CBSE Class 12 Economics (Set 2 – Code 58/2/2) 2026 Question Paper with Solution

Time Allowed :3 Hours	**Maximum Marks :**80	**Total questions :**34

General Instructions

Read the following instructions very carefully and strictly follow them:

1. This question paper contains **34 questions** in two sections.
2. **Section A (Macro Economics):** Questions 1 to 17.
3. **Section B (Indian Economic Development):** Questions 18 to 34.
4. Questions 1–10 and 18–27 are **1-mark MCQs**.
5. Questions 11–12 and 28–29 are **3-mark Short Answer** questions (60–80 words).
6. Questions 13–15 and 30–32 are **4-mark Short Answer** questions (80–100 words).
7. Questions 16–17 and 33–34 are **6-mark Long Answer** questions (100–150 words).

Section A – Macro Economics

1. Identify which of the following is a 'Stock' variable:

(A) Monthly Salary of a teacher

(B) Distance between Delhi and Mumbai

(C) Annual Interest on savings

(D) Quantity of wheat produced in a year

Correct Answer: (B) Distance between Delhi and Mumbai

Solution:

Step 1: Understanding the Concept:

Variables in economics are classified as either Stock or Flow depending on whether they are measured at a point in time or over a period of time.

Step 2: Detailed Explanation:

A **Stock** variable is measured at a particular point in time and has no time dimension. A **Flow** variable is measured over a period of time (per day, per month, per year).

- Monthly Salary: measured per month – it is a **Flow**.
- Distance between Delhi and Mumbai: this is a fixed quantity measured at a point – it is a **Stock**.
- Annual Interest: measured per year – it is a **Flow**.
- Quantity of wheat produced in a year: measured over a year – it is a **Flow**.

Step 3: Final Answer:

Distance between Delhi and Mumbai is a **Stock** variable.

Quick Tip

Stock is measured at a point in time (e.g., wealth, population, water in a tank). Flow is measured over a period of time (e.g., income, production, expenditure).

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2. If $MPC = 0.5$, what will be the value of the Investment Multiplier (K)?

(A) 1

(B) 2

(C) 4

(D) 5

Correct Answer: (B) 2

Solution:

Step 1: Understanding the Concept:

The Investment Multiplier (K) shows by how many times the national income increases for every unit increase in investment. It is directly related to the MPC.

Step 2: Detailed Explanation:

The formula for the Investment Multiplier is:

$$K = \frac{1}{1 - MPC}$$

Substituting the given value:

$$K = \frac{1}{1 - 0.5} = \frac{1}{0.5} = 2$$

Step 3: Final Answer:

The value of the Investment Multiplier $K = \mathbf{2}$.

Quick Tip

Since $MPS = 1 - MPC$, the multiplier formula can also be written as $K = \frac{1}{MPS}$. Higher the MPC, higher the Multiplier, and vice versa.

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3. Assertion (A): APC can be greater than 1.

Reason (R): At very low levels of income, consumption can exceed income.

(A) Both A and R are true and R is the correct explanation.

(B) Both A and R are true but R is not the explanation.

(C) A is true, R is false.

(D) A is false, R is true.

Correct Answer: (A) Both A and R are true and R is the correct explanation.

Solution:

Step 1: Understanding the Concept:

APC (Average Propensity to Consume) is defined as the ratio of Total Consumption to Total Income: $APC = \frac{C}{Y}$.

Step 2: Detailed Explanation:

When income is very low, people still need to spend on basic necessities (food, shelter). In such cases, consumption (C) can exceed income (Y), making $APC = \frac{C}{Y} > 1$. This situation is called **Dissaving**, where past savings or borrowings are used to finance consumption. The Reason correctly and completely explains the Assertion.

Step 3: Final Answer:

Both A and R are true, and R is the correct explanation of A.

> **Quick Tip**
>
> $APC > 1$ implies dissaving. $APC = 1$ means all income is consumed. $APC < 1$ means a part of income is saved. APC can never be zero or negative.

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4. Supply of money refers to:

(A) Stock of money with the government.

(B) Stock of money with the banking system.

(C) Stock of money with the public at a point in time.

(D) Total gold reserves in the country.

Correct Answer: (C) Stock of money with the public at a point in time.

Solution:

Step 1: Understanding the Concept:

Money Supply is a macroeconomic variable that refers to the total amount of monetary assets available in an economy at a specific time.

Step 2: Detailed Explanation:

The supply of money (also called Money Stock) is defined as the total stock of money held by the public (households and firms) at a given point in time. It includes currency (notes and coins) in circulation and demand deposits with commercial banks. Money held by the government or central bank itself is not included.

Step 3: Final Answer:

Supply of money refers to the **Stock of money with the public at a point in time**.

> **Quick Tip**
>
> The most commonly used measure is M_1 (Narrow Money) = Currency with public + Demand Deposits. M_3 (Broad Money) additionally includes time deposits with banks.

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5. Purchase of a car by a household is an example of:

(A) Capital formation

(B) Intermediate consumption

(C) Final consumption

(D) Inventory investment

Correct Answer: (C) Final consumption

Solution:

Step 1: Understanding the Concept:

In National Income Accounting, expenditure is classified based on who buys the good and what purpose it serves.

Step 2: Detailed Explanation:

- **Final Consumption:** Goods and services purchased by households for personal use.
- **Capital Formation:** Purchase of capital goods by a firm for productive use.
- **Intermediate Consumption:** Goods used in the production of other goods.

A car purchased by a **household** is for personal, final use, not for resale or production. Hence it is classified as **Final Consumption Expenditure** (Private Final Consumption Expenditure).

Note: If the same car were purchased by a firm for use in production, it would be Capital Formation.

Step 3: Final Answer:

Purchase of a car by a household is an example of **Final Consumption**.

> **Quick Tip**
>
> The key distinction is the *buyer*: Households buy for Final Consumption; Firms buy capital goods for Capital Formation.

