(b) (ii)-B

(c) (iii) – C

(d) (iv) – D

Q 23. Read the following statements carefully:

Statement 1: Rise in human capital raise economic growth.

Statement 2: Rise in economic growth raises human capital formation.

Choose the correct alternative

1. Statement 1 is true and Statement 2 is false.
2. Statement 1 is false and Statement 2 is true.
3. Both Statements 1 and 2 are true.
4. Bothe statements 1 and 2 are false.

Q 24. Read the following statements carefully.

Statement 1: Both India and Pakistan initiated their economic reforms without any external pressures.

Statement 2: Pakistan has successfully implemented the SEZ policy and reaped its benefits using the Export Promotion policy.

In the light of the given statements, choose the correct alternative:

a) Statement 1 is true and statement 2 is false

b) Statement 1 is false and statement 2 is true

c) Both statements 1 and 2 are true

d) Both statements 1 and 2 are false

Q 25. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ was adopted to prevent the depletion of ozone layer.

1. Kyta protocol
2. IUCN conservation
3. Montreal protocol
4. None of the above

Q 26. Read the following statement -Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

Assertion (A): Generation of employment in formal sector helps in reduction of poverty and income inequalities.

Reason (R): Workers in the formal sector are highly exposed to the uncertainties of the market and have low bargaining power.

Alternatives:

a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).

c) Assertion (A) is true but Reason (R) is false.

d) Assertion (A) is false but Reason (R) is true.

Q 27. Read the following statement -Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

Assertion (A): In the late 1970s, China’s population growth rate had sharply declined.

Reason (R): One child policy and better health services attributed to the low growth of population in China.

Alternatives:

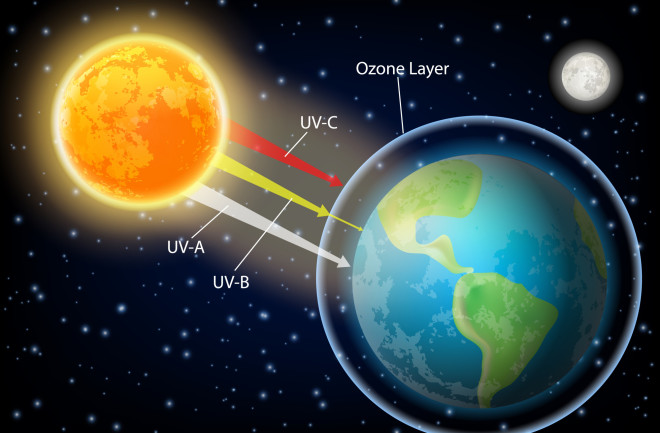
a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).

c) Assertion (A) is true but Reason (R) is false.

d) Assertion (A) is false but Reason (R) is true.

Q 28. Interpret the given picture on account of current environmental challenges.



Q 29. a) Discuss the role of NABARD and Self-Help Groups as institutional source of credit.

b) Define Worker population ratio.

Q 30. Compare and analyse the following information about growth of GDP of the three neighbouring nations:

|  |  |  |
| --- | --- | --- |
|  | 1980-90 | 2015-17 |
| India | 5.70% | 7.30% |
| China | 10.30% | 6.80% |
| Pakistan | 6.30% | 5.30% |

Q 31. a) Explain the features of IPR 1956.

b) Define Green Revolution? What were the positives of green revolution on Indian economy?

Q 32. a) Human Capital and Human Development are one and the same thing. State whether the following statement is true/false, with valid argument.

b) Define Casualization and Informalization of workforce.

Q 33. a) What are the challenges to agricultural marketing?

b) Define Golden Revolution and White Revolution.

c) Differentiate between absorption and carrying capacity of the environment.

Q 34. Read the following text carefully and answer the given questions on the basis of the same and common understanding:

Economists have come up with a number of definitions since the time planning entered the domain of economics. However, a lot of them have agreed that the most significant was formulated by HD Dickinson. According to him, economic planning is "the making of major economic decisions - what and how much is to be produced and to whom it is to be allocated by the conscious decision a determinate authority, on the basis of a comprehensive survey of the economic system as a whole".

