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

Time Allowed :3 Hour	**Maximum Marks :**60	**Total Questions :**24

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 is the shape of the demand curve under perfect competition?

Correct Answer: Perfectly elastic (horizontal straight line)

Solution:
Concept: In a perfectly competitive market, there are many buyers and sellers, and each firm is a **price taker**. This means:

- The market determines the price.
- No individual firm can influence the price.
- The firm can sell any quantity at the prevailing market price.

Because the firm has no control over price, even a small increase in price will cause demand for that firm's product to drop to zero. Similarly, reducing price is unnecessary since it can sell all output at the market price.
This leads to a key feature:

$$\text{Price} = \text{Average Revenue (AR)} = \text{Marginal Revenue (MR)}$$

Shape Explanation: Since the firm faces a constant price regardless of output sold, the demand curve is:

- A **horizontal straight line**
- Parallel to the quantity axis

- Indicates **perfect elasticity**

Conclusion: Under perfect competition, the demand curve faced by an individual firm is **perfectly elastic**, meaning it is a **horizontal line at the market price**.

Quick Tip

In perfect competition:

$$D = AR = MR = \text{Price}$$

Hence, the demand curve of a firm is always a horizontal line.

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2. Which bank in India has the sole authority to issue currency notes?

Correct Answer: Reserve Bank of India (RBI)

Solution:
Concept: In every country, the authority to issue currency is usually given to a central bank. In India, this responsibility lies with the **Reserve Bank of India (RBI)**, which acts as the nation's central monetary authority.
Legal Basis: The power to issue currency notes in India is granted under the **Reserve Bank of India Act, 1934**. According to this act:

- RBI has the **sole authority** to issue currency notes.
- This ensures uniformity and stability in the monetary system.

Important Exception: While RBI issues all currency notes, there is one exception:

- **One rupee note and coins** are issued by the **Government of India**.
- However, they are circulated through RBI.

Conclusion: Therefore, the bank in India that has the sole authority to issue currency notes is the **Reserve Bank of India (RBI)**.

Quick Tip

Remember:

- RBI = Issuer of all currency notes
- 1 note and coins = Government of India

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3. What type of relationship exists between the price of a commodity and its demand?

Correct Answer: Inverse relationship

Solution:

Concept: The relationship between the price of a commodity and its demand is explained by the **Law of Demand**. This fundamental principle of microeconomics states that:

Other things remaining constant (ceteris paribus), when the price of a commodity rises, its demand falls, and when the price falls, demand rises.

Nature of Relationship: This indicates an **inverse (negative) relationship** between price and quantity demanded.
Mathematically:

$$P \uparrow \Rightarrow Q_d \downarrow \quad \text{and} \quad P \downarrow \Rightarrow Q_d \uparrow$$

Reason for Inverse Relationship:

- **Law of diminishing marginal utility** – Consumers derive less satisfaction from additional units.
- **Income effect** – Higher prices reduce real purchasing power.
- **Substitution effect** – Consumers shift to cheaper alternatives when price rises.

Graphical Representation: Due to this inverse relationship, the demand curve slopes **downward from left to right**.
Conclusion: Thus, the relationship between the price of a commodity and its demand is **inverse**.

Quick Tip

Law of Demand:

$$\text{Price} \uparrow \Rightarrow \text{Demand} \downarrow$$

Hence, demand curves are always downward sloping (except rare cases like Giffen goods).

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4. Who is often referred to as the "father of modern economics"?

Correct Answer: Adam Smith

Solution:
Concept: The title **"Father of Modern Economics"** is commonly attributed to **Adam Smith**, a Scottish economist and philosopher. He is known for laying the foundation of classical economic theory.
Key Contribution: Adam Smith gained this recognition primarily due to his famous book:

"An Inquiry into the Nature and Causes of the Wealth of Nations" (1776)

This book:

- Established economics as a separate academic discipline.
- Explained the concept of **free markets**.
- Introduced the idea of the **"invisible hand"** guiding economic activity.