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6. Which of the following is NOT a function of the Central Bank?

(A) Issue of currency

(B) Banker to the Government

(C) Accepting deposits from the general public

(D) Custodian of foreign exchange

Correct Answer: (C) Accepting deposits from the general public

Solution:

Step 1: Understanding the Concept:

The Central Bank (RBI in India) is the apex monetary institution and its functions are distinct from those of Commercial Banks.

Step 2: Detailed Explanation:

The Central Bank's functions include: Issue of currency notes, acting as a Banker to the Government, acting as a Banker's Bank, acting as a Custodian of foreign exchange reserves, and controlling credit in the economy.

Accepting deposits from the general public is a function of **Commercial Banks**, not the Central Bank. The Central Bank only accepts deposits from commercial banks and the government.

Step 3: Final Answer:

Accepting deposits from the general public is NOT a function of the Central Bank.

Quick Tip

Central Bank deals with banks and the government (it is a "Banker's Bank"). Commercial Banks deal with the general public (households and firms).

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7. When the exchange rate of domestic currency rises in a managed floating system, it is called:

(A) Devaluation

(B) Depreciation

(C) Appreciation

(D) Revaluation

Correct Answer: (C) Appreciation

Solution:

Step 1: Understanding the Concept:

Changes in the value of a currency are described by different terms depending on whether the exchange rate system is fixed or flexible.

Step 2: Detailed Explanation:

- **Appreciation:** Rise in the value of domestic currency under a *flexible/floating* exchange rate system (market-driven).
- **Depreciation:** Fall in the value of domestic currency under a flexible system.
- **Revaluation:** Rise in the value of domestic currency under a *fixed* exchange rate system (government/authority decision).
- **Devaluation:** Fall in the value of domestic currency under a fixed system.

In a **managed floating system**, the market primarily determines the rate, so a rise in the exchange rate of domestic currency is called **Appreciation**.

Step 3: Final Answer:

A rise in the exchange rate of domestic currency in a managed floating system is called **Appreciation**.

> Quick Tip
>
> Mnemonic: **F**ixed system $\rightarrow$ **R**evaluation / **D**evaluation (Government decides). **F**loating system $\rightarrow$ **A**ppreciation / **D**epreciation (Market decides).

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8. "Unilateral Transfers" are recorded in which account of BOP?

(A) Capital Account

(B) Current Account

(C) Errors and Omissions

(D) None of these

Correct Answer: (B) Current Account

Solution:

Step 1: Understanding the Concept:

The Balance of Payments (BOP) is a systematic record of all economic transactions between residents of a country and the rest of the world. It has two main accounts: Current Account and Capital Account.

Step 2: Detailed Explanation:

Unilateral Transfers are one-sided transactions with no quid pro quo (no reciprocal transaction). Examples include: gifts, remittances sent by Indians working abroad, grants from foreign governments, and foreign aid.

These are recorded in the **Current Account** of the BOP under the sub-head "Transfers". The Current Account records trade in goods (Visible), trade in services (Invisible), and unilateral transfers.

Step 3: Final Answer:

"Unilateral Transfers" are recorded in the **Current Account** of BOP.

> **Quick Tip**
>
> Current Account = Visible Trade (Goods) + Invisible Trade (Services) + Unilateral Transfers. Capital Account = Foreign Investments + Loans + Banking Capital + Reserves.

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9. If the Legal Reserve Ratio (LRR) is 20$\%$, the Money Multiplier will be:

(A) 2

(B) 5

(C) 10

(D) 20

Correct Answer: (B) 5

Solution:

Step 1: Understanding the Concept:

The Money Multiplier shows how much the money supply increases for every unit of primary deposit in the banking system. It is inversely related to the Legal Reserve Ratio (LRR).

Step 2: Detailed Explanation:

The formula for the Money Multiplier is:

$$\text{Money Multiplier} = \frac{1}{LRR}$$

Given: $LRR = 20\% = 0.20$

$$\text{Money Multiplier} = \frac{1}{0.20} = \mathbf{5}$$

This means for every 1 of initial deposit, the banking system can create 5 of total money supply.

Step 3: Final Answer:

The Money Multiplier = **5**.

> **Quick Tip**
>
> Higher the LRR, lower the Money Multiplier and lower the credit creation. The Central Bank uses LRR (CRR + SLR) as a tool to control money supply in the economy.

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10. Identify the correct statement:

(A) Revenue deficit includes capital receipts.

(B) Fiscal deficit is the difference between total expenditure and total receipts excluding borrowings.

(C) Primary deficit includes interest payments.

(D) Tax is a non-debt creating capital receipt.

Correct Answer: (B) Fiscal deficit is the difference between total expenditure and total receipts excluding borrowings.

Solution:

Step 1: Understanding the Concept:

Government budget deficits are categorized into Revenue Deficit, Fiscal Deficit, and Primary Deficit. Each has a specific formula.

Step 2: Detailed Explanation:

Let us evaluate each option:

- (A) *Incorrect.* Revenue deficit = Revenue Expenditure – Revenue Receipts. It does not include capital receipts.
- (B) *Correct.* Fiscal Deficit = Total Expenditure – Total Receipts (excluding borrowings). It shows the total borrowing requirement of the government.
- (C) *Incorrect.* Primary Deficit = Fiscal Deficit – **Interest Payments**. It *excludes* interest payments.
- (D) *Incorrect.* Tax is a **Revenue Receipt**, not a capital receipt. Non-debt creating capital receipts are items like disinvestment.

Step 3: Final Answer:

The correct statement is (B): Fiscal deficit is the difference between total expenditure and total receipts excluding borrowings.

Quick Tip

Key Formulas: Fiscal Deficit = Total Expenditure – Revenue Receipts – Non-debt Capital Receipts. Primary Deficit = Fiscal Deficit – Interest Payments.