After it was introduced by the erstwhile Soviet Union, many countries started adopting the method of economic planning at different levels to achieve faster growth. Economic planning in India is undertaken by the Planning Commission, which was replaced by NITI Aayog on January 1, 2015. NITI (National Institution for Transforming India) Aayog was established with the objective of achieving sustainable development goals through cooperative federalism. NITI Aayog is basically a think-tank or an advisory body. The Planning Commission had the power to impose policies on States and for the projects approved by the Planning Commission. The powers for allocation of funds have not been given to the NITI Aayog. The socio-economic condition of India after Independence was such that it was impossible for either public or private sector to carry on the responsibility of development solely. Planning was foremost requirement to deal with the problems of 100 per capita income, major portion of population engaged in primary sector, high birth rate, grave unemployment and low capital formation, unequal distribution of wealth, illiteracy, lack of technical knowledge, poor quality of human resources etc. so it became important to adopt an economic system which could bring about growth conducive or in relation to the prevailing environment.

The community of feudal lords, land owners, merchants, financiers and industrialists did not have the capability of discharging the essential task of development. The private sector was not even so strong to carry on the responsibility of development because it required heavy investment to produce consumer goods on large scale. Also, even in the British period the key sectors of the economy were state owned. Thus, mixed economy became the most appropriate model to be adopted.

In a country like India where development was yet to start, the state has more responsibility as it is expected to create the conditions for development. The Indian planners also had limitations of public sector in their mind and the strengths of private sector.

Hence, neither the public sector was made all embracing nor the private sector was reduced to non-significance. Thus, to protect the weaker section of society but not at the cost of the capable ones and to create conditions of economic and social development, a mixed economic model was required where state could play a major guiding role and private enterprise act as important means to achieve the developmental goals.

(a) Why did India adopt a mixed economy model for the attainment of social and economic development?

(b) Justify the following statement with valid explanation: 'To oversee the country's economic and social development, in 1950, the Government set up a Planning Commission and then later Planning Commission was replaced by a new institution - NITI Aayog on January 1, 2015 to help, design and execute suitable policies for economic'.

Answer Key

Ans 1. b) Statement 1 is false and Statement 2 is true.

Ans 2. a) Exports cheaper

Ans 3. True. As M1 can be directly used for making payments.

Ans 4. b) Unilateral transfers

Ans 5. b) Statement 1 is false and Statement 2 is true.

Ans 6. c) 150

Ans 7. i) (a), (b) & (c) are correct

Ans 8. c) Deficit, 0.5

Ans 9. d) Assertion (A) is false but Reason (R) is true.

Ans 10. b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

Ans 11.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Firm | Value of output (VO) | | Intermediate Consumption (IC) | | Value Added (VA = VO – IC) |
| A | Sales to B:  +Sales to Pvt. Cons.: | 50  70 | Value of Inputs: | 0 | 120 |
| B | Sales to C; | 80 | Purchase from A: | 50 | 30 |
| C | Sales to Pvt. Cons.: | 100 | Purchase from B: | 80 | 20 |

Ans 12.

|  |  |
| --- | --- |
| Merits | Demerits |
| 1. Maintains Equilibrium Level 2. No needs for huge foreign exchange reserves 3. Optimum Utilization of Resources | Instability in the Exchange rate  Speculative Activities  Creates Inflationary situation |

Ans 13. (i) Consumption expenditure at equilibrium level of national income = ₹ 4,000 crores

(ii) Marginal Propensity to save = 0.25

(iii) Saving Function = S = -250 + 0.25 (Y)

(iv) Investment Multiplier = 4

(v) Break-even level of Income = ₹ 1,000 crores

Ans 14. (Hint : Controller of credit – Function of central bank)

Ans 15. Yes, there exists an inverse relation between reserve ratio and credit creation in the economy.

