

SENIOR SCHOOL CERTIFICATE EXAMINATION MARCH-2013

MARKING SCHEME – ECONOMICS (AM)

SET-3

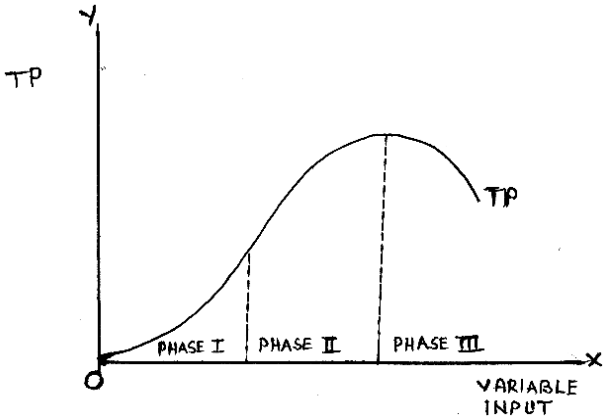
Expected Answers / Value Points

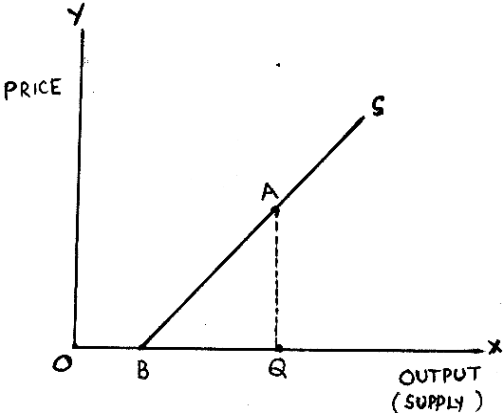
GENERAL INSTRUCTIONS :

1. Please examine each part of a question carefully and allocate the marks allotted for the part as given in the marking scheme below. TOTAL MARKS FOR ANY ANSWER MAY BE PUT IN A CIRCLE ON THE LEFT SIDE WHERE THE ANSWER ENDS.
2. Expected suggested answers have been given in the Marking Scheme. To evaluate the answers the value points indicated in the marking scheme be followed.
3. For questions asking the candidate to explain or define, the detailed explanations and definitions have been indicated alongwith the value points.
4. For mere arithmetical errors, there should be minimal deduction. Only $\frac{1}{2}$ mark be deducted for such an error.
5. Wherever only two / three or a “given” number of examples / factors / points are expected only the first two / three or expected number should be read. The rest are irrelevant and must not be examined.
6. There should be no effort at “moderation” of the marks by the evaluating teachers. The actual total marks obtained by the candidate may be of no concern to the evaluators.
7. Higher order thinking ability questions are assessing student’s understanding / analytical ability.
8. The Examiners should acquaint themselves with the guidelines given in the Guidelines for Spot Evaluation before starting the actual evaluation.
9. Every Examiner should stay upto sufficiently reasonable time normally 5-6 hours everyday and evaluate 20-25 answer books and should devote minimum 15-20 minutes to evaluate each answer book.

Every Examiner should acquaint himself / herself with the marking schemes of all the sets.

General Note : In case of numerical question no mark is to be given if only the final answer is given.