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11. Calculate 'Compensation of Employees' (COE) from the following data :

Items	**(in Crore)**
(i) GDP_{MP}	600
(ii) Consumption of Fixed Capital	40
(iii) Net Indirect Taxes (NIT)	30
(iv) Operating Surplus	200
(v) Mixed Income of Self-Employed	120

Correct Answer: COE = 210 Crore

Solution:

Step 1: Understanding the Concept:

Under the Income Method of calculating National Income, NDP_{FC} is the sum of all factor incomes: Compensation of Employees, Operating Surplus, and Mixed Income of Self-Employed.

Step 2: Key Formula or Approach:

$$NDP_{FC} = GDP_{MP} - \text{Depreciation (CFC)} - \text{NIT}$$

$$NDP_{FC} = \text{COE} + \text{Operating Surplus} + \text{Mixed Income}$$

Step 2: Detailed Explanation:

Step 1 – Find NDP_{FC}:

$$NDP_{FC} = GDP_{MP} - \text{CFC} - \text{NIT} = 600 - 40 - 30 = \ 530 \text{ Crore}$$

Step 2 – Apply Income Method Formula:

$$NDP_{FC} = \text{COE} + \text{Operating Surplus} + \text{Mixed Income}$$

$$530 = \text{COE} + 200 + 120$$

$$\text{COE} = 530 - 320 = \ 210 \text{ Crore}$$

Step 3: Final Answer:

Compensation of Employees (COE) = 210 Crore.

Quick Tip

Remember: $GDP_{MP} - CFC = NNP_{MP}$. Then $NNP_{MP} - NIT = NNP_{FC} = NDP_{FC}$. This is the starting point for the Income Method.

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12. Explain the 'Store of Value' function of money.

Correct Answer:

Solution:

Step 1: Understanding the Concept:

Money performs four key functions: Medium of Exchange, Measure of Value, Store of Value, and Standard of Deferred Payment. The Store of Value function relates to money's ability to preserve purchasing power over time.

Step 2: Detailed Explanation:

Money acts as a **Store of Value** because it can be used to transfer purchasing power from the present to the future. Unlike perishable goods (like vegetables or fruits), money is durable and its storage cost is negligible. A person can save money earned today and use it to purchase goods and services at a later date. This function is essential for capital formation and financial planning. However, during periods of high inflation, money loses its effectiveness as a store of value since its purchasing power erodes.

Step 3: Final Answer:

Money acts as a store of value by allowing individuals to preserve purchasing power across time, facilitating savings and capital formation.

> Quick Tip
>
> Money is not the only store of value – gold, land, and bonds also serve this function. However, money is the most *liquid* store of value, meaning it can be converted to other goods most easily.

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13. Distinguish between 'Involuntary Unemployment' and 'Voluntary Unemployment'.

Correct Answer:

Solution:

Step 1: Understanding the Concept:

Unemployment is a condition where able-bodied persons who are willing to work at the existing wage rate are unable to find a job. However, not all non-working individuals are considered unemployed in economic terms.

Step 2: Detailed Explanation:

Involuntary Unemployment:

A situation where able-bodied people who are *willing* to work at the prevailing wage rate *cannot* find employment. It arises due to lack of job opportunities in the economy. It is a genuine concern for policymakers and is counted in unemployment statistics.

Voluntary Unemployment:

A situation where a person is technically able to work but *chooses not to* work at the existing wage rate, perhaps because they find the wage too low or are waiting for a better opportunity. They are not considered unemployed in the official count.

Key Difference: Involuntary unemployment is caused by market failure; voluntary unemployment is a personal choice.

Step 3: Final Answer:

Involuntary unemployment is when willing workers cannot find jobs; Voluntary unemployment is when able workers choose not to work at the current wage.

> Quick Tip
>
> In Keynesian economics, the focus is on eliminating *Involuntary* unemployment through fiscal and monetary policy. Voluntary unemployment is generally not addressed by policy.

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14. Distinguish between 'Revenue Receipts' and 'Capital Receipts' in a Government Budget.

Correct Answer:

Solution:

Step 1: Understanding the Concept:

Government receipts are the funds that flow into the government's treasury. They are broadly divided into Revenue Receipts and Capital Receipts based on their impact on assets and liabilities.

Step 2: Detailed Explanation:

Revenue Receipts: These are receipts that *neither create a liability* for the government *nor lead to any reduction in assets*. They are recurring in nature.

Examples: Tax Revenue (Income Tax, GST), Non-Tax Revenue (Fines, Fees, Dividends from PSUs).

Capital Receipts: These are receipts that *either create a liability* (e.g., Borrowings) *or cause a reduction in assets* of the government (e.g., Disinvestment – sale of shares of PSUs). Examples: Borrowings from RBI, market loans, recovery of loans given.

Key Difference: Revenue Receipts do not alter the government's asset-liability position; Capital Receipts do.

Step 3: Final Answer:

Revenue Receipts do not create liability or reduce assets; Capital Receipts either create liability or reduce assets of the government.

> **Quick Tip**
>
> Simple test: Ask "Does this receipt create a future obligation (liability) or sell off a government asset?" If yes $\rightarrow$ Capital Receipt. If no $\rightarrow$ Revenue Receipt.

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15. Explain the concept of 'Deflationary Gap' with the help of a diagram.

Correct Answer:

Solution:

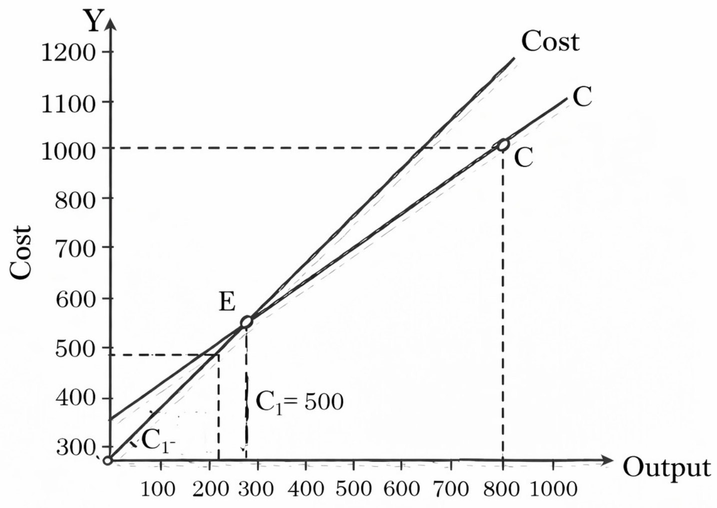
Step 1: Understanding the Concept:

In Keynesian economics, full employment is not automatically guaranteed. When Aggregate Demand is insufficient to generate full employment output, an output gap arises.

