# Rajasthan Board Class 12 Economics Question Paper with Solutions(Memory Based)

| Time Allowed :2 Hour | Maximum Marks :30 | Total Questions :16 |
|---|---|---|

## General Instructions

**Read the following instructions very carefully and strictly follow them:**

- Answers to this Paper must be written on the paper provided separately.
- You will not be allowed to write during the first 15 minutes
- This time is to be spent in reading the question paper.
- The time given at the head of this Paper is the time allowed for writing the answers,
- The paper has four Sections.
- Section A is compulsory - All questions in Section A must be answered.
- You must attempt one question from each of the Sections B, C and D and one other question from any Section of your choice.

**1. What happens to equilibrium price and quantity when there is a simultaneous increase in both demand and supply?**

**Solution:**
**Concept:** Equilibrium in a market is determined by the intersection of demand and supply curves.
When both demand and supply increase simultaneously:

- Demand curve shifts right
- Supply curve also shifts right

The final effect depends on the relative magnitude of the shifts.

**Effect on Equilibrium Quantity:**
Both increases push quantity upward:

- Higher demand $\Rightarrow$ higher quantity
- Higher supply $\Rightarrow$ higher quantity

Equilibrium quantity definitely increases.

**Effect on Equilibrium Price:**
Price effect is ambiguous because:

- Demand increase ⇒ price rises
- Supply increase ⇒ price falls

Thus outcome depends on which shift is stronger.

- If demand increase > supply increase ⇒ price rises
- If supply increase > demand increase ⇒ price falls
- If both equal ⇒ price unchanged

**Conclusion:**

Quantity increases for sure; price is indeterminate.

**Quick Tip**

Simultaneous shift rule:

- Same-direction shifts ⇒ quantity certain
- Opposite price effects ⇒ price uncertain
- Always compare relative magnitude of shifts

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**2. Distinguish between Fixed Costs and Variable Costs with examples.**

**Solution:**
**Concept:** Costs of production are broadly classified into fixed costs and variable costs based on their behavior with change in output.

**Fixed Costs:**

- Costs that do not change with change in level of output.
- Must be paid even if production is zero.
- Remain constant in the short run.

**Examples:**

- Rent of factory building
- Salaries of permanent staff
- Insurance premium
- Depreciation of machinery

**Variable Costs:**

- Costs that change directly with change in output.
- Increase when production increases.

- Become zero when output is zero.

**Examples:**

- Cost of raw materials
- Wages of casual labor
- Electricity used in production
- Packaging cost

**Key Differences:**

| Basis | Fixed Cost | Variable Cost |
|---|---|---|
| $Relation with Output$ | $Does not change$ | $Changes without put$ |
| $At Zero Output$ | $Exists$ | $Zero$ |
| $Time Period$ | $Short run concept$ | $Short run concept$ |
| $Examples$ | $Rent, Salary$ | $Raw material, Wages$ |

**Quick Tip**

- Fixed cost = "F" for "Firm must pay"
- Variable cost = varies with volume
- Total Cost = Fixed Cost + Variable Cost

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**3. What are the key features of a firm operating under Perfect Competition?**

**Solution:**
**Concept:** Perfect competition is a market structure where a large number of firms sell identical products and no single firm can influence the market price.

**Key Features:**

1. **Large Number of Buyers and Sellers:** No individual firm or consumer can influence price.
2. **Homogeneous Product:** All firms sell identical products with no brand differentiation.
3. **Price Taker:** A firm accepts the market price determined by industry demand and supply.
4. **Free Entry and Exit:** Firms can enter or leave the market without restrictions in the long run.
5. **Perfect Knowledge:** Buyers and sellers have full information about prices and products.
6. **Perfect Mobility of Factors:** Factors of production can move freely across industries.
7. **No Selling Costs:** No advertising or marketing expenses due to identical products.

8. **Uniform Price:** Same price prevails in the entire market at a given time.

**Implication for a Firm:**

- Demand curve of firm is perfectly elastic (horizontal).
- Marginal revenue (MR) = Price (P) = Average revenue (AR).
- Firms earn normal profits in the long run.

