UP Board Class 12 329 (FH) Economics - 2024 Question Paper with Solution

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)

Write the correct answers of follwoing questions in your answer book
1. If total utility is maximum, marginal utility will be:
(1) High
(2) Low
(3) Zero
(4) Negative

Correct Answer: (3) Zero

Solution:
Marginal utility refers to the additional utility derived from consuming one more unit of a commodity.
When total utility reaches its maximum, marginal utility becomes zero because there is no additional satisfaction obtained from consuming extra units.

Quick Tip

Marginal utility becomes zero when total utility is at its peak, and negative when total utility starts decreasing.

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2. What is the meaning of Price Elasticity of Demand?

(1) Change in demand due to change in price
(2) Change in demand
(3) Change in real income
(4) Change in price

Correct Answer: (1) Change in demand due to change in price

Solution:
Price Elasticity of Demand measures the responsiveness of quantity demanded to changes in the price of a good or service.
It is expressed as:

$$\text{Price Elasticity of Demand} = \frac{\%\text{Change in Quantity Demanded}}{\%\text{Change in Price}}$$

Quick Tip

Price Elasticity of Demand quantifies how sensitive the demand for a product is to changes in its price.

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3. What is the true condition for consumer's equilibrium?
(1) $\text{MRS}_{XY} = \frac{P_Y}{P_X}$
(2) $\text{MRS}_{XY} = \frac{P_X}{P_Y}$
(3) $\text{MRS}_{XY} = P_X \times P_Y$
(4) $\text{MRS}_{XY} = \frac{1}{P_X \times P_Y}$

Correct Answer: (2) $\text{MRS}_{XY} = \frac{P_X}{P_Y}$

Solution:
The consumer is in equilibrium when the Marginal Rate of Substitution (MRS) between two goods X and Y is equal to the ratio of their prices, i.e., $\frac{P_X}{P_Y}$.
This ensures that the consumer is maximizing utility given their budget constraint.

Quick Tip

The condition for consumer's equilibrium is $\text{MRS}_{XY} = \frac{P_X}{P_Y}$, ensuring optimal allocation of income across goods.

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4. A production function expresses the relationship between:
(1) Cost and Benefit
(2) Stock and Flow
(3) Demand and Supply
(4) Input and Output

Correct Answer: (4) Input and Output

Solution:
A production function shows the relationship between the inputs used in production (such as labor, capital) and the resulting output.
It helps in understanding how efficiently resources are being utilized.

> Quick Tip
>
> A production function maps inputs (like labor and capital) to output, helping firms understand how to optimize production.

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5. Contraction of demand takes place when:
(1) Income of consumers decreases
(2) Price of goods concerned increases
(3) Number of consumers decreases
(4) Price of other related goods increases

Correct Answer: (2) Price of goods concerned increases

Solution:
Contraction of demand refers to a decrease in quantity demanded due to a price increase, as per the law of demand.

> Quick Tip
>
> Contraction of demand occurs when the price of the good rises, leading to a decrease in quantity demanded.

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6. Three methods of computing National Income are:
(1) Production, Expenditure and Income methods
(2) Balance of Payments, Income and Consumption methods
(3) Saving, Investment and Income methods
(4) Outlay, Depreciation and Production methods

Correct Answer: (1) Production, Expenditure and Income methods

Solution:
National Income can be calculated using three methods:
1. Production Method (Value-added approach)
2. Expenditure Method
3. Income Method (Factor income approach)

Quick Tip

The three primary methods to calculate National Income are Production, Expenditure, and Income methods.

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7. Which Bank controls the banking and monetary structure of India?
(1) State Bank of India
(2) Reserve Bank of India
(3) Punjab National Bank
(4) Axis Bank

Correct Answer: (2) Reserve Bank of India

Solution:
The Reserve Bank of India (RBI) is responsible for regulating the banking sector, managing monetary policy, and maintaining financial stability in India.

Quick Tip

The Reserve Bank of India is the central authority for monetary policy, currency issuance, and banking regulation in India.