Step 2: Detailed Explanation:

A **Deflationary Gap** (also called a Recessionary Gap) refers to the *shortfall in Aggregate Demand (AD)* relative to the level of Aggregate Demand required to maintain full employment equilibrium.

In the diagram below, the 45 line represents the full employment level. AD_{FE} is the required AD for full employment, and AD_A is the actual (lower) AD. The vertical distance between AD_{FE} and AD_A at the full employment level of income is the Deflationary Gap. This results in less output, income, and employment than the potential, causing deflation and recession.



Step 3: Final Answer:

Deflationary Gap = Shortfall in Aggregate Demand at the full employment level, leading to a fall in output, income, and employment.

> **Quick Tip**
>
> Deflationary Gap is cured by *expansionary* fiscal policy (increase government spending, reduce taxes) to boost Aggregate Demand up to the full employment level.

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16. Explain the 'Banker to the Government' function of the Central Bank.

Correct Answer:

Solution:

Step 1: Understanding the Concept:

As the apex institution of the monetary system, the Central Bank (RBI in India) performs a vital role in supporting the functioning of the government, just like a commercial bank manages the financial needs of its clients.

Step 2: Detailed Explanation:

As a **Banker to the Government**, the Central Bank performs three key roles:

1. Banking Function: The Central Bank maintains accounts of both the Central and State

Governments. It accepts deposits, makes payments, and carries out the remittance of funds on behalf of the government.

2. Agent Function: It manages the Public Debt of the Government. It is responsible for issuing new loans (Treasury Bills, Government Securities), managing existing ones, and organizing their repayment.

3. Advisor Function: It acts as a financial advisor to the government on critical economic matters such as controlling inflation, formulating exchange rate policy, managing fiscal deficits, and deficit financing.

Step 3: Final Answer:

The Central Bank acts as banker, agent, and financial advisor to the government, managing its accounts, public debt, and providing monetary policy counsel.

Quick Tip

The three roles are easy to remember: **B-A-A** = **B**anker (manages accounts), **A**gent (manages public debt), **A**dvisor (gives financial advice).

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17. Explain the process of 'Credit Creation' by Commercial Banks with a numerical example.

Correct Answer:

Solution:

Step 1: Understanding the Concept:

Commercial Banks have the unique ability to create credit (money) far in excess of their primary deposits. This is possible because banks are required to keep only a fraction (LRR) of deposits as reserves, lending out the rest.

Step 2: Detailed Explanation:

Numerical Example: Suppose Initial Deposit = 1,000 and $LRR = 10\%$.

Round	New Deposit ()	Reserve @ 10% ()	New Loan ()
1	1,000	100	900
2	900	90	810
3	810	81	729
...	...	...	...

This process continues infinitely until all reserves are used.

Total Deposits (Money) Created:

$$\text{Total Deposits} = \text{Initial Deposit} \times \frac{1}{LRR} = 1,000 \times \frac{1}{0.1} = \textbf{10,000}$$

Thus, an initial deposit of 1,000 leads to a total money supply of 10,000 in the banking system.

Step 3: Final Answer:

Commercial Banks create 10,000 of total deposits from an initial deposit of 1,000 with an LRR of 10%, using the credit multiplier process.

> **Quick Tip**
>
> Credit Creation is limited by two things: (1) The LRR set by the Central Bank, and (2) The willingness of people to keep money in the bank rather than as cash.

Section B – Indian Economic Development

18. In which year was the first Five-Year Plan started in India?

(A) 1948

(B) 1950

(C) 1951

(D) 1956

Correct Answer: (C) 1951

Solution:

Step 1: Understanding the Concept:

After independence, India adopted a planned economy model with Five-Year Plans to guide the allocation of resources and development priorities.

Step 2: Detailed Explanation:

The **First Five-Year Plan** was launched in **1951** by the Planning Commission of India, under the chairmanship of Prime Minister Jawaharlal Nehru. It covered the period 1951–56 and primarily focused on agricultural development and rehabilitation of refugees. It was based on the **Harrod-Domar model** of growth.

Step 3: Final Answer:

The First Five-Year Plan was started in **1951**.

> Quick Tip
>
> The Second Five-Year Plan (1956–61) focused on heavy industries (Mahalanobis model). The 12th Five-Year Plan (2012–17) was the last one; thereafter, NITI Aayog replaced the Planning Commission.

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19. The architect of Indian Planning was:

(A) Jawaharlal Nehru

(B) P.C. Mahalanobis

(C) V.K.R.V. Rao

(D) Manmohan Singh

Correct Answer: (B) P.C. Mahalanobis

Solution:

Step 1: Understanding the Concept:

India's planned development strategy was shaped by leading economists and statisticians who provided the intellectual framework for Five-Year Plans.

Step 2: Detailed Explanation:

Prof. Prasanta Chandra Mahalanobis is widely regarded as the **Architect of Indian**

Planning. He was the founder of the Indian Statistical Institute (ISI) and designed the famous **Mahalanobis Model** (two-sector model) that formed the basis of the **Second Five-Year Plan (1956–61)**, which emphasized rapid industrialization through heavy industries.

Step 3: Final Answer:

P.C. Mahalanobis is known as the Architect of Indian Planning.

