

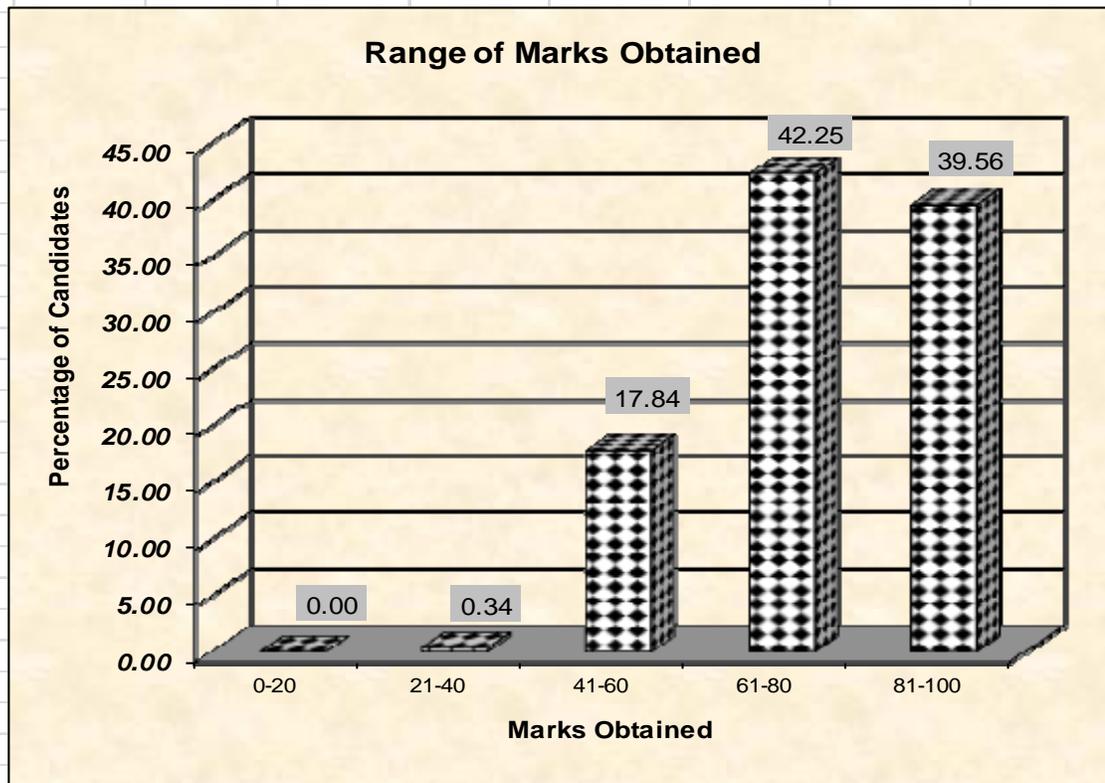
## ECONOMIC APPLICATIONS

### STATISTICS AT A GLANCE

Total Number of students who took the examination	13,985
Highest Marks Obtained	100
Lowest Marks Obtained	29
Mean Marks Obtained	75.83

### Percentage of Candidates according to marks obtained

Details	Mark Range				
	0-20	21-40	41-60	61-80	81-100
Number of Candidates	0	48	2495	5909	5533
Percentage of Candidates	0.00	0.34	17.84	42.25	39.56
Cumulative Number	0	48	2543	8452	13985
Cumulative Percentage	0.00	0.34	18.18	60.44	100.00



## ECONOMIC APPLICATIONS

### ANALYSIS OF PERFORMANCE

#### Question 1

- (a) With the help of a diagram show how a market demand curve can be obtained from individual demand curves. [2]
- (b) Which section of society is worst affected during inflation? Briefly explain. [2]
- (c) Mention *one* way by which Government policy can ensure social justice. [2]
- (d) There are no substitute goods in a Monopoly market. Give a reason to support your answer. [2]
- (e) Briefly explain the impact of constructing dams on the ecosystem. [2]