A3	Expected Answer / Value Points	Distribution of Marks									
SECTION-A											
1	Inferior good	1									
2	It is addition to total product when one more unit of input is employed. <u>OR</u> $TP_n - TP_{n-1}$ <u>OR</u> $\frac{\Delta TP}{\Delta Q}$	1									
3	Average fixed cost	1									
4	(i) Resources are limited. (ii) Resources have alternative uses.	½ ½									
5	“Change in demand” refers to change in demand due to any factor other than own price of the good.	1									
6	<table border="0" style="width: 100%;"> <thead> <tr> <th style="text-align: left;">Price</th> <th style="text-align: left;">Demand</th> <th style="text-align: left;">Total Expenditure</th> </tr> </thead> <tbody> <tr> <td>11</td> <td>65</td> <td>715</td> </tr> <tr> <td>13</td> <td>55</td> <td>715</td> </tr> </tbody> </table> <p>Since with change in price total expenditure on the good is unchanged, $E_p = -1$ (No marks if only the final answer is given)</p>	Price	Demand	Total Expenditure	11	65	715	13	55	715	1½ 1 ½
Price	Demand	Total Expenditure									
11	65	715									
13	55	715									
7	<p>Three phases</p> <ol style="list-style-type: none"> 1. TP increases at an increasing rate. 2. TP increases at decreasing rate. 3. TP falls <div style="text-align: center;">  </div> <p style="text-align: center;">OR</p> <p>When MC is lower than AC, AC falls. When MC is equal to AC, AC is constant. When MC is higher than AC, AC rises.</p>	1½ 1½ 3									

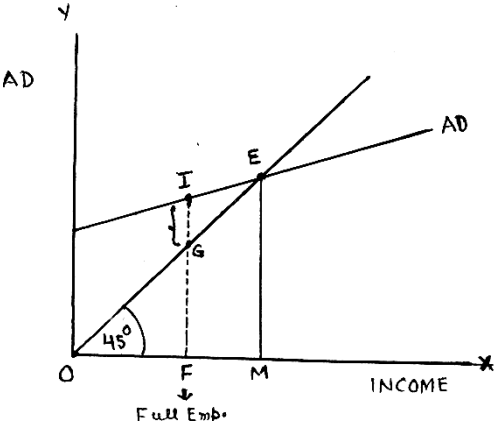
	<p><u>For the Blind candidates</u></p> <p>Statement of phases (Same as above)</p> <p>Numerical example</p> <p style="text-align: center;"><u>OR</u></p> <p>Same as above.</p>	<p>1½</p> <p>1½</p> <p>3</p>
8	<div style="text-align: center;">  </div> <p>Suppose the E_p is to measured at point A of the Supply curve S. Draw a perpendicular from point A intersecting X-axis at Q. Supply curve intercepts x axis at B.</p> <p><u>Then,</u></p> $E_S \text{ at } A = \frac{BQ}{OQ}$ <p style="padding-left: 40px;">= Less than 1</p> <p>(The method described in any other way but relevant must be awarded)</p> <p><u>For Blind Candidates</u></p> <p>Law of Supply Schedule</p>	<p>1</p> <p>1</p> <p>½</p> <p>½</p> <p>1</p> <p>2</p>
9	<p>MRT is the ratio of units of one good sacrificed to produce one more unit of the other good.</p> <p>Let the two goods be X and Y. Suppose one more unit of X is to be produced. For this resources worth producing 2Y are to be transferred to the production of X. Then 2Y : 1X is the MRT</p>	<p>1</p> <p>2</p>
10	<p>When utility is expressed in exact units, like 1, 2, 3... etc, it is termed as cardinal utility.</p> <p>When utility is expressed in ranks, like more utility or less utility, etc, it is called ordinal utility.</p>	<p>1½</p> <p>1½</p>