% Quick Tip

**Quick Tip**

Remember: "Perfect" = No control, No difference, No barriers

- Many firms
- Same product
- Price taker
- Free entry and exit

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**4. Define Price Elasticity of Demand and explain any three factors that affect it.**

**Solution:**
**Concept:** Price Elasticity of Demand (PED) measures the responsiveness of quantity demanded of a good to a change in its price.

**Definition:**

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

It shows how sensitive consumers are to price changes.

**Types (based on value):**

- Elastic demand ($> 1$)
- Inelastic demand ($< 1$)
- Unit elastic ($= 1$)

**Factors Affecting Price Elasticity of Demand:**
**1. Availability of Substitutes:**

- More substitutes $\Rightarrow$ more elastic demand.
- Fewer substitutes $\Rightarrow$ inelastic demand.

*Example:* Tea and coffee.

**2. Nature of the Commodity:**

- Necessities ⇒ inelastic demand (e.g., salt, medicines).
- Luxuries ⇒ elastic demand (e.g., cars, ACs).

**3. Proportion of Income Spent:**

- Goods taking large share of income ⇒ elastic demand.
- Small expenditure goods ⇒ inelastic demand.

*Example:* Cars vs matchboxes.

**Other Factors (brief):**

- Time period
- Habits and preferences
- Brand loyalty

% Quick Tip

**Quick Tip**

Elasticity memory trick: "SNP"

- S = Substitutes
- N = Nature (luxury vs necessity)
- P = Proportion of income

More substitutes or luxury nature ⇒ more elastic demand.

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**5. Explain the three central problems of an economy: What to produce, How to produce, and For whom to produce?**

**Solution:**
**Concept:** Every economy faces the problem of scarcity of resources and unlimited human wants. Due to this, every society must make choices regarding allocation of resources, leading to three central economic problems.

**1. What to Produce?**
This problem refers to deciding:

- Which goods and services should be produced
- In what quantities they should be produced

Since resources are limited, an economy must choose between alternatives.
**Examples:**

- Consumer goods vs capital goods
- Necessities vs luxury goods

This decision depends on priorities and needs of society.

**2. How to Produce?**
This refers to selecting the method or technique of production.
The economy must decide:

- Labour-intensive technique (more labour, less capital)
- Capital-intensive technique (more machines, less labour)

**Example:**

- Using machines in developed countries (capital abundant)
- Using labour in developing countries (labour abundant)

This decision depends on availability and cost of factors of production.

**3. For Whom to Produce?**
This problem relates to distribution of output among members of society.
It answers:

- Who will consume the goods produced?
- How will income be distributed?

Distribution depends on:

- Purchasing power
- Income levels
- Ownership of resources

**Example:** Luxury goods are consumed by high-income groups, while basic goods are consumed by all.

**Conclusion:** These three problems arise due to scarcity and are solved differently in:

- Market economies (price mechanism)
- Planned economies (central authority)
- Mixed economies (combination of both)

% Quick Tip

**Quick Tip**

Remember: "WHF Rule"

- What to produce = Choice of goods
- How to produce = Technique of production
- For whom to produce = Distribution of income

All arise due to scarcity of resources.

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**6. Explain the three methods of calculating GDP: Production, Income, and Expenditure approaches.**

**Solution:**
**Concept:** Gross Domestic Product (GDP) measures the total value of final goods and services produced within a country during a given period (usually one year).
There are three main methods to calculate GDP, all of which should theoretically give the same result.

**1. Production (Value Added) Method:**
This method calculates GDP by adding the value added at each stage of production.
**Formula:**

$$\text{GDP} = \sum \text{Gross Value Added (GVA)} + \text{Taxes} - \text{Subsidies}$$

**Steps:**

- Calculate value added by each producer.
- Avoid double counting by excluding intermediate goods.

