UP Board Class 12 329 (FE) Economics - 2024 Question Paper with Solutions

Time Allowed : 3 Hours 15 mins	**Maximum Marks :** 100	**Total Questions :** 27

General Instructions

Please read the instructions carefully:

1. All questions are compulsory.
2. Question Numbers 1 to 10 are Multiple Choice Type for which only correct answer should be written in the answer-book. Question Numbers 11 to 18 are Very Short Answer Type, which are to be answered in about 50 words each, Question Numbers 19 to 24 are Short Answer Type, which are to be answered in about 150 words each and Question Numbers 25 to 27 are Long Answer Type, which are to be answered in about 300 words each. [1]
3. Alloted marks of all the questions are given against them.

(Multiple Choice Questions)

1. Choose the correct option, with reference to the following two statements:
Statement I: With an increase in prices in the country, fees in private schools increase.
Statement II: Increase in school fees is unjust.

(1) Statement I and Statement II both are statements of Positive economics.
(2) Statement I and Statement II both are statements of Normative economics.
(3) Statement I is a statement of Positive economics and Statement II is a statement of Normative economics.
(4) Statement I is a statement of Normative economics and Statement II is a statement of Positive economics.

Correct Answer: (3) Statement I is a statement of Positive economics and Statement II is a statement of Normative economics.

Solution:
Step 1: Identify the nature of Statement I.
Statement I describes an observable cause-and-effect relationship between prices and school fees. It is testable and fact-based, so it belongs to **Positive economics**.

Step 2: Identify the nature of Statement II.
Statement II expresses a judgment about fairness ("unjust"), which cannot be tested objectively. It reflects opinions or values, so it belongs to **Normative economics**.

Step 3: Conclusion.
Therefore, Statement I is Positive economics and Statement II is Normative economics.

> Quick Tip
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> **Positive economics** deals with facts and cause-effect relationships, while **Normative economics** deals with opinions, judgments, and what ought to be.

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2. That amount of utility is called marginal utility, which we get from the consumption of:

(1) the first unit
(2) total of all units
(3) an extra unit
(4) the middle unit

Correct Answer: (3) an extra unit.

Solution:
Step 1: Understanding marginal utility.
Marginal utility refers to the additional satisfaction or utility derived from consuming one more unit of a good or service.

Step 2: Conclusion.
Thus, marginal utility is obtained from the consumption of an extra unit.

> Quick Tip
>
> Marginal utility measures the change in total utility from consuming one additional unit of a good or service.

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3. With reference to production, short run is that situation where:

(1) All the means of production can be changed.
(2) All the means of production cannot be changed.
(3) Both (1) and (2) are correct.
(4) Both (1) and (2) are incorrect.

Correct Answer: (2) All the means of production cannot be changed.

Solution:
Step 1: Definition of short run.

In the short run, at least one factor of production (e.g., land or capital) is fixed.

Step 2: Application.
Other factors like labor may vary, but not all inputs can be adjusted.

Step 3: Conclusion.
Hence, the short run is when all factors cannot be changed.

> Quick Tip
>
> In the short run, some factors of production are fixed, making it impossible to adjust all inputs fully.

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4. The supply curve of a firm in the short-run is generally:

(1) U-shaped
(2) Horizontal line
(3) Vertical line
(4) V-shaped

Correct Answer: (1) U-shaped.

Solution:
Step 1: Understanding cost curves.
The U-shape is due to economies of scale at first and diseconomies of scale later.

Step 2: Relation with supply.
In the short run, costs vary accordingly, which reflects in the U-shaped curve.

> Quick Tip
>
> The short-run supply curve is often U-shaped because of the law of variable proportions affecting production costs.

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5. In a planned economy, decisions related to production and distribution are taken by:

(1) Government
(2) Markets
(3) Corporate sector
(4) Price mechanism

Correct Answer: (1) Government.

Solution:
Step 1: Concept of planned economy.
A planned economy relies on central authority for resource allocation.