> Quick Tip
>
> P.C. Mahalanobis is also known as the "Father of Indian Statistics". The National Statistics Day is celebrated on his birthday, June 29.

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20. When were the economic reforms (New Economic Policy) introduced in India?

(A) 1985

(B) 1991

(C) 1999

(D) 2001

Correct Answer: (B) 1991

Solution:

Step 1: Understanding the Concept:

India's pre-1991 economy was characterized by a License Raj, heavy government intervention, and a closed economy. A severe balance of payments crisis forced India to restructure its economic policy.

Step 2: Detailed Explanation:

In **1991**, under Finance Minister Dr. Manmohan Singh and PM P.V. Narasimha Rao, India introduced the **New Economic Policy (NEP)** comprising three major pillars:

- **Liberalisation:** Removing restrictions on industries and trade.
- **Privatisation:** Disinvestment of Public Sector Undertakings.
- **Globalisation:** Opening up the economy to foreign trade and investment.

This policy was partly driven by conditionalities attached to an IMF loan to tide over the

1991 foreign exchange crisis.

Step 3: Final Answer:

Economic Reforms (New Economic Policy – LPG) were introduced in **1991**.

> Quick Tip
>
> LPG = Liberalisation + Privatisation + Globalisation. The 1991 reforms marked India's transition from a mixed, closed economy to an increasingly open, market-oriented economy.

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21. 'Great Leap Forward' (GLF) campaign in China was initiated in 1958 to:

(A) Modernize agriculture

(B) Industrialize the country on a massive scale

(C) Promote foreign trade

(D) Control population

Correct Answer: (B) Industrialize the country on a massive scale

Solution:

Step 1: Understanding the Concept:

China under Mao Zedong pursued a series of political and economic campaigns to transform the country into a socialist superpower.

Step 2: Detailed Explanation:

The **Great Leap Forward (GLF)** was launched by Mao Zedong in **1958** with the objective of rapidly transforming China from an agrarian economy into a **socialist industrial society** through rapid industrialisation and collectivization. It focused on developing steel production at the local level (backyard furnaces) and creating large agricultural communes. The campaign ultimately led to a severe famine and millions of deaths, considered one of the worst man-made disasters in history.

Step 3: Final Answer:

The Great Leap Forward was initiated to **industrialize China on a massive scale**.

Quick Tip

Chinese Economic History Timeline: Great Leap Forward (1958) → Cultural Revolution (1966) → Open Door Policy/Market Reforms under Deng Xiaoping (1978).

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22. NABARD was established in the year:

(A) 1969

(B) 1975

(C) 1982

(D) 1991

Correct Answer: (C) 1982

Solution:

Step 1: Understanding the Concept:

Institutional credit is crucial for the agricultural sector. Various specialized financial institutions were set up in India to provide credit to farmers and rural areas.

Step 2: Detailed Explanation:

NABARD (National Bank for Agriculture and Rural Development) was established on **12 July 1982** based on the recommendations of the **B. Sivaraman Committee**. It was set up by merging the agricultural credit wings of the RBI and ARDC (Agricultural Refinance and Development Corporation). NABARD acts as an apex institution for agricultural and rural credit, providing refinancing to cooperative banks and regional rural banks.

Step 3: Final Answer:

NABARD was established in the year **1982**.

Quick Tip

NABARD's headquarters is in Mumbai. It operates under the Ministry of Finance. It also promotes Self-Help Groups (SHGs) and micro-finance in rural areas.

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23. Special Economic Zones (SEZs) were established in China to attract:

(A) Rural workers

(B) Foreign Direct Investment (FDI)

(C) Agricultural technology

(D) Political support

Correct Answer: (B) Foreign Direct Investment (FDI)

Solution:

Step 1: Understanding the Concept:

China's economic liberalization under Deng Xiaoping from 1978 onwards was characterized by a pragmatic, export-oriented strategy that selectively opened certain geographical zones to foreign capital.

Step 2: Detailed Explanation:

China established **Special Economic Zones (SEZs)** to attract **Foreign Direct Investment (FDI)**. These zones offered special incentives such as tax concessions, relaxed labor laws, and better infrastructure to foreign companies. The first four SEZs were established in 1980 in coastal cities (Shenzhen, Zhuhai, Shantou, and Xiamen). They became powerful engines of China's export-led growth, integrating China into the global economy.

Step 3: Final Answer:

SEZs were established in China primarily to attract **Foreign Direct Investment (FDI)**.

Quick Tip

Inspired by China's success, India also enacted the SEZ Act in 2005 to attract investment and promote exports. Shenzhen is the most famous example of a Chinese SEZ that transformed from a fishing village to a major global city.

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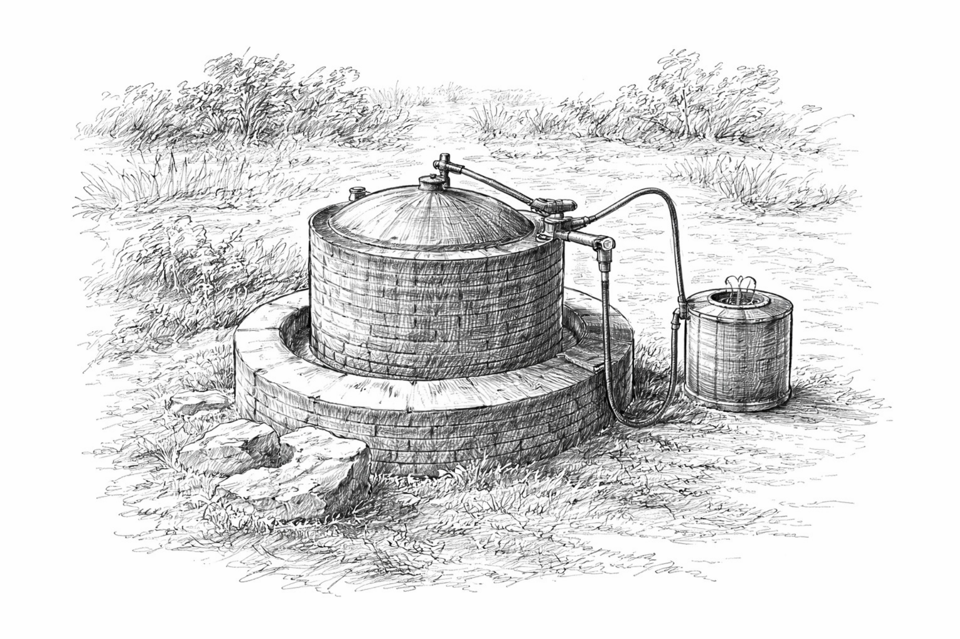
24. Observe the given image of the 'Biogas (Gobar Gas) Plant' and identify its benefit:



(A) It increases the use of chemical fertilizers.