#### Examiners' Comments

- (a) A few candidates answered the question correctly however many failed to draw the lateral summation of the demand curves. Others drew separate diagrams with a few drawing only the schedules.
- (b) Some candidates failed to mention “fixed income groups” while others were unable to explain why they were the worst affected. The term “real income” was written by very few candidates.
- (c) Most candidates stated taxation as a measure to ensure social justice, however they failed to mention about ‘progressive’ taxation. A few wrote about Wage Policy but failed to explain how it brought about social justice. Explanations were inadequate in many cases.
- (d) Most candidates failed to apply and write why there were no substitute goods in a monopoly market. They failed to correlate the fact that entry is restricted in a monopoly market.
- (e) Candidates wrote answers that were general in nature. Many candidates wrote positive aspects rather than negative impacts.

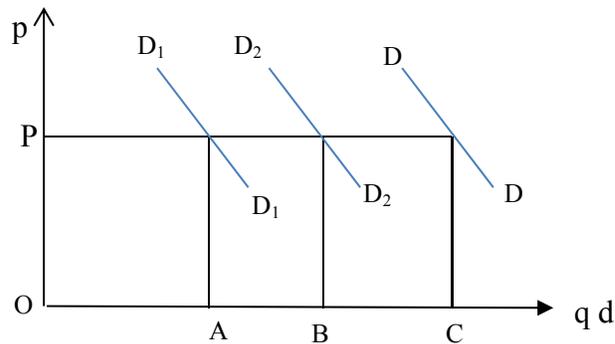
#### Suggestions for teachers

- Stress on the importance of drawing correct demand and supply curves. Ensure adequate practice in drawing proper labelled diagrams.
- Use proper economic terms such as ‘real income’ while explaining and ensure students use these terms while writing answers.
- Emphasise that brief explanations are a must in order to bring out their understanding.
- Instruct students to avoid selective study and attach importance to all topics.

## MARKING SCHEME

### Question 1.

- a) At price  $OP$  market demand  $OC$  is equal to  $OA+OB$ . If the same process is repeated for each price level the market demand curve  $DD$  is obtained. It is obtained by the lateral summation of individual demand curves.



- b) The fixed income groups are worst affected during inflation.  
Given the money income of this group the real income falls due to increase in price level.
- c) (1) Poverty alleviation programmes.  
(2) Creation of employment opportunities.  
(3) Introduction of development programs  
(4) Imposition of progressive direct tax.  
(5) Redistribution of agricultural land  
(6) Introduction of social security. (Or any other relevant point)
- (Any one of the above mentioned should be explained briefly)
- d) Monopoly market is devoid of completion and therefore no substitute goods.
- e) (1) Inundation of forest areas – construction of dams and water reservoirs often leads to an inundation of vast forest lands. So, the natural habitats of a large variety of insects, reptiles, microorganisms etc., are destroyed and this leads to degradation of the eco system.  
(2) Blocking the flow of river water – Blocking the flow of the river water alters ecological condition of the river adversely affecting the fresh water ecosystem. It affects marine life.  
(Explain this in brief)

## Question 2

- (a) Briefly explain why labour is considered to be the means and end of production. [2]
- (b) Distinguish between *Joint* demand and *Composite* demand. [2]
- (c) State *two* reasons for low capital formation in a developing economy. [2]
- (d) State *one* difference between *Monopsony* and *Monopolistic competition*. [2]
- (e) Classify the following capital goods:
- |                |                  |
|----------------|------------------|
| (i) Machines   | (ii) Cotton yarn |
| (iii) Oil mill | (iv) bridge      |
- [2]

### Examiners' Comments

- (a) Most candidates relate to labour being an active factor of production and therefore a means of production, however they were unable to explain labour as an end of production.
- (b) Most candidates correctly answered this question. A few however got confused and wrote irrelevant examples.
- (c) This question was answered correctly by most candidates. Explanations were, however, not satisfactory in some cases.
- (d) Many candidates were unable to distinguish between the two types of markets and wrote incorrect answers.
- (e) This question was not comprehended by most candidates and this resulted in an incorrect classification of capital goods.