Step 2: Application.
The government decides what, how, and for whom to produce.

> Quick Tip
>
> In a planned economy, production and distribution are centrally controlled by the government, unlike market economies where decisions are made through supply and demand.

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6. In the Government budget, 'transfer payments' are the payments made by the Government:

(1) On transfer of employees
(2) On purchase of goods or services
(3) Without receiving any goods or services
(4) On purchase of land-property

Correct Answer: (3) Without receiving any goods or services.

Solution:
Step 1: Definition.
Transfer payments are made without any exchange of goods or services.

Step 2: Examples.
These include pensions, subsidies, or unemployment benefits.

> Quick Tip
>
> Transfer payments do not involve direct economic activity but are meant for redistribution of income.

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7. Who recommends demonetization of currency notes to the Government of India?

(1) World Bank
(2) International Monetary Fund
(3) State Bank of India
(4) Reserve Bank of India

Correct Answer: (4) Reserve Bank of India.

Solution:
Step 1: Role of RBI.
The Reserve Bank of India manages the issuance and regulation of currency.

Step 2: Application.
It advises the government on demonetization based on economic needs.

> Quick Tip
>
> The Reserve Bank of India (RBI) is responsible for managing and regulating the issuance of currency in India.

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8. Full employment level of income of an economy is that level of income where:

(1) Labour is in full employment
(2) All means of production are fully employed
(3) Annual income of the economy is 5 trillion dollars
(4) All citizens have sufficient income

Correct Answer: (2) All means of production are fully employed.

Solution:
Step 1: Concept of full employment.
It means all resources, including labor and capital, are used efficiently.

Step 2: Conclusion.
Hence, it occurs when all factors are fully employed.

> Quick Tip
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> Full employment occurs when an economy operates at its highest possible output, utilizing all its resources efficiently.

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9. The Average Propensity to Consume (APC) is measured by:

(1) C/Y
(2) $\Delta C/\Delta Y$
(3) S/Y
(4) $\Delta S/\Delta Y$

Correct Answer: (1) C/Y.

Solution:
Step 1: Formula of APC.
APC is the ratio of total consumption (C) to total income (Y).

Step 2: Conclusion.
Thus, APC = C/Y.

Quick Tip
APC = C/Y; it shows the portion of total income spent on consumption.

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10. Which one of the following is a direct tax?

(1) Custom Duty
(2) Toll Tax
(3) Goods and Services Tax
(4) Corporate Tax

Correct Answer: (4) Corporate Tax.

Solution:
Step 1: Understanding direct tax.
Direct taxes are imposed directly on individuals or firms.

Step 2: Example.
Corporate tax is levied directly on company profits, so it is a direct tax.

Quick Tip
Direct taxes are paid directly to the government by the entity on which they are levied.

(Very Short Answer Type Questions)

11. Explain the meaning of Microeconomics.

Solution:
Microeconomics studies the behavior of individual units such as consumers, firms, and industries. It focuses on demand, supply, and price determination for specific markets, analyzing

how resources are allocated efficiently at the micro level.

> Quick Tip
>
> Microeconomics deals with individual and business decision-making processes, emphasizing how resources are allocated within specific markets.

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12. Draw an 'Indifference curve map'.

Solution:
An indifference curve map consists of multiple indifference curves showing different levels of utility. Each curve represents combinations of two goods that provide the same level of satisfaction to a consumer. The map demonstrates the concept of higher utility with curves further away from the origin.
(Provide a labeled diagram with indifference curves in your answer book.)

> Quick Tip
>
> An indifference curve map shows consumer preferences, with higher curves representing higher satisfaction levels.

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13. Differentiate between normal goods and inferior goods.

Solution:
Normal Goods: Demand for normal goods increases as income rises. For example, branded clothing and luxury goods.
Inferior Goods: Demand for inferior goods decreases as income rises because consumers switch to better alternatives. For example, coarse grains and low-cost substitutes.