11	<p>Government can impose heavy taxes on production of liquor. Given price, producers' supply "decreases". This creates excess demand leading to competition between buyers. Price starts rising. As a result demand starts falling and supply rising till a new equilibrium is established but only at a higher price leading to fall in consumption of liquor.</p> <p>(Note : Any alternative answer but based on market mechanism must be awarded)</p> <p>(Any other individual response with suitable justification should also be accepted even if there is no reference to the text)</p>	4
12	<p>Revenue is receipts from sale of output <u>or</u> simply value of output.</p> <p>Given</p> $AR = \frac{TR}{Q}$ $AR = \frac{P \times Q}{Q}$ $AR = P$ <p style="text-align: center;"><u>OR</u></p> <p>(a) Subsidy raises revenue which in term raises profit. This induces the producer to supply more.</p> <p>(b) Technological progress reduces cost which in turn raises profits. This induces the producer to supply more.</p>	<p>1</p> <p>1</p> <p>1½</p> <p>½</p> <p>2</p> <p>2</p>
13	<p>When the consumer is in equilibrium,</p> $\frac{MU_A}{P_A} = \frac{MU_B}{P_B}$ <p>Given that price of good B falls, then</p> $\frac{MU_A}{P_A} < \frac{MU_B}{P_B}$ <p>Since per rupee MU_B is now greater than per rupee MU_A. Consumer diverts expenditure from on good A to good B. This raises demand for good B.</p>	4
14	<p>(i) Such a freedom ensures that each firm earns just the normal profit in the long run, the minimum necessary for continuing in the business. If the firms are earning super normal profits, new firms enter the industry. This raises the industry's output leading to fall in market price till the excess profits are wiped out and each firm earns just the normal profit.</p> <p>(ii) Interdependence between firms means that an individual firm takes decision about price and output after taking into consideration the reactions of rival firms. Each firm carefully studies the likely reactions of its rivals and then takes any decision about the firm.</p>	<p>3</p> <p>3</p>

15	<p>The two conditions of consumer's equilibrium under Indifference Curve Analysis are :</p> <ol style="list-style-type: none"> 1. Marginal Rate of Substitution = Ratio of prices 2. MRS has a tendency to fall <p><u>Explanation</u></p> <p>(1) Let the two goods be X and Y. Suppose MRS is greater than P_x/P_y, the consumer can add to utility by consuming more of X and less of Y. As a result MRS starts falling. This continues till MRS becomes equal to P_x/P_y.</p> <p>(2) Unless MRS has a tendency to fall as more of one good is consumed in place of the other, equilibrium will not be attained.</p> <p style="text-align: center;"><u>OR</u></p> <p>The three properties are :</p> <p>(1) <u>Slopes downwards to the right</u> <u>because</u> as the consumer consumes more of one good, the consumption of the other good must fall so that consumer remains on the same level of satisfaction.</p> <p>(2) <u>Convex towards the Origin</u> It means that MRS falls as more of one and less of the other good is consumed <u>because</u> of the operation of the Law of Diminishing Marginal Utility.</p> <p>(3) <u>An indifference curve to the right represents higher level of satisfaction</u> <u>because</u> it represent more goods and more goods means more utility due to the assumption of monotonic preferences.</p>	<p>1</p> <p>1</p> <p>3</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p>																																				
16	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Output</th> <th>TC</th> <th>TR</th> <th>MC</th> <th>MR</th> <th></th> </tr> </thead> <tbody> <tr> <td>1</td> <td>12</td> <td>13</td> <td>12</td> <td>13</td> <td></td> </tr> <tr> <td>2</td> <td>23</td> <td>24</td> <td>11</td> <td>11</td> <td></td> </tr> <tr> <td>3</td> <td>32</td> <td>33</td> <td>9</td> <td>9</td> <td>Equilibrium</td> </tr> <tr> <td>4</td> <td>42</td> <td>40</td> <td>10</td> <td>7</td> <td></td> </tr> <tr> <td>5</td> <td>53</td> <td>45</td> <td>11</td> <td>5</td> <td>Schedule</td> </tr> </tbody> </table> <ul style="list-style-type: none"> • The producer is in equilibrium at 3 units of output. • <u>Reasons</u> : (1) $MC = MR$ (2) $MC > MR$ after equilibrium • Profit = $TR - TC = 33 - 32 = 1$ 	Output	TC	TR	MC	MR		1	12	13	12	13		2	23	24	11	11		3	32	33	9	9	Equilibrium	4	42	40	10	7		5	53	45	11	5	Schedule	<p>2</p> <p>1</p> <p>2</p> <p>1</p>
Output	TC	TR	MC	MR																																		
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5	53	45	11	5	Schedule																																	