Major Ideas:

- Division of labour increases productivity.
- Free competition leads to efficient allocation of resources.
- Limited government intervention in markets.

Conclusion: Because of his foundational role in developing classical economic thought, **Adam Smith** is widely known as the **father of modern economics**.

Quick Tip

Remember:

- Father of Economics = Adam Smith
- Famous book = *The Wealth of Nations (1776)*

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5. Define elasticity of demand and explain its measurement by the percentage method.

Correct Answer: Elasticity of demand measures the responsiveness of quantity demanded to changes in price. It is measured by the percentage method as the ratio of percentage change in quantity demanded to percentage change in price.

Solution:
Concept: Elasticity of demand refers to the degree of responsiveness of quantity demanded of a commodity due to a change in one of its determinants, especially price.
In simple terms:

It shows how much demand changes when price changes.

Definition: Price elasticity of demand is defined as:

$$E_d = \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$$

Measurement by Percentage Method: The percentage (or proportionate) method was developed by **Alfred Marshall**. It measures elasticity using proportionate changes instead of absolute changes.
Formula:

$$E_d = \frac{\%\Delta Q_d}{\%\Delta P}$$

Expanding the formula:

$$E_d = \frac{\frac{\Delta Q_d}{Q_d} \times 100}{\frac{\Delta P}{P} \times 100} = \frac{\Delta Q_d}{Q_d} \div \frac{\Delta P}{P} = \frac{\Delta Q_d}{Q_d} \times \frac{P}{\Delta P}$$

Steps to Measure:

- Find change in quantity demanded (ΔQ_d).
- Find change in price (ΔP).

- Calculate percentage change in both.
- Take the ratio using the formula above.

Interpretation of Values:

- $E_d > 1$: Elastic demand
- $E_d = 1$: Unitary elastic demand
- $E_d < 1$: Inelastic demand
- $E_d = 0$: Perfectly inelastic
- $E_d = \infty$: Perfectly elastic

Conclusion: Thus, elasticity of demand measures responsiveness of demand to price changes, and the percentage method calculates it as the ratio of percentage change in quantity demanded to percentage change in price.

Quick Tip

Percentage Method Formula:

$$E_d = \frac{\%\Delta Q}{\%\Delta P}$$

It focuses on proportionate changes, not absolute changes.

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6. Explain the main functions of the Reserve Bank of India (RBI).

Correct Answer: The Reserve Bank of India performs functions such as issuing currency, acting as banker to the government and banks, controlling credit, managing foreign exchange, and regulating the financial system.

Solution:
Concept: The **Reserve Bank of India (RBI)** is the central bank of the country. Established in 1935 under the RBI Act, 1934, it regulates the monetary and financial system of India and ensures economic stability.
Main Functions of RBI:
1. Issue of Currency:

- RBI has the sole authority to issue currency notes (except 1 note and coins).
- Ensures uniformity and adequate supply of money in the economy.

2. Banker to the Government:

- Maintains accounts of the central and state governments.
- Receives and makes payments on behalf of the government.
- Manages public debt and treasury operations.

3. Banker's Bank:

- Commercial banks keep a portion of their reserves with RBI.
- Provides financial assistance to banks during emergencies.
- Acts as a custodian of cash reserves.

4. **Controller of Credit:**
   - Regulates money supply and credit through tools like:
     - Repo rate
     - Reverse repo rate
     - Cash Reserve Ratio (CRR)
     - Open Market Operations (OMO)
   - Helps control inflation and stabilize the economy.
5. **Custodian of Foreign Exchange:**
   - Manages foreign exchange reserves of the country.
   - Maintains stability in the external value of the rupee.
   - Implements Foreign Exchange Management Act (FEMA).
6. **Clearing House Function:**
   - Settles interbank payments and transactions.
   - Facilitates smooth functioning of the banking system.
7. **Controller and Supervisor of Banks:**
   - Regulates and supervises commercial banks and financial institutions.
   - Issues banking licenses and ensures financial stability.

