

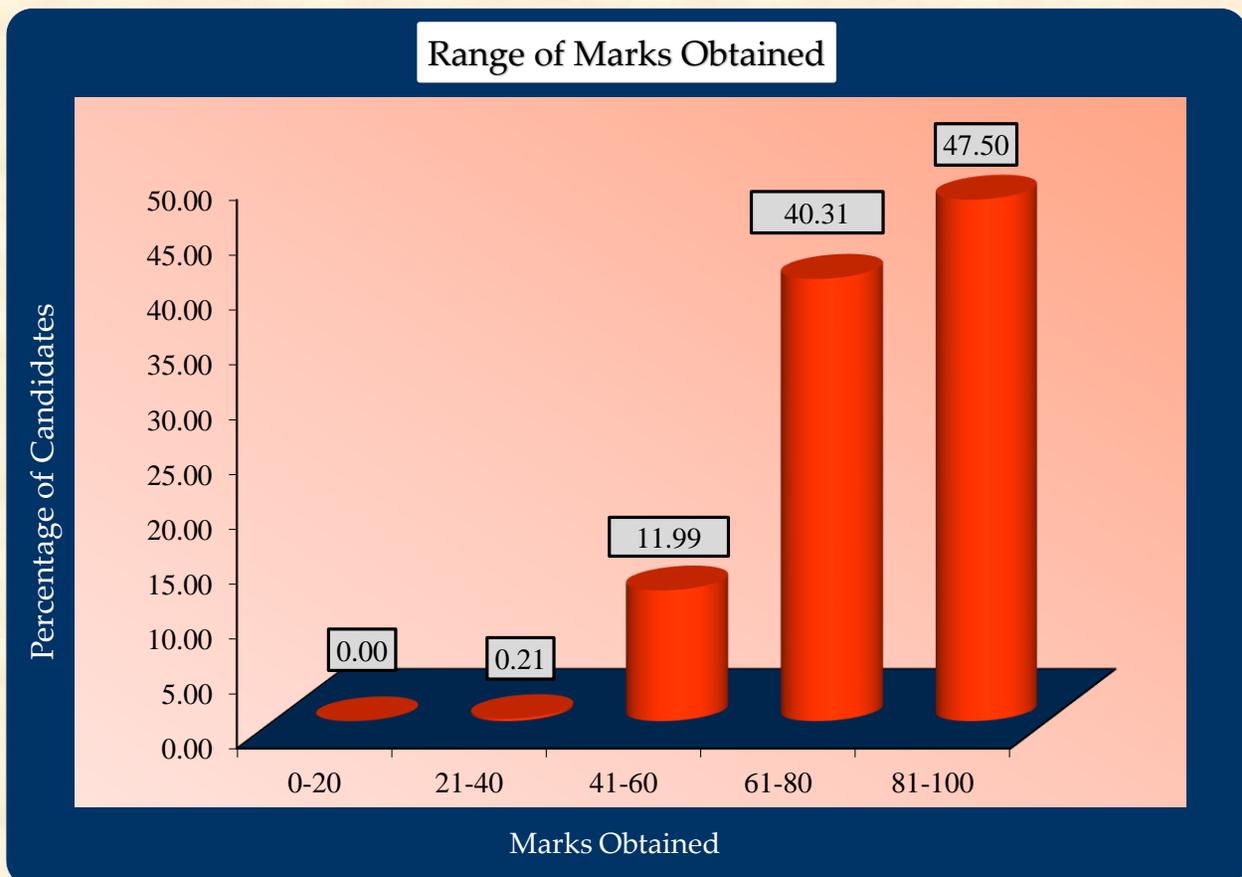
ECONOMIC APPLICATIONS

STATISTICS AT A GLANCE

Total Number of students who took the examination	15,350
Highest Marks Obtained	100
Lowest Marks Obtained	24
Mean Marks Obtained	78.46

Percentage of Candidates according to marks obtained

Details	Mark Range				
	0-20	21-40	41-60	61-80	81-100
Number of Candidates	0	32	1,840	6,187	7,291
Percentage of Candidates	0.00	0.21	11.99	40.31	47.50
Cumulative Number	0	32	1,872	8,059	15,350
Cumulative Percentage	0.00	0.21	12.20	52.50	100.00