> Quick Tip
>
> Normal goods have a positive income elasticity of demand, while inferior goods have a negative income elasticity of demand.

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14. Write the Law of Diminishing Marginal Productivity.

Solution:
The law states that as more units of a variable input (e.g., labor) are added to a fixed input (e.g., capital), the additional output (marginal product) generated from each additional unit of the variable input eventually decreases. This happens due to the limited availability of fixed inputs.

Quick Tip

The Law of Diminishing Marginal Productivity explains why increasing one factor of production beyond a point results in reduced efficiency.

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15. Write the main characteristics of a market economy.

Solution:
Decentralized decision-making: Economic decisions are made by individuals and firms based on supply and demand.
Private property: Resources and production means are privately owned.
Competition: Firms compete to offer better products and services.
Profit motive: Businesses operate to maximize profits.
Minimal government intervention: The government plays a limited role, focusing on regulations and public goods.

Quick Tip

A market economy is characterized by free markets, private ownership, and limited government interference in economic activities.

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16. What do you mean by 'Gross Domestic Product at Factor Cost'?

Solution:
Gross Domestic Product (GDP) at Factor Cost refers to the total monetary value of all goods and services produced within a country's boundaries during a given period, measured at the cost of factors of production, such as wages, rent, and profit. It excludes taxes and subsidies on products.

Quick Tip

GDP at Factor Cost = GDP at Market Price - (Indirect Taxes + Subsidies).

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17. What is the meaning of the 'Paradox of Thrift'?

Solution:
The Paradox of Thrift refers to the situation where an increase in saving by individuals leads to a decline in aggregate demand and economic growth, ultimately reducing overall savings in the economy. This paradox highlights the counterintuitive outcome that saving more can lead

to less income and savings on a macroeconomic scale.

> Quick Tip
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> The Paradox of Thrift suggests that individual thriftiness can negatively impact the overall economy if it reduces consumption and aggregate demand.

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18. Explain the meaning of devaluation and appreciation of currency in the Foreign Exchange market.

Solution:
Devaluation: A deliberate downward adjustment of a country's currency value relative to another currency, usually by the government, to boost exports by making them cheaper and reduce imports by making them costlier.
Appreciation: An increase in the value of a country's currency relative to another currency, often determined by market forces. It makes imports cheaper and exports costlier.

> Quick Tip
>
> Devaluation is a policy measure, while appreciation is driven by market dynamics in a floating exchange rate system.

(Short Answer Type Questions)

19. Show the equilibrium of a consumer with the Indifference Curve Technique.

Solution:
Consumer equilibrium is achieved when the budget line is tangent to the highest attainable indifference curve. This point represents the optimal combination of two goods that maximizes a consumer's satisfaction given their budget constraints.
(Include a diagram showing the budget line and indifference curves.)

> Quick Tip
>
> Equilibrium occurs where the slope of the indifference curve equals the slope of the budget line, i.e., MRS = Price Ratio.

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20. Explain the concepts of 'total fixed cost', 'total variable cost', and 'total cost'.

Solution:
Total Fixed Cost (TFC): Costs that do not vary with output, such as rent and salaries.
Total Variable Cost (TVC): Costs that vary with output, such as raw materials and labor.
Total Cost (TC): The sum of TFC and TVC, i.e., $TC = TFC + TVC$.

> Quick Tip
>
> Fixed costs remain constant irrespective of output, while variable costs increase with production.

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21. Describe the characteristics of a 'Perfectly Competitive Market'.

Solution:
A perfectly competitive market has the following key characteristics:
Large number of buyers and sellers: Each is too small to influence the market price.
Homogeneous products: Goods offered by sellers are identical, with no differentiation.
Free entry and exit: Firms can enter or leave without restrictions.
Perfect knowledge: All participants have complete information about prices and technology.
No government intervention: Prices and output are not controlled by the government.