We know that:

Money Multiplier =

Credit Creation = Initial Deposits x Money Multiplier

Assuming that the value of initial deposits is Rs 10,000 crore.

|  |  |  |  |
| --- | --- | --- | --- |
| **Reserve Ratio** | **Money Multiplier** | **Initial Deposits** | **Credit creation**  **(initial Deposits x Money Multiplier)** |
| 10% | = 10 | 10,000 | 1,00,000 |
| 25% | = 4 | 10,000 | 40,000 |

From the above calculations, we can conclude that higher the reserve ratio, lesser credit will be created by commercial banks in the economy.

Ans 16. a) Precautions of income Method.

I. Transfer Incomes. (Like scholarships, donating, charity, old age pensions, etc.) are not included in the National income because such receipts are not connected with any productive activity and there is no value addition.

II. Income from sale of second-hand goods will not be included in national income as their original sale has already been counted.

III. Income from sale of shares, bounds and debentures will not be included as such transaction does not contribute to current flow of goods and services.

IV. Windfall gains (like income from lotteries, horse race, etc.) are not included as there is no productive activity connected with them.

b) 1,380 crores

**Ans 17. a) (i) Redistribution of income:**

* **Through the budgetary policy, the government aims to reallocate resources in accordance with the economic (profit maximization) and social (public welfare) priorities of the country.**
* **Government can influence allocation of resources through:**

1. **Tax concessions or subsidies:**

* **To encourage investment, the government can give tax concessions, subsidies etc. to the producers.**
* **For example, the government discourages the production of harmful consumption goods (like liquor, cigarettes etc.) through heavy taxes and encourages the use of khadi products by providing subsidies.**

1. **Directly producing goods and services:**

* **There are many non-profitable economic activities, which are not undertaken by the private sector like water supply, sanitation, law and order, national defence, etc. these are called public goods.**
* **Such activities are necessarily undertaken by the government in public interest and to raise social welfare.**

(ii) Reducing regional disparities:

* The government budget aims to reduce regional disparities through its taxation and expenditure policy for encouraging setting up of production units in economically backward regions.

b)

(i) It is a revenue expenditure as it neither creates any asset nor reduces any liability of the government.

(ii) It is a revenue expenditure as it neither creates any asset nor reduces any liability of the government.

(iii) It is a capital expenditure as it reduces the liability of the government.

Ans 18. b) 1948

Ans 19. Railways

Ans 20. b) II and III

Ans 21. (c) Industrial sector

Ans 22. (b) (ii)-B

Ans 23. c) Both Statements 1 and 2 are true.

Ans 24. d) Both statements 1 and 2 are false

Ans 25. c) Montreal protocol

Ans 26. c) Assertion (A) is true but Reason (R) is false.

Ans 27. a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

Ans 28. (Hint: Explain ozone layer depletion)

Ans 29. Refer notes

Ans 30. During 1980-90:

China's GDP growth was high in 1980.

China's GDP was growing at tremendous rate (Around 10%) Pakistan's GDP Growth Rate was better than India's (6.3% of Pakistan compared to 5.7% of India).

India's GDP growth is lowest in 1980s.

During 2015-17:

* India is GDP grew at fastest Rate of 7.3%
* China's growth rate declined to 6.5%
* Pakistan was at third position at 5

Ans 31. Refer Notes

Ans 32. a) The given statement is not true to perfection. These two may sound similar but are not exactly same. Whereas, human capital considers education and health as a means to increase labour productivity, human development is based on the idea that education and health are integral to human wellbeing.

b) Refer notes

Ans 33. Refer notes

Ans 34.

1. The Socio-economic condition of India after Independence was such that it was impossible for either public or private sector to carry on the responsibility of development solely. Since, the private sector was not even so strong to carry on the responsibility of development because it required heavy investment to produce consumer goods on large scale. Hence, neither the public sector was made all embracing nor the private sector was reduced to non-significance. Thus, to protect the weaker section of society but not at the cost of the capable ones and to create conditions of economic and social development, a mixed economic model was adopted.
2. To conduct economic planning at different levels to achieve faster growth. Economic planning in India is undertaken by the Planning Commission, which was replaced by NITI Aayog on January 1, 2015. NITI (National Institution for Transforming India) Aayog was established with the objective of achieving sustainable development goals through cooperative federalism. NITI Aayog is basically a think-tank or an advisory body.