(B) It is a clean, non-conventional source of energy.

(C) It causes high air pollution.

(D) It is an expensive urban energy source.

Correct Answer: (B) It is a clean, non-conventional source of energy.

Solution:

Step 1: Understanding the Concept:

The image shows a traditional fixed-dome Biogas (Gobar Gas) plant, which is a common feature in rural India. It converts animal waste (dung) into usable gas through anaerobic decomposition.

Step 2: Detailed Explanation:

A **Biogas Plant** (Gobar Gas Plant) is a non-conventional, renewable source of energy. It works by decomposing animal dung and organic waste in the absence of oxygen to produce methane-rich biogas, which is used as a cooking fuel. Its key benefits are:

- It is a **clean, non-conventional source of energy** that reduces dependence on fossil fuels.
- It provides **organic manure (slurry)** as a by-product, which is a natural fertilizer, thereby *reducing* the need for chemical fertilizers.
- It helps improve rural sanitation and reduces indoor air pollution from traditional firewood chulhas.

Options (A), (C), and (D) are factually incorrect.

Step 3: Final Answer:

The benefit of a Biogas Plant is that it is a **clean, non-conventional source of energy**.

Quick Tip

Biogas plants provide a dual benefit: **Energy** (biogas for cooking/lighting) + **Manure** (organic slurry for farming). This makes them highly suitable for rural India's sustainable development.

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25. 'Golden Revolution' is associated with:

(A) Milk

(B) Horticulture and Honey

(C) Cereals

(D) Fisheries

Correct Answer: (B) Horticulture and Honey

Solution:

Step 1: Understanding the Concept:

In the context of Indian agriculture, various "Revolutions" are associated with significant increases in the production of specific agricultural commodities.

Step 2: Detailed Explanation:

The major agricultural revolutions in India are:

- **Green Revolution:** Cereals/Food grains (Wheat and Rice) – 1960s.
- **White Revolution (Operation Flood):** Milk – 1970s.
- **Blue Revolution:** Fish and Fisheries.
- **Yellow Revolution:** Oilseeds.
- **Golden Revolution: Horticulture (Fruits, Vegetables) and Honey** – 1991–2003.

Step 3: Final Answer:

"Golden Revolution" is associated with **Horticulture and Honey**.

Quick Tip

Memory Aid: **G**olden Revolution = **G**arden produce (Horticulture). **W**hite Revolution = **W**hite liquid (Milk). **B**lue Revolution = **B**lue water (Fish).

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26. Pakistan's economic reforms were initiated in the year:

(A) 1978

(B) 1988

(C) 1991

(D) 1995

Correct Answer: (B) 1988

Solution:

Step 1: Understanding the Concept:

Like India, Pakistan also undertook structural economic reforms to liberalize its economy and integrate with the global financial system.

Step 2: Detailed Explanation:

Pakistan introduced its economic reform process in **1988**, largely under the guidance of the **International Monetary Fund (IMF)** and the World Bank. The reforms focused on privatisation of state-owned enterprises, financial sector liberalisation, and trade reforms. These were initiated earlier than India's 1991 reforms but faced inconsistency due to political instability.

Step 3: Final Answer:

Pakistan's economic reforms were initiated in the year **1988**.

Quick Tip

Comparison: India's LPG reforms began in **1991**, China's market reforms began in **1978**, and Pakistan's reforms began in **1988**. China started earliest and showed the fastest economic growth.

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27. Define 'Sustainable Development'.

Correct Answer: Development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs.

Solution:

Step 1: Understanding the Concept:

Traditional economic development focused only on GDP growth, often ignoring environmental degradation. Sustainable Development integrates economic growth with environmental protection and social equity.

Step 2: Detailed Explanation:

The concept of **Sustainable Development** was popularized by the **Brundtland Commission Report ("Our Common Future", 1987)**. It is defined as:

"Development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs."

It rests on three pillars: **Economic Growth**, **Social Equity**, and **Environmental Protection**.

It emphasizes using renewable resources, minimizing pollution, and preserving biodiversity.

Step 3: Final Answer:

Sustainable Development = Present needs met without jeopardizing future generations' ability to meet their needs (Brundtland Commission, 1987).

> **Quick Tip**
>
> The UN Sustainable Development Goals (SDGs), adopted in 2015, provide 17 specific goals to achieve Sustainable Development by 2030, covering poverty, health, education, climate change, and more.

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28. Mention any three challenges facing the power sector in India.

Correct Answer:

Solution:

Step 1: Understanding the Concept:

Infrastructure, particularly energy, is a critical driver of economic development. The power sector in India faces several structural and operational challenges that hinder its efficiency and expansion.

Step 2: Detailed Explanation:

Three major challenges facing the Indian power sector are:

1. Insufficient Installed Capacity: The total electricity generated is not adequate to meet the growing industrial and domestic demand, leading to frequent power cuts and load shedding, especially in rural areas.

2. High Transmission and Distribution (T&D) Losses: A significant percentage of generated electricity is lost during transmission through the grid or is stolen illegally (power theft). India's T&D losses are among the highest in the world.