ECONOMIC APPLICATIONS

ANALYSIS OF PERFORMANCE

Question 1

- (a) What is meant by labour in economics? [2]
- (b) Construct an imaginary individual supply schedule. [2]
- (c) What are complementary goods? Explain its impact on demand. [2]
- (d) State two qualities of a successful entrepreneur. [2]
- (e) Explain any one disadvantage of division of labour. [2]

Comments of Examiners

- (a) Most candidates failed to mention that the effort undertaken in labour was to earn money.
- (b) Candidates drew supply curves instead of schedules. Some incorrectly showed an inverse relationship between quantity supplied and price.
- (c) Most candidates were unable to explain the impact of a price change on the demand of its complementary good with a few writing examples of substitute goods instead.
- (d) Answered correctly by most candidates, however some incorrectly wrote the functions of an entrepreneur instead.
- (e) Most candidates answered correctly.

Suggestions for teachers

- ✓ Stress on the different points that form a part of the definition. Adequate practice must be given in defining different terms.
- ✓ Reinforce the difference between a schedule and curve with the help of a table and diagram.
- ✓ Advise students to read the question carefully.
- ✓ Students tend to get confused between the functions and qualities of an entrepreneur. This difference must be clearly brought out while explaining the topic.

MARKING SCHEME

Question 1.

(a)	Any physical or mental effort done by human beings with a view to earn money .
(b)	The schedule should show a positive relationship between the price and quantity supplied. At least four set of prices and quantity supplied must be shown.
(c)	Complementary goods have to be used together in order to satisfy a want . If the price of a commodity decreases then the demand for its complementary will increase .
(d)	<ul style="list-style-type: none"> - Capable of taking quick decisions - Complete knowledge about the business. - Farsightedness

	<ul style="list-style-type: none"> - Foresightedness - Quality of leadership - Honest so people will have confidence in him. - Any other relevant point (Any two)
(e)	<ul style="list-style-type: none"> - Monotony of work. - Lack of responsibility - Increased dependence - Lack of mobility - Fear of overproduction - One-sided development. /Retards development of personality - Lack of skill and personality. (Any one to be clearly explained)

Question 2

- (a) What do you understand by bank rate? [2]
- (b) Classify the following into fixed and working capital. Give Reasons:
 (i) A television set in a hotel room. [2]
 (ii) Iron-ore in a steel plant
- (c) Identify the market forms for the items given below: [2]
 (i) A single seller
 (ii) Homogeneous goods
 (iii) Product Differentiation
 (iv) A single buyer
- (d) Define Real Capital. Give *two* examples. [2]
- (e) When is the demand for a good said to be perfectly inelastic? [2]

Comments of Examiners

- (a) A few candidates correctly defined “bank rate”. However, many misinterpreted it with the rate at which the commercial banks give loans to the general public.
- (b) Candidates wrote incorrect answers with a few writing incorrect reasons to support their answers.
- (c) Answered correctly by most candidates. Some however, interchanged Perfect with that of Monopolistic Competition.
- (d) Incorrectly answered by most candidates with examples that were incorrect too.
- (e) Most candidates answered correctly, however a few drew the demand curve instead of explaining it.

Suggestions for teachers

- ✓ Important concepts must be regularly tested and reinforced.
- ✓ The different ways in which capital can be classified must be clearly explained with several relevant examples.
- ✓ Stress upon the important distinguishing feature of each type of market so that the students can easily identify them.

MARKING SCHEME

Question 2.

(a)	Bank rate is the rate at which the Central Bank lends to Commercial Banks or rediscounts their Bills of Exchange .
(b)	(i) It is fixed capital as it can be used again and again to provide a service. (ii) It is working/circulating capital as it can be used only once
(c)	(i) Monopoly (ii) Perfect Competition (iii) Monopolistic Competition/Oligopoly (iv) Monopsony.
(d)	Real capital refers to physical stock of goods used in production e.g. Machines, Raw materials etc. These are also known as concrete capital.
(e)	Demand is perfectly inelastic when demand does not respond to change in price. $E_p = 0$