**Example:** Farmer $\rightarrow$ Miller $\rightarrow$ Baker Only value added at each stage is included.

**2. Income Method:**
This method measures GDP as the total income earned by factors of production.
**Components:**

- Wages and salaries (labour income)
- Rent (land income)
- Interest (capital income)
- Profit (entrepreneur income)

**Formula:**

$$\text{GDP} = \text{Compensation of Employees} + \text{Rent} + \text{Interest} + \text{Profit} + \text{Mixed Income}$$

**Note:** Add net indirect taxes and depreciation when converting from factor cost to market price.

**3. Expenditure Method:**

This method calculates GDP by summing total spending on final goods and services.
**Formula:**

$$\text{GDP} = C + I + G + (X - M)$$

Where:

- $C$ = Consumption expenditure
- $I$ = Investment expenditure
- $G$ = Government spending
- $X - M$ = Net exports (exports minus imports)

**Key Idea:** All three methods are based on the circular flow of income:

- Production creates income
- Income leads to expenditure

Thus:

$$\text{Production} = \text{Income} = \text{Expenditure}$$

% Quick Tip

**Quick Tip**

GDP memory trick: "PIE"

- P = Production (value added)
- I = Income (factor earnings)
- E = Expenditure (C + I + G + X - M)

All three give the same GDP theoretically.

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**7. Describe the various functions of a Central Bank, specifically how it controls the money supply through Repo Rate and Open Market Operations.**

**Solution:**
**Concept:** A Central Bank is the apex monetary authority of a country that regulates the banking system and controls the supply of money and credit in the economy.

**Major Functions of a Central Bank:**

1. **Issue of Currency:** Sole authority to issue paper currency and coins (except small coins in some countries).
2. **Banker to the Government:** Maintains government accounts and manages public debt.
3. **Banker's Bank:** Commercial banks keep reserves with the central bank and borrow during emergencies.

4. **Custodian of Foreign Exchange Reserves:** Maintains stability of exchange rate and manages forex reserves.
5. **Controller of Credit (Monetary Authority):** Regulates money supply and inflation using monetary policy tools.

**Control of Money Supply:**
The central bank controls money supply using quantitative tools such as Repo Rate and Open Market Operations (OMO).

**1. Repo Rate:**
**Definition:** Repo rate is the rate at which the central bank lends short-term funds to commercial banks against government securities.
**Mechanism:**

- **Increase Repo Rate:**
  - Borrowing becomes costly for banks
  - Banks reduce lending
  - Money supply decreases
  - Helps control inflation
- **Decrease Repo Rate:**
  - Borrowing becomes cheaper
  - Banks lend more
  - Money supply increases
  - Stimulates economic growth

**2. Open Market Operations (OMO):**
**Definition:** OMO refers to buying and selling of government securities by the central bank in the open market.
**Mechanism:**

- **Sale of Securities:**
  - Central bank sells bonds to public/banks
  - Money flows from market to central bank
  - Liquidity reduces
  - Money supply decreases
- **Purchase of Securities:**
  - Central bank buys securities
  - Injects money into economy
  - Liquidity increases
  - Money supply rises

**Conclusion:** Through repo rate and OMO, the central bank manages liquidity, controls inflation, and stabilizes economic growth by expanding or contracting money supply.

% Quick Tip

**Quick Tip**

Central Bank control tools:

- Repo ↑ = Money supply ↓
- Repo ↓ = Money supply ↑
- Sell bonds = Liquidity ↓
- Buy bonds = Liquidity ↑

Remember: Repo = Interest tool, OMO = Market tool.

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**8. Define the Government Budget and explain its objectives, such as resource allocation and reduction of income inequalities.**

**Solution:**
**Concept:** A Government Budget is a financial statement showing the estimated receipts and expenditures of the government for a given fiscal year.
It reflects government priorities and economic policies.

**Definition:**

Government Budget = Estimated Government Receipts + Estimated Government Expenditure

**Objectives of Government Budget:**
**1. Allocation of Resources:**
The government reallocates resources to achieve social and economic goals.
**How?**

- Providing public goods (roads, defence, education)
- Regulating private sector through taxes and subsidies
- Investing in infrastructure and social sectors

This ensures efficient and socially desirable use of resources.

**2. Reduction of Income Inequalities:**
One of the key welfare objectives is promoting equity.
**Methods:**

- Progressive taxation (higher tax on rich)
- Subsidies for poor sections
- Welfare schemes (education, healthcare, pensions)

- Transfer payments (unemployment benefits)

This helps reduce the gap between rich and poor.