SECTION-B

17	When factor incomes from abroad by residents fall short of factor incomes to abroad paid to non-residents.	1
18	Deposits in banks which can be withdrawn by writing cheques are <u>demand deposits</u> . (or any other relevant answer)	1
19	Government can tax the rich and spend the amount on providing free facilities to the poor. (Any other individual response with suitable justification should also be accepted even if there is no reference to the text)	1
20	<u>National product</u> is sum total of final product produced by resident of a country.	1
21	<u>Current transfer</u> refers to payment in lieu of which no good or service is provided in return and made out of current income of the payer and go into the current income of the receivers.	1
22	<u>Aggregate demand</u> means economy's total demand for final goods and services (or total expenditure) expected during the year. <u>Components</u> : (1) Private final consumption expenditure (2) Investment (3) Government Expenditure (4) Net exports	1 ½×4
23	Receipts which neither reduce assets nor increase liabilities are called <u>revenue receipts</u> in a government budget. Example : tax received, interest received, etc. (any one) Receipts which either reduce assets or increase liabilities are called <u>capital receipts</u> in a government budget. Example : Sale of shares held by government, borrowing by government. (any one)	1 ½ 1 ½
24	Fall in exchange rate means that the country has to pay less to buy one unit of foreign exchange worth of goods from abroad. Therefore, imports become cheaper. This raises demand for imports.	3
25	Anything which is widely accepted as a medium of exchange is money. Money supply is the stock of money on a specific day. It is composed of currency with public and demand deposits in banks. <u>OR</u> Deferred payments means payments to be made in future. Money serves as a standard of such payments, e.g. repayment of loan, interest, etc. This function has made possible smooth working of the borrowing and lending activities.	1 1 1 3

<p>30</p>	<p>Inflationary gap refers to a situation when aggregate demand exceeds aggregate supply at the full employment level of income. It is called 'inflationary' because it brings in inflationary tendencies in the economy.</p>  <p>In the diagram, OF = full employment income and IG is inflationary gap at this income.</p> <p><u>Role of L.R.R.</u></p> <p>Legal Reserve Ratio is that minimum ratio deposits with banks which these banks are required to keep in the form of cash and specified liquid assets. In case of inflationary gap, the central bank can raise LRR thus reducing the lending capacity of the banks. As a result borrowings from banks decline leading to fall in aggregate demand.</p> <p><u>For the Blind Candidates</u></p> <p>Inflationary gap : (same as above)</p> <p>Deflationary gap :</p> <p>Role of LRR (Same as above)</p>	<p>1½</p> <p>1½</p> <p>3</p> <p>1½</p> <p>1½</p> <p>3</p>
<p>31</p>	<p>$GNP_{fc} = iii + vi + (iv + ix + viii) + i - ii + v - vii$</p> <p>$= 15 + 5 + 6 + (-1) + 2 + 3 - 5 + 2 - 1$</p> <p>$= Rs. 26 \text{ Arab}$</p> <p>$NNDI = GNP_{fc} - viii + ii - v + x$</p> <p>$= 26 - 2 + 5 - 2 + 1$</p> <p>$= Rs. 28 \text{ Arab}$</p>	<p>2</p> <p>1½</p> <p>½</p> <p>1</p> <p>½</p> <p>½</p>

32	<p>(i) <u>Free medical facilities to employees</u> are compensation of employees, and so should be included.</p> <p>(ii) <u>Pension to senior citizens</u> are transfer payments and so should not be included.</p> <p>(iii) <u>Interest payment by a government owned firm</u> is a factor payment because the loan was taken by a firm and, so should be included.</p> <p>(No marks if the reason is not given)</p> <p style="text-align: center;"><u>OR</u></p> <p>Given nominal income, we can find real income in the following way :</p> <p>Real income = $\frac{\text{Nominal income}}{\text{Price index}}$</p> <p>(or any alternative mode of presentation)</p> <p>When income earning activities of one do harm or benefit others without any compensation paid or received, such harms and benefits are called 'externalities'. Real national income does not take into account such externalities which do effect welfare of the people negatively or positively as the case may be. Therefore national income alone is not sufficient index of welfare.</p>	<p>2</p> <p>2</p> <p>2</p> <p>2</p> <p>4</p>
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