Question 3

- (a) Briefly explain why direct taxes foster civic consciousness among people. [2]
- (b) What is the impact of division of labour on cost of production? [2]
- (c) The price of a commodity rises from ₹20.00 to ₹40.00. Consequently, its supply increases from 100 units to 400 units. Calculate the price elasticity of supply. [2]
- (d) State *two* agency functions of a Commercial bank. [2]
- (e) Give *two* reasons in favour of privatisation of Public Sector Enterprises. [2]

Comments of Examiners

- (a) Though candidates knew what a direct tax was, very few could explain clearly why it makes citizens conscious of government expenditure.
- (b) Incorrectly interpreted by most candidates, who failed to explain that division of labour would improve the efficiency of labour, the quality and quantity of work and therefore decreases the cost of production.
- (c) Common errors included not writing the formula and in certain cases the incorrect formula resulting in wrong answers.
- (d) Agency functions of a Commercial Bank were mixed up with miscellaneous functions. This resulted in most candidates writing generally incorrect answers.
- (e) Answered correctly by most candidates. Few however incorrectly wrote the demerits of Public sector.

Suggestions for teachers

- ✓ As this is an important merit of a direct tax, make the concept very clear to students through relevant examples
- ✓ Teach students in the form of a flow chart so that they know the logical flow of how division of labour decreases the cost of production.
- ✓ Stress the importance of writing the formula in any mathematical working. Instruct students to mention the degree of elasticity in the numerical problems.
- ✓ Classify the functions clearly with the help of a table and then elaborate upon each function clearly emphasizing the type of functions
- ✓ Assign students adequate practice on writing answers.

MARKING SCHEME**Question 3.**

(a)	As people are aware that they are paying a tax , they claim the right to know how the government is spending their money . They therefore develop a civic sense and become responsible citizens.
(b)	Division of labour enables the firm to expand output and produce better quality of goods subsequently leading to fall in the cost of production.
(c)	$\frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$ $\Delta Q = 400 - 100 = \frac{300}{20} \times \frac{20}{100} = 3\% \quad E_p > 1$
(d)	<ul style="list-style-type: none"> - Collects the payment of the bills of exchange, promissory notes, cheques etc on behalf of its customers - Collects the dividends and interests on shares and debentures - Buys and sell shares and debentures on behalf of their customers - Transfer funds from one branch of the bank to another - Arrange for the payment of loan instalments, insurance premiums, - taxes in accordance with the wishes of the customer. - Acts as a trustee and executor of wills of their customers <i>Any two</i>
(e)	<ul style="list-style-type: none"> - Creation of competitive environment - Clarity of objectives - Reduction in budgetary deficits - Greater flexibility in decision making - Improvement in managerial efficiency - Reduction in Public Debt <i>Any two</i>

Question 4

State whether the following statements are true or false. Give *one* reason for your answer.

- (a) Construction of dams can have negative impacts on the eco-system. [2]
- (b) The demand for inferior goods rises when the income of a consumer increases. [2]
- (c) A monopolist can sell the same product at different prices to different customers. [2]
- (d) During inflation the debtors gain and creditors lose. [2]
- (e) Labour is the beginning and end of production. [2]

Comments of Examiners

- (a) Answered correctly by most candidates.
- (b) Candidates failed to mention that consumers switch over to superior/better quality goods when income rises. However, a few wrote on Giffen goods instead.
- (c) Most candidates answered the question correctly.
- (d) Candidates were confused between debtors and creditors and therefore answered incorrectly.
- (e) Majority of candidates explained the role of labour as an active factor of production but failed to explain how labour acts both as a producer as well as a consumer.

Suggestions for teachers

- ✓ The difference between a Giffen good and an inferior good must be clearly explained through relevant examples.
- ✓ The effect of inflation on debtors and creditors is a very often asked question. An emphasis must be made to explain these concepts clearly to students.
- ✓ Explain clearly how labour acts as a producer during the production process and as a consumer at the end of the production process.

MARKING SCHEME

Question 4.