3. Financial Sickness of State Electricity Boards (SEBs): Many SEBs are in heavy debt due to politically motivated low tariff pricing, free electricity to farmers, and chronic inefficiencies in billing and collection.

Step 3: Final Answer:

Three challenges: (1) Insufficient generation capacity, (2) High T&D losses, (3) Financial distress of State Electricity Boards.

> Quick Tip
>
> The government's **UDAY Scheme** (Ujwal DISCOM Assurance Yojana, 2015) was launched specifically to address the financial health of electricity distribution companies (DISCOMs).

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29. Discuss the role of 'Self-Help Groups' (SHGs) in rural credit.

Correct Answer:

Solution:

Step 1: Understanding the Concept:

Rural households, especially the poor, have historically been excluded from formal banking credit. Self-Help Groups (SHGs) were created as a microfinance mechanism to bridge this gap.

Step 2: Detailed Explanation:

Self-Help Groups (SHGs) are small, homogeneous groups (typically 15–20 members) of rural households, mostly women, who pool their savings regularly to create a common fund. Their role in rural credit includes:

1. Promoting Thrift: SHGs encourage regular saving habits among rural households.

2. Providing Collateral-free Credit: Members can avail small loans from the common pool at reasonable interest rates without any collateral, which reduces dependence on exploitative moneylenders who charge exorbitant rates.

3. Linking with Banks: Under the SHG-Bank Linkage Programme (promoted by NABARD), SHGs are linked to formal banks for larger credit.

4. Women Empowerment: SHGs predominantly empower rural women by giving them financial independence and encouraging entrepreneurship.

Step 3: Final Answer:

SHGs provide collateral-free micro-credit, promote savings, reduce moneylender dependency, and empower rural women through collective financial management.

> **Quick Tip**
>
> The Grameen Bank model of Bangladesh, founded by Muhammad Yunus (Nobel Peace Prize 2006), was a major inspiration for the SHG-based micro-credit movement in India.

---

30. Explain the 'Great Proletarian Cultural Revolution' of China.

Correct Answer:

Solution:

Step 1: Understanding the Concept:

After the failure of the Great Leap Forward, Mao Zedong launched another radical campaign to reassert communist ideology and eliminate perceived capitalist and traditional elements from Chinese society.

Step 2: Detailed Explanation:

The **Great Proletarian Cultural Revolution** was launched by **Mao Zedong in 1966** and lasted until 1976. Its key features were:

1. Ideological Objective: It aimed to instill pure **socialist/communist values** and eliminate all capitalist, feudal, and traditional elements from Chinese culture and the Communist Party itself.

2. Targeting the Educated Class: Intellectuals, teachers, and professionals were branded as "counter-revolutionaries" and subjected to public humiliation, imprisonment, or forced labor.

3. Rustication: Students (Red Guards) and professionals were sent to the **countryside** to learn from farmers and laborers, aiming to bridge the gap between mental and manual labor.

4. Economic Impact: The revolution severely disrupted China's economy, education system, and normal life for a decade.

Step 3: Final Answer:

The Cultural Revolution (1966) was Mao's campaign to enforce communist ideology, which resulted in persecution of intellectuals and major economic and social disruption.

> **Quick Tip**
>
> After Mao's death (1976), Deng Xiaoping reversed many Cultural Revolution policies and introduced market-oriented reforms in 1978, calling it "Socialism with Chinese Characteristics".

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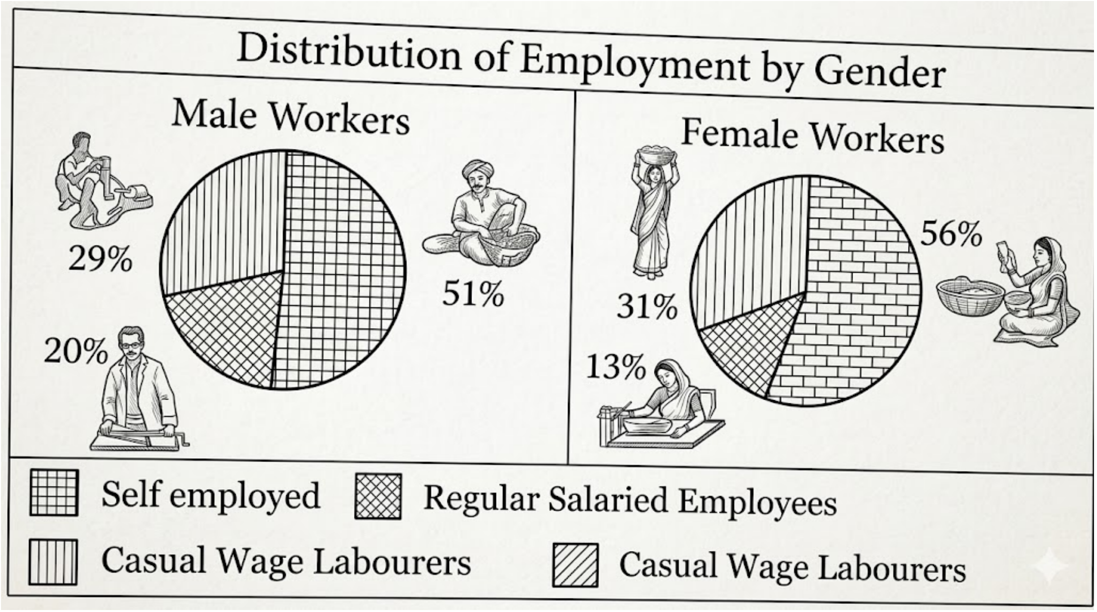
31. Analyze the following chart regarding 'Distribution of Employment by Gender':



Correct Answer:

Solution:

Step 1: Understanding the Concept:

The pie charts depict the distribution of the workforce across three employment categories – Self-employed, Regular Salaried Employees, and Casual Wage Labourers – separately for Male and Female workers.