### Suggestions for teachers

- Ensure a complete comprehension of topics that requires a thorough explanation. Use flow charts to streamline and understand the process of production and consumption.
- These concepts must be explained with the help of suitable examples.
- Students must be given adequate practice in writing specific answers.
- Teach market forms using comparative charts emphasising on the features of each market form.
- Assign adequate practice on tackling application based questions.

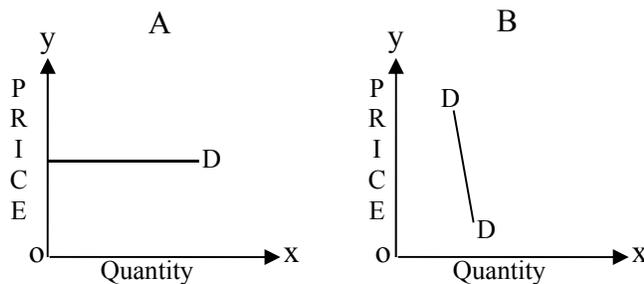
## MARKING SCHEME

### Question 2.

- a) Labour produces goods and services and demand for goods and services originates from labour.
- b) When demand for different complementary goods are created at a time it is known as joint demand. E.g. demand for tea leading to demand for tea leaves, water, milk, sugar, etc. Composite demand on the other hand refers to demand for a commodity which can be put into alternative uses. E.g. demand for steel – which is used for building bodies of buses, cars, etc. for making surgical equipment, for construction purpose, for making utensils, etc.
- c) (1) Low level of savings  
(2) Lack of willingness to save  
(3) Less opportunity to save  
(4) Inadequate mobilization of savings  
(5) Low investment opportunities.  
(6) Higher tax burden
- (any one of the above mentioned should be explained)
- d) Monopsony market has only one buyer and many sellers while a monopolistically competitive market there are a large number of buyers and sellers.
- e) Machines – Fixed capital  
Oil Mill – Sunk capital  
Cotton yarn – Circulating capital  
Bridges – Social capital

### Question 3

- (a) Indicate the degree of elasticity of demand of the following demand curves: [2]



- (b) What is meant by land use pattern? [2]

- (c) What are indirect taxes? Give an example. [2]
- (d) Define *money*. How does it act as a 'measure of value'? [2]
- (e) What is meant by an *overdraft* facility? [2]

Examiners' Comments

- (a) Candidates identified Figure A correctly but were confused regarding Figure B. Many inadvertently identified it as perfectly inelastic demand.
- (b) Explanations were unclear however many candidates wrote correct examples.
- (c) Most candidates answered this question, only a few wrote proper terms like 'shifting of burden' 'impact', 'incidence' etc.
- (d) The definition of money lacked expression. Only a few candidates clearly explained how it acts as a measure of value.
- (e) Most candidates confused the overdraft facility with that of credit cards and failed to link it with the current account.

Suggestions for teachers

- Stress on importance of correctly labelled diagrams in Theories of Demand and Supply.
- Use appropriate economic terms and instruct students to write the same during tests and examinations.
- Concepts of Money need to be explained thoroughly quoting relevant examples.
- Explain different methods of lending by Commercial Banks in a comparative manner to ensure conceptual clarity.

**MARKING SCHEME**

**Question 3.**

- a) A  $E_p = \infty$                       B  $E_p < 1$   
 Perfectly elastic.                      Inelastic
- b) Land use pattern means the way in which the human beings employ the land or the solid cover of the earth for different purposes. The common use of land are for human habitat, agriculture, horticulture, construction of roads, etc.
- c) Indirect taxes, taxes imposed on goods and services e.g. sales tax, vat, service tax, etc.
- d) Money is defined as any commodity which is generally accepted as common medium of exchange, It acts as a measure of value, with the help of money value of any good or a service can be accurately measured and it thus facilitates exchange of goods.
- e) Overdraft facility is provided to current account holders by commercial banks. According to this facility, the borrower is allowed to withdraw more than what has deposited. The excess amount withdrawn has to be repaid to the bank in a short period with interest. This facility is provided against some security.