(a)	True. Dams can lead to deforestation, loss of flora and fauna, displacement of villages or any other relevant point.
(b)	False. The demand for inferior goods decreases as consumers prefer to shift to the consumption of better quality goods in order to enjoy a higher standard of living.
(c)	True. A monopolist is the only seller so he can charge whatever he wants from whomever he wants.
(d)	True. Debtors gain and creditors lose during inflation the value of money falls. Debtors gain because the purchasing power of money or the value of money was high when they borrowed but low at the time of return. While creditors have advanced money when its value was high and when debts are repaid they receive money of lower value.
(e)	True. Labour is the beginning and end of production. Goods and services are products of human labour and production takes place to satisfy the needs of people.

PART II (60 Marks)

Attempt any four questions from this Part

Question 5

- (a) What is demand? Explain how quantity demanded of a commodity X will be affected by: [7]
 - (i) An increase in the price of its substitutes.
 - (ii) Consumer credit facility.
 - (iii) Government policy.
- (b) What do you understand by efficiency of labour? Discuss any *two* causes of low efficiency of labour and suggest one measure to improve it. [8]

Comments of Examiners

(a) Answered correctly by most candidates.

(i) Candidates mentioned demand increases but were unable to state reasons. Only a few explained with clarity and relevant examples.

(ii) Most candidates mistook consumer credit to be income and hence offered incorrect explanations.

(iii) The impact of indirect taxes/ subsidies on demand of a commodity lacked conceptual clarity.

(b) The definition of efficiency of labour was not comprehended by most candidates who omitted key words/phrases. The second part of the question was answered correctly.

Suggestions for teachers

✓ While explaining, the factors affecting demand, highlight their impact on demand.

✓ While stating definitions in class, stress upon key words/phrases. Impress upon the need to mention these key words.

✓ Guide students in writing correct answers through regular practice.

MARKING SCHEME

Question 5.

(a)	<p>Demand is the want backed by ability and willingness to pay.</p> <p>(i) An increase in the price of its substitutes will bring about an increase in the quantity demanded of X as people will prefer X to its substitute.</p> <p>(ii) Consumer credit will increase demand for good X. Credit facility motivates consumers to buy more.</p> <p>(iii) When the government imposes additional sales tax then the price of commodity X increases, therefore, the quantity demanded will decrease. When the government gives subsidies, prices fall and therefore demand increases.</p>
(b)	<p>It is the productive capacity of labour. It refers to the quality and quantity of goods and services which can be produced during a given time period.</p> <ul style="list-style-type: none"> - Climatic factors - Working condition - Education and training - Experience of the worker - Duration of work - Level of wages - Machinery and equipment - Employer- employee relations - Racial and hereditary qualities <p><i>Any two to be explained clearly.</i></p> <p>Suggestions to improve labour efficiency:</p> <ul style="list-style-type: none"> - Better working condition - Better education and training - Fair and prompt payment of wages. - Better machinery - Efficiency of the organizer <p><i>Any one</i></p>

Question 6

- (a) With reference to land as a factor of production: [7]
- Why is it considered a 'passive' and an 'indestructible' factor of production?
 - Mention *two* ways in which land is different from capital.
 - Discuss *two* important functions of land.
- (b) What is meant by an Indirect tax? Give *two* examples. Explain briefly *two* merits and *two* demerits of Indirect tax. [8]

Comments of Examiners

- (a) Most candidates missed out on scoring well due to explanations that showed lack of conceptual clarity. There was no corresponding basis of difference between land and capital. Some wrote on the factors affecting productivity instead of the functions of land.
- (b) Most candidates wrote incorrect and irrelevant answers which exposed a lack of understanding. Errors were committed in writing the merits and demerits of Indirect tax.

Suggestions for teachers

- ✓ Advise students to write corresponding differences while distinguishing between two concepts.
- ✓ While explaining give relevant examples to make students understand better.
- ✓ Give ample practice to students on explaining the sub headings in Part II answers.

MARKING SCHEME

Question 6.