> Quick Tip
>
> In a perfectly competitive market, firms are price takers, meaning they accept the market price as given and cannot influence it.

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22. Show the 'Circular flow of income' with diagram.

Solution:
The circular flow of income refers to the movement of money between different sectors of the economy. It demonstrates how money flows through two main loops: between firms and households, and between businesses and the government.

Households: Provide factors of production (land, labor, capital) to firms in exchange for income.
Firms: Produce goods and services and sell them to households for revenue.
Government: Collects taxes and redistributes them as subsidies, transfers, and public services.
Foreign Sector: Includes imports and exports, influencing domestic income flow.
(Include a circular flow diagram in your answer book.)

💡 Quick Tip

In a simple circular flow model, income moves from firms to households and then back to firms in the form of consumption expenditure.

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23. Explain the concepts of 'Revenue deficit', 'Fiscal deficit' and 'Primary deficit'.

Solution:
Revenue Deficit: Difference between the government's revenue receipts and revenue expenditure. Indicates borrowing for day-to-day expenses.
Fiscal Deficit: Difference between total expenditure and total revenue (excluding borrowings). Shows overall borrowing needs.
Primary Deficit: Fiscal deficit minus interest payments. Shows borrowing requirements excluding interest burden.

💡 Quick Tip

Revenue Deficit: Revenue Receipts ¡ Revenue Expenditure
Fiscal Deficit: Total Expenditure ¿ Total Revenue
Primary Deficit: Fiscal Deficit - Interest Payments

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24. What do you understand by Balance of Payments? Write the main items of Current account and Capital account related to it.

Solution:
The Balance of Payments (BoP) is a financial statement recording all transactions between a country and the rest of the world. It includes:

Current Account: Covers exports and imports of goods/services, income flows (wages, dividends), and transfers (remittances, aid).
Capital Account: Records purchase/sale of assets, foreign direct investment (FDI), portfolio investment, loans, and reserve assets.

💡 Quick Tip

A balance of payments surplus occurs when a country exports more than it imports, while a deficit happens when imports exceed exports.

(Long answer type Questions)

25. Write the definition of 'central bank'. Describe the various functions of a central bank.

Solution:
The central bank is the apex financial institution responsible for regulating the monetary and banking system of a country. For example, the Reserve Bank of India (RBI) is India's central bank.

Functions of a Central Bank:

1. **Monetary Authority:** Formulates and implements monetary policy.
2. **Currency Issuance:** Sole authority to issue the national currency.
3. **Lender of Last Resort:** Provides liquidity to banks in times of financial distress.
4. **Foreign Exchange Management:** Manages exchange rates and foreign reserves.
5. **Regulator of Banking System:** Ensures the stability and efficiency of banks.
6. **Government's Banker:** Maintains the accounts and handles transactions of the government.

> Quick Tip
>
> The central bank plays a critical role in stabilizing the economy through monetary policies and financial regulation.

OR 25. Show the short-run equilibrium income of an economy with a diagram.

Solution:
In the short run, equilibrium income occurs when aggregate demand (AD) equals aggregate supply (AS). This means that the total quantity of goods and services demanded in the economy is equal to the total quantity of goods and services produced at a certain level of income. The equilibrium level of income is where the AD curve intersects the AS curve.

Diagram Explanation:
The AD curve slopes downward, while the AS curve is upward sloping in the short run. The intersection of the two curves determines the equilibrium income.

> Quick Tip
>
> Equilibrium income in the short run is determined where the aggregate demand equals aggregate supply.

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26. What do you mean by 'long-run' in production? Explain the laws of returns to scale.

Solution:
The 'long-run' in production refers to a time period in which all factors of production can be varied, unlike the short-run where only some factors are fixed. In the long run, firms can adjust their scale of operations and production capacity.

Laws of Returns to Scale:

- **Increasing Returns to Scale:** When output increases by a larger proportion than the increase in inputs.
- **Constant Returns to Scale:** When output increases in the same proportion as the increase in inputs.
- **Decreasing Returns to Scale:** When output increases by a smaller proportion than the increase in inputs.