Step 2: Detailed Explanation:

1. Self-Employment: Self-employment is the dominant category for both genders. However, the proportion is higher for **females (56%)** than **males (51%)**, indicating that women are more likely to be engaged in own-account work such as agriculture and household enterprises.

2. Regular Salaried Employment: A slightly higher proportion of females (31%) are in regular salaried jobs compared to males (29%) in this dataset, which may reflect concentration in specific formal sector roles.

3. Casual Wage Labour: A higher proportion of **males (20%)** are engaged in casual wage labour compared to **females (13%)**, which may be because casual labour (construction, heavy manual work) is often physically demanding and male-dominated.

Overall Observation: The data reveals a skewed labour market where both genders are predominantly self-employed, but the nature and quality of employment differ significantly along gender lines.

Step 3: Final Answer:

Both genders are predominantly self-employed; females have a higher self-employment rate (56%) while males dominate casual wage labour (20%).

> **Quick Tip**
>
> In data-based questions, always: (1) Read the chart title carefully, (2) Identify the highest and lowest values for each category, (3) Compare across groups, and (4) Draw an overall conclusion.

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32. Discuss 'Organic Farming' as a sustainable alternative.

Correct Answer:

Solution:

Step 1: Understanding the Concept:

The Green Revolution, while boosting food grain production, led to excessive use of chemical fertilizers and pesticides causing long-term environmental damage. Organic farming is proposed as a sustainable alternative to chemical-intensive agriculture.

Step 2: Detailed Explanation:

Organic Farming is a method of crop production that relies on **biological fertilizers** (compost, vermicompost, green manure) and **natural pest control** (neem-based pesticides, crop rotation) instead of synthetic chemicals. Its benefits as a sustainable alternative include:

1. Eco-friendly: Avoids toxic chemicals, thereby maintaining soil health, biodiversity, and preventing water pollution from chemical runoff.

2. Higher Nutritional Value: Organic produce is considered healthier and free from harmful chemical residues, leading to better consumer health outcomes.

3. Cost-effective for Farmers: Uses locally available organic inputs (farm waste, animal dung) instead of expensive imported synthetic chemicals, reducing the cost of cultivation.

4. Sustainable Soil Health: Organic matter improves soil structure and water retention capacity, making it productive in the long run.

Step 3: Final Answer:
Organic farming is eco-friendly, produces nutritious food, reduces farmer costs, and maintains long-term soil health, making it a viable sustainable agricultural alternative.

> **Quick Tip**
> Sikkim became the world's first fully organic state in 2016. The Indian government promotes organic farming through schemes like **Paramparagat Krishi Vikas Yojana (PKVY)**.

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33. Compare the development experiences of India and China on the basis of GDP growth and Sectoral contribution.

Correct Answer:

Solution:
Step 1: Understanding the Concept:
India and China began their developmental journeys at roughly the same time (both post-1947/1949) but adopted very different strategies, leading to divergent outcomes in GDP growth and sectoral composition.
Step 2: Detailed Explanation:
1. GDP Growth Rate:
- **China** maintained exceptionally high double-digit GDP growth rates for nearly three decades after its 1978 reforms, peaking close to 10% annually, making it the world's second-largest economy.
- **India** has generally achieved a more moderate growth rate of 6–8% per annum, with acceleration post-1991 reforms, but has never matched China's industrial growth pace.
2. Industrial/Secondary Sector:
- **China** aggressively developed its manufacturing sector, becoming the "World's Factory" with massive output in electronics, textiles, and machinery.
- **India** has a relatively weaker manufacturing base, and its industrial sector did not dominate the growth story.

3. Service/Tertiary Sector:

- **India** uniquely leapfrogged a major industrial phase and shifted directly to a **service-led growth model**, particularly in IT, software, finance, and outsourcing (BPO), contributing over 50% to GDP.
- **China's** service sector is growing but remains secondary to industry.

4. Human Development:

- China generally ranks higher than India on the Human Development Index (HDI), with better literacy rates, life expectancy, and per capita income.

Step 3: Final Answer:

China leads India in GDP growth rate and industrial output, while India has built a stronger service sector. China has higher HDI but India has a more democratic and inclusive growth approach.

> **Quick Tip**
>
> A key point of comparison: China's growth was **industry-led**, while India's growth was **service-led**. Both are now trying to build what the other has – China is expanding services and India is pushing manufacturing through "Make in India".

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34. Evaluate the impact of 'LPG Reforms' (1991) on the Indian Economy.

Correct Answer:

Solution:

Step 1: Understanding the Concept:

The 1991 LPG (Liberalisation, Privatisation, Globalisation) reforms fundamentally restructured the Indian economy. Their impact must be evaluated in terms of both achievements and shortcomings.

Step 2: Detailed Explanation:

Positive Impacts (Successes):

1. Increase in Foreign Exchange Reserves: India's forex reserves grew from near-zero (1991 crisis) to over $600 billion, stabilizing the external sector.

2. Control of Inflation: Fiscal consolidation and structural reforms helped bring inflation under better control.

3. Service Sector Growth: The IT, ITES, and financial services sectors boomed, making India a global hub for software and back-office services.

4. Integration with Global Economy: FDI inflows increased, export volumes grew, and India became a significant player in global trade.

Negative Impacts (Criticisms):

1. Neglect of Agriculture: The reform focus was heavily on industry and services. Agricultural growth rates slowed, agrarian distress increased, and farmer suicides became a concern.

2. Rising Inequality: The benefits of growth were unevenly distributed, widening the urban-rural and rich-poor divide.

3. Jobless Growth: India's GDP grew rapidly without a proportionate increase in formal employment, a phenomenon called "Jobless Growth".

Step 3: Final Answer:

LPG Reforms accelerated growth, boosted forex reserves, and grew the service sector, but failed to adequately address agriculture, employment generation, and income inequality.

Quick Tip

In evaluation questions, always present **both sides**: Successes AND Failures/Challenges. A balanced answer scores full marks and demonstrates critical thinking.