(a)	(i)	Considered passive as it cannot produce anything on its own. It requires labour and capital to produce anything. It is indestructible because man cannot destroy it and it cannot go out of existence.											
	(ii)	<table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th>Land</th> <th>Capital</th> </tr> </thead> <tbody> <tr> <td>Natural factor of production</td> <td>Man-made factor of production</td> </tr> <tr> <td>Supply of capital is fixed</td> <td>The supply of capital can be adjusted</td> </tr> <tr> <td>Land is indestructible</td> <td>Capital can be destroyed</td> </tr> <tr> <td>Land is immobile</td> <td>Capital is comparatively more mobile.</td> </tr> </tbody> </table>	Land	Capital	Natural factor of production	Man-made factor of production	Supply of capital is fixed	The supply of capital can be adjusted	Land is indestructible	Capital can be destroyed	Land is immobile	Capital is comparatively more mobile.	(Any two to be mentioned)
Land	Capital												
Natural factor of production	Man-made factor of production												
Supply of capital is fixed	The supply of capital can be adjusted												
Land is indestructible	Capital can be destroyed												
Land is immobile	Capital is comparatively more mobile.												
	(iii)	<ul style="list-style-type: none"> - Determines agricultural production - Supply of natural resources - For industrialization and urbanization. - Transport - Forest resources - Economic growth - Employment (Any two to be explained.) 											

<p>(b) Indirect taxes are taxes levied on goods and services / Tax on expenditure /where the impact and incidence are on different people / where the burden can be shifted (any one) e.g. Sales Tax, Excise duty, VAT etc.</p> <p>Merits</p> <ul style="list-style-type: none"> (i) Convenience (ii) Elastic (iii) Less chances of tax evasion (iv) Wide coverage (v) Equity (vi) Social Welfare (vii) Promotes production and investment. <p>Demerits:</p> <ul style="list-style-type: none"> (i) Not equitable/Regressive (ii) Greater cost of collection (iii) Inelastic (iv) Does not foster civic consciousness (v) Uncertain (vi) Discourages savings (viii) Inflationary 	<p>(Any two should be explained briefly).</p> <p>(Any two should be explained briefly)</p>
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Question 7

- (a) Define Ecosystem. Explain any two impacts of each of the following on the eco system: [7]
- (i) Industrialisation
 - (ii) Automobiles
 - (iii) Dwelling houses.
- (b) (i) Define a monopolistically competitive market. Give two examples of this market structure. [8]
- (ii) Explain two important features of this type of market. State one similarity and one difference between monopolistic competition and perfect competition.

Comments of Examiners

- (a) Answered correctly by most candidates. However, some wrote only pollution and deforestation as impacts for all three.
- (b) Candidates mistook monopolistically competitive market to be monopoly and hence answered incorrectly. Few candidates were unable to write even one similarity and one difference correctly.

Suggestions for teachers

- ✓ There is a tendency to omit lessons which is felt that students can manage on their own. As a result, students tend to write general answers. The impact on eco system must be listed and each one elaborated upon.
- ✓ A comparative study of the different markets-similarities and differences, must be done in a tabular form at the end of the lesson

MARKING SCHEME

Question 7.

- (a) Ecosystem refers to a system that results from the integration of living and non-living factors of the environment.
- (i) Effect of Industrialisation
1. It leads to reckless exploitation of natural resources.
 2. Accumulation of industrial waste causes immense threat to environment. E.g. Industrial waste such as dangerous chemicals like acids, metallic compounds etc.
 3. Air, water, noise pollution
- (ii) Automobiles
1. This is a major source of pollution, they pollute the air and cause health hazards. Vehicles emit carbon monoxide, hydrocarbons etc.
 2. They are a major cause for noise pollution.
 3. Global warming
- (iii) Dwelling houses
1. In rural areas part of crop land is used to construct houses and this has affected cropland ecosystem adversely.
 2. Demand for houses has increased demand for land and deforestation.
 3. Increase in demand for wood used for construction and increase in demand for natural resources such as sand and water.
 4. Huge pressure on sanitation and quality of life.

- (b) (i) It is a market structure where a large number of firms sell closely related goods and there is freedom of entry and exit (*any relevant example can be given*)
- (ii)
- Large number of buyers and sellers
 - Sellers sell differentiated products
 - Freedom of entry and exit
 - Presence of selling costs
 - Imperfect knowledge
 - Non-price competition
 - Individual price policy
 - Normal profit in the long run
- Any two to be explained clearly*
- (iii) Similarities
1. Large number of buyers and sellers
 2. Freedom of entry and exit
- Differences-

Monopolistic Competition	Perfect Competition
Differentiated Product	Homogeneous Product
Imperfect knowledge	Perfect Knowledge
Individual price policy	Price taker
Presence of selling cost	No selling cost
Relatively elastic demand curve	Perfectly elastic demand curve