Diagram Explanation:
A graph showing increasing, constant, and decreasing returns to scale can be used to illustrate this.

Quick Tip

In the long run, firms can adjust all inputs, and the laws of returns to scale describe how output changes with proportionate changes in all inputs.

OR 26. Describe the items of Revenue Budget and Capital Budget of the Government.

Solution:
Revenue Budget: The revenue budget consists of the government's income and expenditure on regular operations.

- **Revenue Receipts:** Taxes (direct and indirect), non-tax revenues, grants, etc.
- **Revenue Expenditure:** Salaries, interest payments, subsidies, pensions, and defense expenses.

Capital Budget: The capital budget relates to long-term investments and financial activities.

- **Capital Receipts:** Loans, borrowings, disinvestment, recovery of loans.
- **Capital Expenditure:** Infrastructure development, machinery, long-term projects, and loan repayments.

Quick Tip

The revenue budget deals with day-to-day operations, while the capital budget is concerned with long-term investments and borrowings.

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27. Describe the types of price elasticity of demand and the factors affecting elasticity of demand.

Solution:
Types of Price Elasticity of Demand:

- **Perfectly Elastic Demand:** A small change in price causes an infinite change in demand (horizontal demand curve).
- **Elastic Demand:** Percentage change in demand is greater than percentage change in price.
- **Unitary Elastic Demand:** Percentage change in demand is equal to percentage change in price.
- **Inelastic Demand:** Percentage change in demand is less than percentage change in price.
- **Perfectly Inelastic Demand:** Demand does not change despite a change in price (vertical demand curve).

Factors Affecting Elasticity of Demand:

- **Availability of Substitutes:** More substitutes make demand more elastic.
- **Necessity vs Luxury:** Necessities have inelastic demand, luxuries have elastic demand.
- **Time Period:** Demand is more elastic in the long run than in the short run.
- **Proportion of Income:** Goods taking a higher share of income have more elastic demand.

Quick Tip

Price elasticity measures responsiveness of demand to price changes. Availability of substitutes, income levels, and the nature of goods strongly affect elasticity.

OR 27. Explain the process of price determination of a commodity in a perfectly competitive market with the help of a diagram.

Solution:
In a perfectly competitive market, the price of a commodity is determined by the interaction of supply and demand. The equilibrium price is set where the demand curve intersects the supply curve. At this price, the quantity demanded equals the quantity supplied.

Diagram Explanation:
The demand curve is downward sloping, and the supply curve is upward sloping. Their intersection determines equilibrium price and quantity. Firms are price takers, meaning they accept the market price as given.

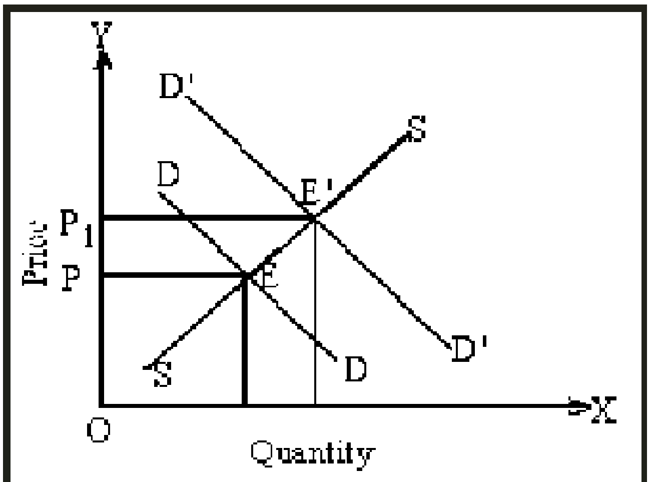

Fig. 6.1 (a)

💡 Quick Tip

In a perfectly competitive market, price is determined by the intersection of market supply and demand, and firms act as price takers.