#### Question 4

- (a) The price of milk rises from ₹ 26.00 to ₹ 30.00 per litre and its demand falls from four litres per day to two litres per day. Calculate the elasticity of demand for milk. [2]
- (b) Differentiate between an entrepreneur and labour on the basis of:
- (i) Nature of work.
- (ii) Nature of risk involved. [2]
- (c) Distinguish between the *fiscal* and *monetary* policy of the Government. [2]
- (d) What are Public Sector Units? Mention *one* problem faced by Public Sector Units in India. [2]
- (e) What is meant by Bank Rate? How does it help in controlling the flow of credit in the economy? [2]

#### Examiners' Comments

- (a) Most candidates failed to write the formula before solving the numerical while others failed to mention whether the demand was elastic or inelastic. The values of P, Q,  $\Delta P$  and  $\Delta Q$  were not written correctly in many cases.
- (b) This question was answered correctly by most candidates.
- (c) Though candidates were familiar with the Fiscal policy, the Monetary policy lacked in expression and matter.
- (d) The concept of Public Sector was well understood and answered correctly by a majority of candidates.
- (e) Candidates were unable to answer this question correctly as concepts of Bank rate as an effective tool of credit control lacked conceptual clarity and hence they were unable to explain how it controls inflation.

#### Suggestions for teachers

- Allot sufficient practice to solve numericals and impress students to show the steps of working involved in solving numericals.
- Recapitulation must be conducted in a tabular form to differentiate between Monetary and Fiscal policies.
- Explain concepts with the help of a flowchart so that students understand the concepts of how the Bank rate can be used as an effective measure to control inflation.

#### MARKING SCHEME

##### Question 4.

- a)  $\frac{\Delta Q}{\Delta P} \times \frac{P}{Q} = \frac{2}{4} \times \frac{26}{4} = 3.2 \quad E_p > 1$
- b) Nature of work: Labourers get wages for their work and Entrepreneurs receive profits or any other relevant matter.  
Nature of risk : Labourers are not expected bear risk in business on the contrary the entrepreneurs have to bear all the risks.
- c) Fiscal policies are implemented by the Government. These are policies which concern public debt, public revenue and public expenditure while monetary policies are implemented

- by the RBI on behalf of the Government. These policies are issued to regulate and control the flow of money in the economy.
- d) PSU's are commercial enterprises owned and controlled entirely by the Government. Problems faced are the following:
1. Objectives are not clear.
  2. They face shortage of skilled, competent and experienced manpower.
  3. Too much of Government interference in running the organisation.
  4. Underutilisation of capacity.
  5. Cost over run
  6. Improper price policy, etc. ( or any other relevant point)
- (any one of the above mentioned must be explained)
- e) Bank rate is the rate at which Central Bank rediscounts first class financial bills submitted to it by Commercial Banks. During inflation the Central Bank will raise the bank rate which will subsequently raise the lending rate of commercial banks. Increase in lending rate of commercial banks will reduce credit flow.

### Question 5

- (a) Define capital and explain three important functions of capital. [7]
- (b) 'Land is the original source of all material wealth'. In this context, explain *four* determinants that influence the productivity of land. [8]

#### Examiners' Comments

- (a) Most candidates answered the question correctly. A few however wrote the characteristics of capital instead of its functions.
- (b) This question was answered correctly by most candidates. In some cases, however the subheadings were not elaborated upon.

#### Suggestions for teachers

- Instruct students to write specific and concrete answers.
- Stress on the importance of learning and revising important definitions of economic terms.