**3. Economic Stability:**
The budget helps stabilize the economy by controlling:

- Inflation (reducing demand via taxation)
- Deflation (increasing spending)

**4. Economic Growth:**
Encourages long-term development through:

- Capital expenditure
- Infrastructure development
- Investment in technology and human capital

**5. Management of Public Enterprises:**
Budgets regulate and monitor public sector undertakings and ensure accountability.

**Conclusion:** A government budget is not just an accounting tool but a powerful instrument for economic planning, growth, equity, and stability.

% Quick Tip

**Quick Tip**

Budget objectives memory trick: "ARES"

- A = Allocation of resources
- R = Reduction of inequalities
- E = Economic stability
- S = Sustainable growth

Budget = Tool of welfare and development.

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**9. Distinguish between the Current Account and Capital Account of the Balance of Payments.**

**Solution:**
**Concept:** The Balance of Payments (BoP) is a record of all economic transactions between residents of a country and the rest of the world during a given period.
It is broadly divided into:

- Current Account
- Capital Account

**Current Account:**
The current account records transactions related to income and consumption.
**Includes:**

- Export and import of goods (visible trade)
- Export and import of services (invisible trade)
- Income receipts (interest, dividends)
- Transfer payments (remittances, gifts, aid)

**Nature:**

- Short-term transactions
- Do not affect assets and liabilities significantly

**Capital Account:**
The capital account records transactions that affect ownership of assets and liabilities between countries.
**Includes:**

- Foreign direct investment (FDI)
- Portfolio investment (shares, bonds)
- Loans and borrowings
- Banking capital flows

**Nature:**

- Long-term financial transactions
- Affect foreign assets and liabilities

**Key Differences:**

| **Basis** | **Current Account** | **Capital Account** |
|---|---|---|
| $TypeofTransactions$ | $Tradeandincome$ | $Investmentandloans$ |
| $Nature$ | $Revenuetransactions$ | $Capitaltransactions$ |
| $TimePeriod$ | $Short-term$ | $Long-term$ |
| $Impact$ | $Noownershipchange$ | $Changesassetownership$ |
| $Examples$ | $Exports, remittances$ | $FDI, foreignloans$ |

**Conclusion:** The current account reflects a country's trade and income position, while the capital account shows how it finances deficits or invests surpluses through capital flows.

% Quick Tip

**Quick Tip**

BoP memory trick: "C2 Rule"

- Current = Consumption flows
- Capital = Capital flows

Trade → Current, Investment → Capital.

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**10. Differentiate between Microeconomics and Macroeconomics.**

**Solution:**
**Concept:** Economics is broadly divided into two branches based on the level of analysis:

- Microeconomics
- Macroeconomics

**Microeconomics:**
Microeconomics studies individual economic units such as consumers, firms, and industries.
**Focus:**

- Individual price determination
- Consumer behavior
- Firm production and cost
- Market structures (perfect competition, monopoly)

**Examples:**

- Price of a commodity
- Demand for a product
- Output of a firm

**Macroeconomics:**
Macroeconomics studies the economy as a whole and deals with aggregate variables.
**Focus:**

- National income
- Inflation
- Unemployment
- Economic growth
- Fiscal and monetary policy

**Examples:**

- GDP of a country
- General price level
- Overall employment level

**Key Differences:**

| Basis | Microeconomics | Macroeconomics |
|---|---|---|
| $Level of Study$ | $Individual units$ | $Whole economy$ |
| $Scope$ | $Small-scale analysis$ | $Aggregate analysis$ |
| $Main Variables$ | $Price, demand, supply$ | $GDP, inflation, unemployment$ |
| $Approach$ | $Bottom-up$ | $Top-down$ |
| $Examples$ | $Price of rice$ | $National income$ |

**Conclusion:** Microeconomics explains how individual decisions are made, while macroeconomics analyzes overall economic performance and policy impacts.

% Quick Tip

**Quick Tip**

Memory trick: "Micro = Minute, Macro = Massive"

- Micro = Individual units
- Macro = Economy-wide aggregates

Part vs Whole distinction.

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