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8. When Government spends more than its revenue collection, such excess is known as:
(1) Primary deficit
(2) Fiscal deficit
(3) Budgetary deficit
(4) Revenue deficit

Correct Answer: (2) Fiscal deficit

Solution:
Fiscal deficit occurs when the total government expenditure exceeds its total revenue collection, excluding borrowings.

Quick Tip

Fiscal deficit is a key measure of a country's total borrowing requirements from all sources.

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9. If the marginal propensity to consume is 0.75, the value of the investment multiplier would be:
(1) 4
(2) 3
(3) 2
(4) 1

Correct Answer: (1) 4

Solution:
The investment multiplier is calculated using the formula:

$$\text{Investment Multiplier} = \frac{1}{1 - \text{MPC}} = \frac{1}{1 - 0.75} = 4$$

> Quick Tip
>
> The investment multiplier is greater when the marginal propensity to consume is high.

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10. To reduce deficit in the balance of payments of a country, what requirement(s) is/are needed?
(1) Increase its exports
(2) Decrease its imports
(3) Devaluate its currency
(4) All of these

Correct Answer: (4) All of these

Solution:
To reduce the deficit in the balance of payments, a country can take several actions, including increasing exports, decreasing imports, and devaluating its currency to make exports more competitive.

> Quick Tip
>
> A combination of increasing exports, reducing imports, and currency devaluation can help reduce a balance of payments deficit.

Very Short Answer Type Questions:
11. What do you understand by Micro-Economics?
Solution:
Microeconomics deals with the study of individual economic agents, such as households, firms,

and industries, and how they make decisions regarding the allocation of resources and the pricing of goods and services.

Quick Tip
Microeconomics focuses on the behavior of individual economic agents and markets.

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12. What is Normative Economics?
Solution:
Normative economics involves value judgments and opinions about what ought to be, and it is concerned with issues of fairness, equality, and the welfare of society.
It suggests what should be done based on subjective views.

Quick Tip
Normative economics focuses on what should be, based on personal opinions and values.

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13. What is the law of diminishing utility?
Solution:
The law of diminishing marginal utility states that as a person consumes more units of a good, the additional satisfaction (marginal utility) derived from each additional unit decreases.

Quick Tip
The law of diminishing utility means that each additional unit consumed provides less satisfaction than the previous one.

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14. What is market demand curve?
(1) The curve showing the total demand for a good at different prices
(2) The curve showing the quantity of a good demanded by one individual at various prices
(3) The curve showing the supply of a good at various prices
(4) The curve showing the price of a good at various quantities

Correct Answer: (1) The curve showing the total demand for a good at different prices

Solution:
A market demand curve shows the relationship between the price of a good and the quantity demanded by all consumers in the market at different prices.

Quick Tip

The market demand curve is the horizontal summation of all individual demand curves.

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15. Define National Income at factor cost.

Solution:

National Income at factor cost refers to the total income earned by the factors of production (labor, land, capital, and entrepreneurship) in the country, without considering taxes or subsidies.

Quick Tip

National Income at factor cost is the income generated from the factors of production before adjusting for taxes and subsidies.

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16. What do you understand by Revenue Deficit?

Solution:

Revenue deficit occurs when the government's total revenue collection is less than its total expenditure on revenue account, i.e., excluding capital expenditure.

Quick Tip

Revenue deficit highlights the shortfall between government income and expenditure, excluding capital costs.

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17. What is involuntary unemployment?

Solution:

Involuntary unemployment occurs when individuals are willing to work at the prevailing wage rate but cannot find jobs.

Quick Tip

Involuntary unemployment arises due to a lack of job opportunities despite people being willing to work.

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18. What is Government budget?

Solution:

The government budget is a financial statement that outlines the estimated revenue and planned expenditure of the government for a specific period, typically a year.

Quick Tip

The government budget is a tool for planning and controlling public finances.

Short Answer Type Questions:
19. Differentiate between cardinal and ordinal measurements of utility.
Solution:
- **Cardinal Utility:** Measures utility in numerical terms (e.g., utils) and assumes that the consumer can quantify satisfaction.
- **Ordinal Utility:** Measures utility in terms of preference ranking, where the consumer ranks goods in order of preference without assigning numerical values.

Quick Tip

Cardinal utility assigns numerical values to satisfaction, while ordinal utility only ranks preferences.