(Any **one similarity** and **one difference** to be stated)

Question 8

- (a) Define money. Explain how money can: [7]
- (i) Overcome the difficulties of double coincidence of wants.
 - (ii) Act as a store of value
 - (iii) Help producers employ various factors of production.
- (b) Explain clearly *four* ways by which the State can promote economic growth and development. [8]

Comments of Examiners

- (a) Answered correctly by most candidates, however a few offered explanations that were incorrect or lacked clarity and showed a poor understanding of the topic.
- (b) Most candidates answered correctly. In few instances, however the sub-heading and the explanations did not match with a few candidates writing the same answer under different headings.

Suggestions for teachers

- ✓ Stress the importance of definitions and undertake through revision on important topics and definitions.
- ✓ Give very clear cut explanations so that students understand concepts and the logic to enable a better explanation.

MARKING SCHEME

Question 8.

(a)	“Anything that is generally acceptable as a means of exchange, and at the same time acts as a measure and store of value” (i) Under barter system a person had to search for people who not only wanted his goods but also possessed the goods he wanted. With the usage of money he could easily sell his goods and with the money buy any goods he wanted. (ii) People could keep their wealth in the form of money. They could store it and use it later to purchase goods and services. Money enables people to save a part of their current income for spending in the future. (iii) As all the factor incomes are expressed in terms of money, the producer can easily calculate how much he has to pay for each factor of production. This makes it easier for him to decide which factors to employ and in what quantity.
(b)	State promotes economic development by (i) Reducing income inequality (ii) Promoting industrialization

- (iii) Promoting economic infrastructure
 - (iv) By promoting education and public health
 - (v) Promoting basic and key industries
 - (vi) Promoting social security for the weaker section.
 - (vii) Promoting employment generating activities. Etc.
- Any four of the above or any other relevant matter could be mentioned.*

Question 9

- (a) (i) What is the impact of the behaviour of cost of production on elasticity of supply? [7]
- (ii) Draw and explain the following degrees of elasticity of supply.
- i. $E_p = \infty$
 - ii. $E_p = 0$
 - iii. $E_p > 1$
- (b) What are Commercial Banks? Explain clearly three methods adopted by Commercial Banks to borrow money from the public. [8]

Comments of Examiners

(a)

(i) Many candidates were unable to comprehend the question and wrote the definition of elasticity of supply instead.

(ii) Candidates drew diagrams which were not properly labelled on the X and Y axis. Some even drew demand curves instead of supply curves.

Few candidates also overlooked the part of the question where they were asked to explain and just drew the curves.

(b) Candidates failed to write the key phrases like 'Financial institutions', 'work for profit'. They just mentioned about accepting deposits and giving loans. In the latter part of their answers they wrote about the different methods of lending of commercial banks instead of the various types of deposits accepted by Commercial banks.

Suggestions for teachers

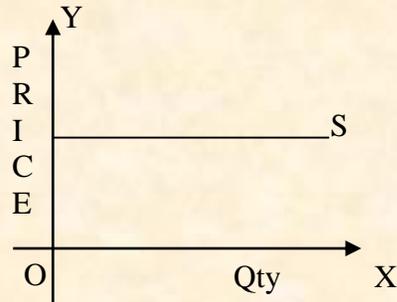
- ✓ Give enough practice in drawing supply and demand curves.
- ✓ Instruct students to draw properly labeled diagrams.
- ✓ Advise students to use their reading time to carefully read the questions and note what has been asked.
- ✓ Guide students in the different ways in which a question can be asked.

MARKING SCHEME

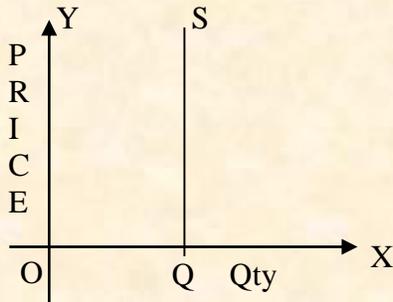
Question 9

(a) (i) Fall in the cost of production will cause highly elastic supply and an increase in the cost of production will make supply highly inelastic in nature.

