

WB Board Class 12 2026 Economics Question Paper with Solutions

1. Mention any two sources of non-tax revenue.

Solution:

Step 1: Understanding the Concept:

Non-tax revenue refers to the income earned by the government from sources other than taxes.

Step 2: Detailed Explanation:

The government collects revenue not only through taxes but also from several other sources.

Two important sources are:

1. **Fees** – Amount collected by the government for providing specific services such as court fees, registration fees, examination fees, etc.
2. **Fines and Penalties** – Money collected from individuals or organizations for violating laws and government regulations.

Quick Tip

Non-tax revenue does not include income tax, GST, or any compulsory tax payments. It mainly includes fees, fines, interest receipts, and profits from public enterprises.

2. Differentiate between Impact of a Tax and Incidence of a Tax.

Solution:

Step 1: Understanding the Concept:

Impact and incidence of tax explain how the burden of tax is distributed among people.

Step 2: Detailed Explanation:

- **Impact of a Tax:** It refers to the initial burden of the tax on the person who is legally liable to pay it to the government.
- **Incidence of a Tax:** It refers to the final burden of the tax on the person who ultimately bears it and cannot shift it to others.
- In case of **direct tax**, impact and incidence fall on the same person.
- In case of **indirect tax**, impact and incidence usually fall on different persons because the tax burden can be shifted.

Quick Tip

If tax burden cannot be shifted, impact and incidence fall on the same person.

3. What is GST? State one main advantage of GST.

(1 + 1)

Solution:

Step 1: Understanding the Concept:

GST stands for Goods and Services Tax. It is an indirect tax system implemented in India to replace multiple indirect taxes.

Step 2: Detailed Explanation:

GST (Goods and Services Tax):

It is a comprehensive indirect tax levied on the supply of goods and services at each stage of value addition.

One Main Advantage of GST:

It removes the cascading effect of tax (tax on tax) by allowing input tax credit at every stage of production and distribution.

Quick Tip

GST follows the “One Nation, One Tax” principle and allows input tax credit at every stage.

4. What is the meaning of ‘Primary Deficit’?

Solution:

Step 1: Understanding the Concept:

Primary deficit is a measure of government budget deficit excluding interest payments.

Step 2: Detailed Explanation:

Primary deficit is calculated by subtracting interest payments on past borrowings from the fiscal deficit.

Mathematically,

$$\text{Primary Deficit} = \text{Fiscal Deficit} - \text{Interest Payments}$$

It shows the actual borrowing requirements of the government excluding past debt obligations.

Quick Tip

If primary deficit is zero, it means the government is borrowing only to pay interest on past loans.

5. Explain the concept of Inclusive Growth.

Solution:

Step 1: Understanding the Concept:

Inclusive growth refers to economic growth that is shared by all sections of the population.

Step 2: Detailed Explanation:

Inclusive growth ensures that the benefits of economic development reach the poor, weaker sections, and backward regions of the country.

It aims at reducing poverty, unemployment, and income inequality.

It also promotes equal opportunities in education, healthcare, employment, and income generation.

Quick Tip

Economic growth without reduction of poverty and inequality cannot be called inclusive growth.

6. What is Poverty Line?

Solution:

Step 1: Understanding the Concept:

Poverty line is a benchmark used to identify the poor in a country.

Step 2: Detailed Explanation:

It represents the minimum income or consumption expenditure required to meet basic necessities such as food, clothing, shelter, education, and healthcare.

People whose income or consumption is below this minimum level are considered to be living below the poverty line.

Quick Tip

People living below the poverty line (BPL) are eligible for various government welfare schemes.

7. What are the ingredients of money supply in an economy?

Solution:

Step 1: Understanding the Concept:

Money supply refers to the total stock of money available in an economy at a given point of time.

Step 2: Detailed Explanation:

According to the narrow concept of money supply (M1), the main ingredients are:

1. **Currency held by the public** – It includes notes and coins held by individuals and firms.
2. **Demand deposits with commercial banks** – These are deposits that can be withdrawn on demand through cheque.

Thus,

$$M1 = \text{Currency held by the public} + \text{Demand deposits with banks}$$

Quick Tip

Money supply does not include cash held by banks themselves.

8. B) Describe how Demand-Pull Inflation occurs in brief.

Solution:

Step 1: Understanding the Concept:

Demand-pull inflation is a situation where rising demand leads to an increase in general price level.

Step 2: Detailed Explanation:

When aggregate demand (AD) increases faster than aggregate supply (AS), there is excess demand in the economy.

Producers cannot immediately increase output, so prices begin to rise.

This rise in general price level due to excess demand is called demand-pull inflation.

Quick Tip

Demand-pull inflation is often summarized as “Too much money chasing too few goods.”

9. A) What is the difference between Progressive tax and Proportional tax? Explain.

Solution:

Step 1: Understanding the Concept:

Taxes are classified according to how the rate of tax changes with change in income.

Step 2: Detailed Explanation:

Progressive Tax:

Under this system, the rate of tax increases as income increases. Higher income groups pay tax at higher rates. It reduces income inequality.

Proportional Tax:

Under this system, the rate of tax remains constant for all income levels. Every taxpayer pays tax at the same rate, regardless of income.

Main Difference:

In progressive tax, tax rate rises with income; in proportional tax, tax rate remains the same at all income levels.

Quick Tip

Progressive tax system helps in reducing income inequality in an economy.

10. B) What are the different types of public debt in an economy? Explain in terms of their impact on the economy. (2 + 2)

Solution:

Step 1: Understanding the Concept:

Public debt refers to the borrowings of the government to meet its expenditure.

Step 2: Types and Their Impact:

1. Internal Debt:

It is the debt borrowed by the government from within the country (from citizens, banks, financial institutions).

Impact: It does not reduce national income but may lead to redistribution of income within the country.

2. External Debt:

It is the debt borrowed by the government from foreign countries or international institutions.

Impact: It creates a burden on the economy as repayment involves outflow of foreign exchange and may affect the balance of payments.

Quick Tip

External debt is considered more burdensome than internal debt because repayment involves transfer of resources to foreign countries.