### MARKING SCHEME

#### Question 5.

- a) Capital is defined as "Produced means of production" (Or any other definition could be accepted.)
- Functions of capital:
- It fosters economic development
  - It keeps production process uninterrupted
  - It helps in the process of division of labour
  - It generates greater employment opportunities.
- (Or any other relevant points) ( any 3 points should be explained)
- b) Four determinants of productivity of land:
- Fertility of land

- Proper use of land
- Investment of land
- Security of tenancy
- Location of land
- Factor inputs applied on land
- Method of cultivation

(any four of the above mentioned or any other determinants which are relevant should be clearly explained)

### Question 6

- (a) Explain the following functions of the Central Bank of a country:
- (i) Acting as a ‘Banker to the Government’.
  - (ii) Fixation of margin requirement on secured loans.
  - (iii) Developmental Functions. [8]
- (b) What is meant by *Ecosystem*? Explain *three* adverse effects of mining on the ecosystem. [7]

#### Examiners’ Comments

- (a) (i) Most candidates wrote unsatisfactory explanations with a few writing the “banker to Commercial Bank” function that was not part of the question.
- (ii) Many candidates were unaware of the term ‘margin’ and hence were unable to answer correctly.
- (iii) This question was answered in a generalised manner with candidates failing to write specific examples like NABARD, IDBI, EXIM banks.
- (b) Candidates wrote correct definitions however, they could not explain the adverse effects of mining clearly. Many candidates wrote general answers making it evident that they had not revised the chapter in detail.

#### Suggestions for teachers

- Explanations should be specific with examples and illustrations to make students understand and comprehend banking terms and concepts.
- Emphasise on the need to read all relevant chapters and to avoid selective study.
- Learn all topics within the scope of the syllabus.

### MARKING SCHEME

#### Question 6.

- a) (i) Central Bank renders useful service to the Government of India in the capacity of its banker, agent and advisers. All funds of the Central and state governments are kept with the Central Bank. Central Bank manages short term debts for the Government. It advises the government on matters relating to banking and financial matters.
- (ii) The margin is the difference between the ‘loan value’ and the ‘market value’ of securities offered by borrowers against secured loans. By prescribing the margin requirement on secured loans central bank does not permit the commercial banks to lend to their customers the full value of securities offered by them but only a part of their market value.

(iii) Developmental functions: In India the Central Bank of India/ the RBI has a special department for agricultural credit, this work is done by NABARD. RBI also provides funds to various financial institutions for granting loans and other financial facilities to various sectors of the economy.

b) Ecosystem means a system that results from the integration of all living and non-living factors of the environment.

Adverse effect on mining on the ecosystem:

- Deforestation
- Huge discharge of sediments
- Dumping of waste material after minerals have been extracted.
- Contamination of ground water with toxins.
- Mining consumes huge amount of energy.
- Coal mines release methane which pollutes the environment.

(Any three points)

### Question 7

(a) 'Efficient labour force is an important economic ingredient'. In this context, define efficiency of labour.

Explain *three* factors that determine the efficiency of labour.

[8]

(b) Define a Commercial Bank. Explain *three* methods adopted by Commercial Banks to mobilise funds from the public.

[7]

### Examiners' Comments

(a) This question was answered correctly by most candidates. Some candidates scored poorly as they did not mention 'quality' and 'quantity' of work in their definition of efficiency of labour.

(b) Candidates failed to write about the rate of interest and the time period while explaining the different types of account. A few candidates failed to relate mobilizing of funds to different types of accounts.

### Suggestions for teachers

- Reiterate the importance of writing correct definitions.
- Stress upon important points to be included while answering questions.
- Explain the different ways and methods of answering questions

## MARKING SCHEME

### Question 7.

- a) Productive capacity of a worker is termed as 'Efficiency of labour'. In other words it refers to the quality and quantity of goods and services which can be produced during a given period.  
Factors affecting efficiency of labour are:
1. Hot and enervating climate
  2. Level of wages
  3. Level of technology
  4. Factory environment
  5. Migratory character
  6. Education and training facility
  7. Government Policy (or any other relevant matter)
- (Any three of the above mentioned factors should be explained)
- b) A Commercial Bank is a financial institution which borrow money from the public for the purpose of lending. These banks provides loans to various economic sectors. Three methods adopted by commercial banks to mobilise funds are the following:
1. Fixed deposits account
  2. Current account
  3. Savings account
  4. Recurring deposit account. (Any three of the above)

### Question 8

- (a) Define Privatisation. Discuss *two* arguments each in **favour** and **against** privatisation. [8]
- (b) Read the following extract and answer the questions that follow:

Economic Times, September 4<sup>th</sup>, 2012

Terming payment of taxes as a 'mark of civilisation', Finance Minister P. Chidambaram has assured that authorities will not "rashly" implement controversial retrospective tax rules while once again promising a non-adversarial tax regime for all taxpayers. It is the second time in less than a week that Chidambaram has given assurance of a stable and fair tax regime, after the tax department attracted criticism for ushering in what some have called a "raid raj" and for introducing a series of measures industry and investors have slammed as retrograde.