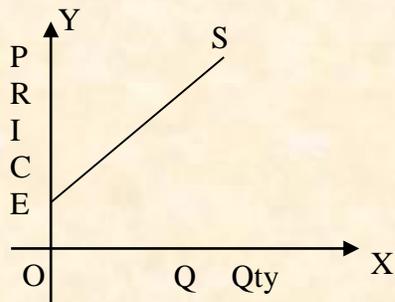
(ii) $E_p = \infty$



(ii) $E_p = 0$



(iii) $E_p > 1$



Diagrams should be explained.

(b) Commercial Banks are financial institutions which borrow money from the public in the form of deposits and advance money to the public in the form of short term loans. These are profit oriented institutions.

Methods adopted to borrow money from the public:

- (i) Fixed deposits
- (ii) Current Account deposits
- (iii) Savings deposits
- (iv) Recurring deposits (*explain any three of the above*).

Question 10

- (a) Read the extract given below and answer the questions that follow:

Aug 17, 2015

Mumbai: Bankers today said, the sharp fall in inflation to 3.78% for July has raised hopes of another rate cut by RBI at September review of the policy.

“Obviously, if more and more and more positive news on inflation front comes, it’s a reasonable expectation to expect that rates will be cut at the September policy”, reported Mr. Aditya Puri, the Managing Director of HDFC Bank. He said, the Governor of RBI, Mr. Raghuram Rajan had earlier said that RBI is actively looking at rate cut.

- (i) Name the policy implemented by RBI to control and regulate money supply. [7]
- (ii) Define creeping inflation. What is its impact on the economy?
- (iii) Explain how the following measures are adopted by RBI to control inflation:
- Change in Reserve Ratio
 - Credit Rationing.
- (b) Explain four ways by which an entrepreneur can promote economic development. [8]

Comments of Examiners

- (a)
- Candidates were unable to state the policy as ‘Monetary Policy’ with most not being able to differentiate between the Monetary and Fiscal Policy.
 - Though most candidates wrote on creeping inflation, they failed to explain the positive impact of the same.
 - Most candidates were unable to understand the question, that showed lack of conceptual clarity in concepts associated with measures of Credit Control.
- (b) Most candidates wrote about the functions of an entrepreneur instead of their role in economic development.

Suggestions for teachers

- ✓ Take care while explaining concepts that require application and understanding. Thorough revision must be undertaken to ensure that the students understand properly
- ✓ Ensure that students understand the difference between qualities, functions of an entrepreneur. Explain their role in economic development by taking examples of modern day entrepreneurs to whom they can relate to.

MARKING SCHEME

Question 10.

(a)	<p>(i) Monetary policy. (Quantative and Qualitative credit control methods.</p> <p>(ii) Creeping inflation refers to a situation when the price level increases at a very slow rate e.g. 2% to 3%. This prevents economic stagnation and encourages growth.</p> <p>(iii) Cash reserve ratio is a direct and quick method to control credit. Every Commercial Bank must keep a certain percentage of their deposits with RBI as cash reserves. During inflation, the RBI will raise the CRR, this will subsequently reduce the volume of loanable funds with the Commercial banks and reduce Credit flow.</p> <p>(iv) Credit Rationing</p> <p>Central Bank or RBI will fix the maximum amount of loans that can be given by Commercial Banks. The Central Bank may fix the maximum ratio of loans and advances that a Commercial Bank can lend to its total deposits.</p>
(b)	<ul style="list-style-type: none">- Performs the role of an administrator- Properly utilizes the labour force- Plays the role of an innovator- Generates employment- Higher export income- Generates competition in the economy <p style="text-align: right;"><i>Any other relevant point. Any four to be explained clearly</i></p>

Topics/Concepts found difficult/confusing:

- Elasticity of Supply
- Role of Entrepreneur in Economic Development
- Credit Rationing
- Monopoly and Monopolistic Competition
- Agency functions of Banks.

Suggestions for students:

- Avoid selective studying.
- Practice graphs and diagrams and remember to label them accordingly.
- Solve as many question papers as possible to get an idea about the different ways in which questions can be asked.
- Spend the reading time in reading the questions carefully and underlining the points asked.
- Note the points discussed in the class regarding the important points and the methods of answering.
- Allocate sufficient time for Part II.