Conclusion: Thus, the RBI performs multiple vital functions including currency issuance, credit control, banking regulation, and foreign exchange management, making it the backbone of India's financial system.

Quick Tip

Remember RBI as: **Issuer + Banker + Controller + Custodian + Regulator**
These cover most exam questions.

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7. What is the difference between Balance of Trade and Balance of Payments?

Correct Answer: Balance of Trade refers only to the difference between exports and imports of goods, while Balance of Payments is a broader statement that records all economic transactions between a country and the rest of the world.

Solution:
Concept: Both Balance of Trade (BoT) and Balance of Payments (BoP) are measures of a country's international economic transactions, but they differ in scope and coverage.
Balance of Trade (BoT):

- Refers to the difference between the value of **exports and imports of goods (visible items)**.
- It includes only **physical commodities**.
- Formula:

$$\text{BoT} = \text{Exports of goods} - \text{Imports of goods}$$

- Can be:
  - Favourable (exports > imports)
  - Unfavourable (imports > exports)

Balance of Payments (BoP):

- A comprehensive record of **all economic transactions** between residents of a country and the rest of the world.
- Includes both **visible and invisible items**.
- Components:
  - Current Account (goods, services, income, transfers)
  - Capital Account (investments, loans, banking flows)
- Always balances in accounting terms due to adjustments.

Key Differences:

Basis	Balance of Trade	Balance of Payments
Scope	Narrow	Broad
Coverage	Only goods	Goods + services + capital flows
Items	Visible items only	Visible + invisible items
Relation	Part of BoP	Includes BoT

Conclusion: Thus, Balance of Trade is a limited concept dealing only with trade in goods, whereas Balance of Payments is a comprehensive record of all international economic transactions.

Quick Tip

BoT = Goods only
BoP = BoT + Services + Capital + Transfers Always remember: BoT is a part of BoP.

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8. Describe the determination of equilibrium price and quantity under perfect competition.

Correct Answer: Under perfect competition, equilibrium price and quantity are determined by the intersection of market demand and market supply. The price at which quantity demanded equals quantity supplied is the equilibrium price, and the corresponding quantity is the equilibrium quantity.

Solution:
Concept: Under perfect competition, no individual buyer or seller can influence the market price. The equilibrium in the market is determined by the interaction of:

- Market demand (from consumers)
- Market supply (from producers)

Equilibrium Meaning: Market equilibrium refers to a situation where:

$$\text{Quantity Demanded } (\text{Q}_d) = \text{Quantity Supplied } (\text{Q}_s)$$

At this point:

- There is no shortage.
- There is no surplus.
- Price remains stable.

Determination of Equilibrium Price:

- The equilibrium price is determined at the point where the demand curve intersects the supply curve.
- At this price, buyers are willing to buy exactly the quantity that sellers are willing to sell.

Determination of Equilibrium Quantity:

- The quantity corresponding to the equilibrium price is called equilibrium quantity.
- It is the level of output where market clears completely.

Adjustment Mechanism:
1. Excess Demand (Shortage):

- When price is below equilibrium:

$$Q_d > Q_s$$

- Competition among buyers pushes price upward.

2. Excess Supply (Surplus):

- When price is above equilibrium:

$$Q_s > Q_d$$

- Sellers reduce price to clear unsold stock.

Graphical Representation:

- Demand curve slopes downward.
- Supply curve slopes upward.
- Their intersection gives equilibrium price and quantity.

Conclusion: Thus, under perfect competition, equilibrium price and quantity are determined by the interaction of market demand and supply, where quantity demanded equals quantity supplied, ensuring market stability.

Quick Tip

Equilibrium Condition:

$$Q_d = Q_s$$

Intersection of demand and supply curves gives both equilibrium price and quantity.