- (i) Define direct tax. Give *two* examples.
- (ii) State how a direct tax can foster social consciousness.
- (iii) What is meant by a progressive direct tax? How does its imposition bring about equity?
- (iv) State *two* demerits of direct tax. [7]

## Examiners' Comments

- (a) The concept of "Privatisation" was not clearly understood by many candidates. The arguments in favour and against were mixed up and hence showed no conceptual clarity.
- (b) (i) Examples of direct taxes were not correct. Though candidates cited income tax as an example correctly, the second example was incorrect in most cases.
- (ii) Candidates were confused between 'social consciousness' and 'social equity' and ended up writing incorrect answers.
- (iii) This question was answered correctly by majority of candidates.
- (iv) The explanation and the sub-headings did not match in some cases and few candidates failed to offer any explanation and hence scored poorly.

### Suggestions for teachers

- Allot students enough practice in writing long answers with proper explanations.
- While discussing taxation, give sufficient examples to reinforce the learning process.
- Allot sufficient time to explain concepts like 'Privatisation'.
- Scrutinise the Pupil Performance Analysis booklet for suggestions on how to tackle queries and its subsequent benefits to students concerned.

## **MARKING SCHEME**

### **Question 8.**

- a) Privatisation refers to transfer of majority of ownership of state-owned enterprises to the private sector. Or introduction of private ownership in PSU's.

Arguments in favour of privatisation:

1. Creation of competitive environment
2. Lower cost of production because of greater efficiency.
3. Reduction in wasteful expenditure
4. Greater flexibility
5. Greater investment
6. Higher levels of technology and capital inflow.

Arguments against privatisation:

1. Social welfare neglected
2. Growth of monopoly.
3. Greater flow of foreign capital
4. Greater incidence of poverty

(Any two of the arguments in favour and against should be clearly explained)

- b) (i) Direct tax refer to those taxes which paid by those on whom they are legally imposed by the Government. These are imposed on income or property.

Egs: income tax, wealth tax, corporation tax, etc.

- (ii) Direct tax creates spirit of civic responsibility amongst tax payers. Tax payers show keen interest in seeing that tax revenue is properly used. This checks wastage of public money.
  - (iii) Progressive tax refers to a tax system in which the rate of tax increases as one's income rises. In this system tax liability is in proportion to one's income it increases as income rises and falls as income decreases. Since the burden of tax is more on the rich and tax revenue can be used to promote the wellbeing of the poor it brings about equality by reducing the gap between the rich and the poor.
  - (iv) Demerits of direct taxes:
    1. unpopular
    2. Inconvenience
    3. Possibility of evasion
    4. Uneconomical
    5. Arbitrary
    6. Narrow in scope
- (any two of the above should be explained)

### Question 9

- (a) Define price elasticity of demand. Explain how the following factors determine price elasticity of demand:
  - (i) Existence of substitute goods.
  - (ii) Nature of the commodity.
  - (iii) Proportion of expenditure incurred in a Household Budget. [7]
- (b) State whether the following statements are *true* or *false*. Give reasons for each:
  - (i) If prices are expected to fall in the future current demand rises.
  - (ii) Slow growth rate in Indian agriculture has increased mobility of labour from rural to urban areas.
  - (iii) In a developing country like India public expenditure should not be incurred on infrastructural development.
  - (iv) An indirect tax can be made progressive by imposing higher tax rates on luxury goods. [8]

### Examiners' Comments

- (a) The definition of price elasticity of demand was written correctly but candidates were thoroughly confused on concepts related to the factors affecting price elasticity of demand.
- (b) Though candidates wrote on the statements being 'true' or 'false' they were unable to justify their answers in a relevant manner.