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20. What do you understand by substitute goods and complementary goods?
Solution:
- **Substitute Goods:** Goods that can replace each other, such as tea and coffee.
- **Complementary Goods:** Goods that are used together, such as printers and ink cartridges.

Quick Tip

Substitute goods can replace each other, while complementary goods are used together.

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21. What do you understand by law of variable proportion?
Solution:
The law of variable proportion states that when one factor of production is increased, keeping others constant, the total output initially increases at an increasing rate, then at a diminishing rate.

Quick Tip

The law of variable proportion refers to the short-run effect of changing one input while keeping others constant.

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22. Explain fixed exchange rate.

Solution:

A fixed exchange rate system is one where the value of a country's currency is pegged or tied to another major currency (e.g., the US dollar) or a basket of currencies.

> Quick Tip
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> Under fixed exchange rates, a government or central bank intervenes to maintain the currency's value relative to another currency.

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23. What do you understand by Current Account and Capital Account?

Solution:

The Balance of Payments (BOP) of a country consists of two main accounts: the Current Account and the Capital Account.

- **Current Account:** Records the flow of goods, services, income, and current transfers. It includes:
- Trade Balance: Exports and imports of goods and services.
- Income Transfers: Earnings on investments abroad (e.g., dividends, interest) and payments made to foreign investors.
- Current Transfers: Remittances, foreign aid, and other transfers.

- **Capital Account:** Records the flow of capital (financial transactions) into and out of a country. It includes:
- Foreign Direct Investment (FDI): Investment by foreign entities in the country's businesses or assets.
- Foreign Portfolio Investment (FPI): Investment in the country's stocks and bonds.
- Loans and Borrowings: Money lent or borrowed from foreign countries.

> Quick Tip
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> The current account focuses on the flow of goods, services, and transfers, while the capital account tracks investments and financial transactions.

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24. What is the ex-ante investment?

Solution:

- Ex-ante investment refers to the investment that is planned or anticipated before any actual spending is made.
- It is based on forecasts or expectations about future income, growth, and economic conditions.
- It represents the desired level of investment that firms or individuals intend to make in an economy, based on their expectations about future profits, interest rates, and economic policies.

Quick Tip

Ex-ante investment is the planned or anticipated investment, as opposed to ex-post investment, which is the actual investment made.

Long Answer Type Questions:
25. What is the law of equimarginal utility? Explain the law of equimarginal utility of consumer equilibrium.
Solution:
The Law of Equimarginal Utility states that a consumer will allocate their income in such a way that the marginal utility (MU) derived from each good or service purchased is equal, given the prices of those goods.
In simpler terms, consumers maximize their total utility by spending their money in a way that the last unit of currency spent on each good provides the same level of marginal utility.

- Consumer Equilibrium:
The consumer reaches equilibrium when the ratio of the marginal utility to price is equal for all goods. This condition can be mathematically expressed as:

$$\frac{MU_X}{P_X} = \frac{MU_Y}{P_Y} = \cdots = \frac{MU_n}{P_n}$$

This means that the consumer will distribute their budget so that the marginal utility per rupee spent on each good is equal across all goods.

Quick Tip

The law of equimarginal utility helps in determining how a rational consumer allocates their budget across goods to maximize total utility.

OR 25. What is an isoquant curve? Use isoquant curves to demonstrate producer's equilibrium.
Solution:
An Isoquant curve is a graphical representation of all the combinations of two factors of production (such as labor and capital) that produce the same level of output.
It is similar to an indifference curve, but instead of showing combinations of goods that give the same level of satisfaction to a consumer, it shows combinations of inputs that result in the same level of output for a producer.

- Producer's Equilibrium:
Producer's equilibrium occurs when a firm achieves maximum production efficiency with a given set of inputs. The producer's equilibrium can be determined using the Isoquant curve and the Isocost line.
1. Isoquant Curve: Represents all the possible combinations of factors of production that yield a given level of output.

2. Isocost Line: Represents all the combinations of factors of production that cost the same amount. The slope of the isocost line is determined by the ratio of the prices of the factors of production.