### Suggestions for teachers

- Classroom discussions should involve students participating in important and demanding topics that would enable them to understand concepts in clarity and write correctly.
- Equip students by assigning adequate practice exercises in application based questions.

### **MARKING SCHEME**

#### **Question 9.**

- a) Price elasticity of demand refers to the responsiveness of demand to a given change in price or % change in demand due to % change in price.
1. Existence of substitutes – Goods which have substitutes are highly elastic when compared to those which do not have substitutes.
  2. Durable goods have higher levels of elasticity when compare to perishable goods.
  3. Goods on which a high % of one's budget is spent, demand would be highly elastic compared to those goods on which a small % of one's budget is spent.  
(students must explain the above mentioned with suitable examples)
- b) (i) False  
If the prices are expected to fall in future, then the current demand will contract and future demand rise.
- (ii) True  
Stagnancy in Indian agricultural productivity and its backwardness has driven a large number of people to the urban areas from the rural areas. This has created huge migration of rural people to the urban areas leading to great pressure on natural resources and destruction of ecosystem
- (iii) False  
Developing economics require infrastructural development to experience a well-balanced economic development.
- (iv) True  
Indirect taxes can be progressive by imposing higher rate of tax on goods of luxury. The burden of tax will now be more on the rich rather than the poor.

### Question 10

- (a) Under which type of a market are producers 'price takers'?

Explain *three* of its characteristics.

[7]

- (b) With the help of a diagram state whether supply of a good is directly or inversely related to its price. Explain any *four* determinants of supply.

[8]

#### Examiners' Comments

- (a) Candidates who correlated concepts of 'price-takers' with 'perfect competition' answered correctly. A few candidates related it with monopoly and subsequently wrote incorrect answers.
- (b) The diagram of demand curve was drawn instead of the supply curve which showed a lack of basic understanding. In some cases, the curve and the axis were not labelled. Several candidates explained the determinants of demand instead of supply.

#### Suggestions for teachers

- Teach market forms in a comparative manner stressing the features of each market to enable students understand market related topics with ease.
- Instruct students to read the questions carefully and answer accordingly.
- Impress students on the importance of neatly labelled and correct diagrams. Give them sufficient practice in drawing these diagrams.

### MARKING SCHEME

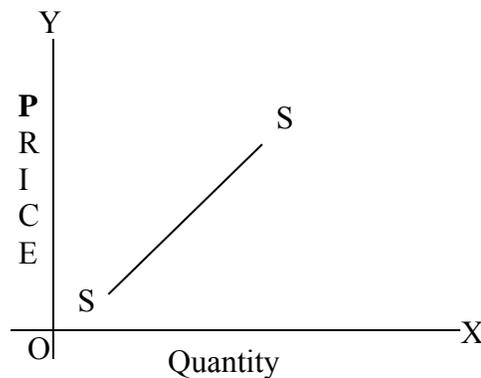
#### Question 10.

- a) Perfect Market

- (i) Large number producers and consumers.
- (ii) Homogeneous product.
- (iii) Perfect knowledge of the market
- (iv) Freedom of entry and exit.
- (v) Perfect mobility of factors of production
- (vi) Absence of selling cost and transportation cost.

(Any three)

- b)



Supply is directly proportional to price.

Determinants of Supply:

1. Price level
2. Technology
3. Price of factor production
4. Natural condition
5. Agreement among producers
6. Future price expectation
7. Number of producers
8. Taxes and subsidies
9. Economic and political condition

(Or any other determinant of supply)

(Any four must be explained)

**Topics/Concepts found difficult**

- Factors determining Elasticity of Demand.
- Privatization.
- Concept of overdraft facility.
- Functions of Central Bank.
- Credit Control Methods.
- Fiscal and Monetary Policy.

**Suggestions for students**

- Avoid selective study.
- Allocate sufficient time for Part II.
- Practise graphs diagrams and numericals.
- Solve sample question papers regularly to form an idea on the different ways in which questions are framed.
- Definitions and formulas should be thoroughly practised.