The producer's equilibrium is attained at the point where the Isoquant curve is tangent to the Isocost line. At this point, the firm is using its resources most efficiently, and any change in the combination of resources would lead to a higher cost for the same level of output.

> Quick Tip
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> Producer's equilibrium is found where the Isoquant curve is tangent to the Isocost line, ensuring that the producer is using resources efficiently and minimizing costs.

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26. What do you understand by cost? Define Total Cost, Average Cost and Marginal Cost with diagram.
Solution:
In economics, the term 'cost' refers to the expenditure incurred by a firm in the process of production. It involves the total money spent on purchasing resources like labor, raw materials, machinery, etc.

- **Total Cost (TC):** The total cost incurred in producing a given level of output. It is the sum of total fixed costs (TFC) and total variable costs (TVC):

$$TC = TFC + TVC$$

- **Average Cost (AC):** The cost per unit of output, calculated by dividing the total cost by the quantity of output:

$$AC = \frac{TC}{Q}$$

- **Marginal Cost (MC):** The additional cost incurred by producing one more unit of output. It is calculated as the change in total cost when output is increased by one unit:

$$MC = \frac{\Delta TC}{\Delta Q}$$

> Quick Tip
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> Total Cost is the sum of all costs (fixed and variable), Average Cost is the per-unit cost, and Marginal Cost is the cost of producing one more unit of output.

OR 26. What do you mean by credit-creation? Explain the various measures of credit control.
Solution:
- **Credit Creation:** Refers to the process through which commercial banks create credit or money by lending out a portion of the deposits they receive. When a bank lends money, it does not reduce the money supply; instead, it creates new credit in the form of loans, which adds to

the money circulating in the economy.

- **Measures of Credit Control:** 1. **Open Market Operations (OMO):** The buying and selling of government securities in the open market by the central bank to regulate the money supply.
2. **Cash Reserve Ratio (CRR):** The minimum amount of reserves that commercial banks are required to hold with the central bank. Increasing CRR limits credit creation.
3. **Bank Rate Policy:** The rate at which the central bank lends to commercial banks. A higher bank rate makes borrowing more expensive and limits credit creation.
4. **Statutory Liquidity Ratio (SLR):** The percentage of a commercial bank's net demand and time liabilities that it must maintain in the form of liquid assets like cash, gold, or government securities.

Quick Tip

Credit-creation is the ability of commercial banks to generate new money through lending. The central bank controls this through tools like CRR, bank rate, and open market operations.

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27. Discuss the relationship between National Income and Economic Welfare.
Solution:
National income and economic welfare are closely related, but they are not synonymous.

- **National Income (NI):** Represents the total value of all goods and services produced within a country over a specific period. It includes income generated from production, including wages, profits, and rents.
- **Economic Welfare:** Refers to the well-being of individuals in the economy, which is determined by factors such as income distribution, availability of goods and services, and quality of life.

- **Positive Relationship:** As national income increases, the economy can afford to improve public services, infrastructure, and healthcare, which can improve overall welfare.
- **Limitations:** However, an increase in national income does not automatically lead to better welfare. The distribution of income is also important. If income is concentrated in the hands of a few, it may not improve the welfare of the majority.

Quick Tip

National income measures the total economic output, while economic welfare depends on how the income is distributed and the quality of life, not just the quantity of income.

OR 29. Clarify the difference between Micro- and Macro-Economics.

Solution:
- **Microeconomics:** This branch of economics deals with the behavior and decision-making of individual units, such as households, firms, or industries. It focuses on how these entities interact in specific markets and how their decisions affect supply and demand, pricing, and resource allocation. Key concepts include elasticity, utility, and market structures.

- **Macroeconomics:** Looks at the economy as a whole. It examines aggregate variables like national income, inflation, unemployment, and economic growth. Macroeconomics focuses on understanding broad economic trends and policy-making at the national and global levels, such as fiscal policy, monetary policy, and international trade.

The key difference is that microeconomics focuses on individual markets and agents, while macroeconomics looks at the economy-wide phenomena.

Quick Tip

Microeconomics focuses on individual markets and decision-making, while macroeconomics looks at the economy in aggregate terms, such as national income and inflation.
