

ECONOMIC APPLICATIONS

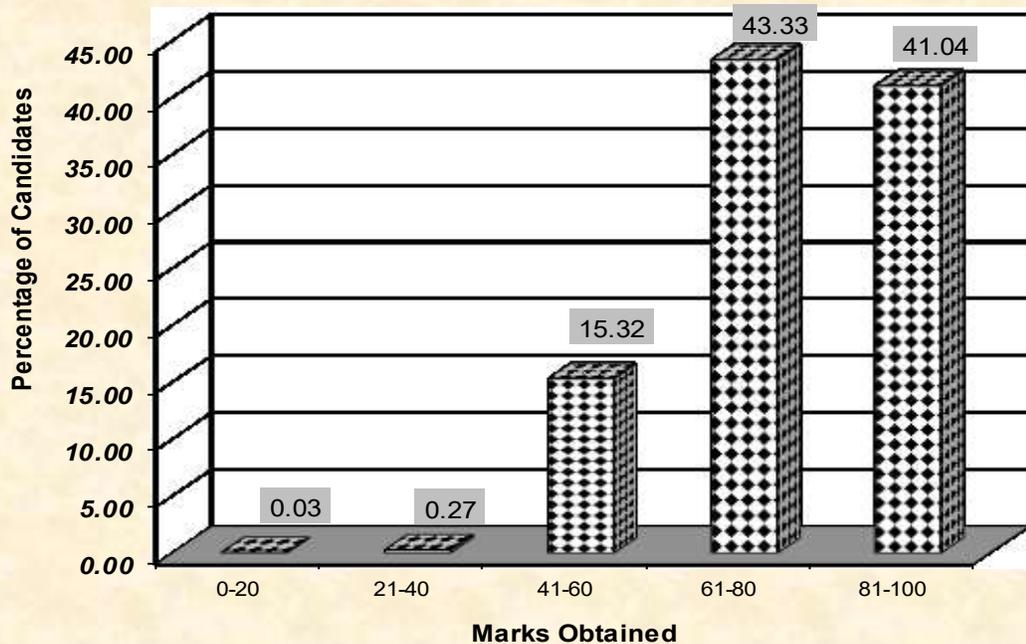
STATISTICS AT A GLANCE

Total Number of students who took the examination	15,276
Highest Marks Obtained	100
Lowest Marks Obtained	13
Mean Marks Obtained	76.91

Percentage of Candidates according to marks obtained

Details	Mark Range				
	0-20	21-40	41-60	61-80	81-100
Number of Candidates	5	42	2,341	6,619	6,269
Percentage of Candidates	0.03	0.27	15.32	43.33	41.04
Cumulative Number	5	47	2,388	9,007	15,276
Cumulative Percentage	0.03	0.31	15.63	58.96	100.00

Range of Marks Obtained



ECONOMIC APPLICATIONS

ANALYSIS OF PERFORMANCE

Question 1

- (a) Complete the following Individual Demand Schedule:

[2]

Price in ₹	Quantity of sugar demanded in kgs.
5	20
6	
7	
8	
9	

- (b) Why is capital called a 'produced means of production'?

[2]

- (c) State *two* assumptions of the Law of Supply.

[2]

- (d) What is the difference between a loan and an overdraft?

[2]

- (e) State any *two* drawbacks of State enterprises.

[2]

Examiners' Comments

- (a) This question was answered correctly by most candidates. However a few established a positive relationship between price and demand that was incorrect with the numbers being discontinuous in some cases.
- (b) Candidates wrote partial and incomplete answers. They failed to mention that capital was produced by man and only mentioned that it was necessary for production.
- (c) There was confusion between the assumptions of Laws of Demand and Supply. Candidates wrote the assumptions of demand instead of supply.
- (d) Though candidates differentiated between an overdraft and a loan, they failed to mention that the overdraft facility is available only to current account holders. In some cases, the differences were not corresponding.
- (e) Answered correctly by most candidates. Some answered only in phrases.

Suggestions for teachers

- Assign adequate practice for students in drawing up correct demand schedules. Stress upon the opposite relationship between demand and price.
- While defining any term, emphasise the key words/ phrases to be mentioned and explain to students the meaning of the key phrases.
- After the teaching of lessons on Demand and Supply, recapitulate using the comparative method. This will help students to understand the difference between demand and supply.
- Projects on banking should be assigned to enable students have a better idea about loans and deposits.
- Stress upon the need to answer in full sentences.

MARKING SCHEME

Question 1.

- (a) The quantity should be in decreasing order showing the inverse relationship between price and quantity demanded.
- (b) This is because capital is a man-made factor of production and it is used to further produce other goods and services.
- (c)
- There is no change in the prices of related goods
 - The technology level remains constant
 - The cost of all factors of production remains the same
 - There is no change in the goals of the firm
 - Taxation policy of the government does not change
 - No change in the price of the commodity in the near future. (Any two)

(d)

LOAN	OVERDRAFT
The commercial bank lends money to the customer against some kind of security	The bank allows the depositor to withdraw money in excess of the amount deposited in his account.
Usually for a longer period of time.	It is for a shorter period of time.
The interest is charged for the entire loan amount	The interest is charged only for the excess amount withdrawn.

(Any one difference)

(e) Limitations of Public Sector

- Conflict of objectives
- Political interference
- Delay in decision making
- Underutilization of capacity
- Frequent strikes and lockouts. (Any two)

Question 2

- (a) List *two* factors affecting the supply of labour. [2]
- (b) If price of X increases, then demand for Y too increases. [2]
What is the relationship between goods X and Y? Give an example.
- (c) State *two* Primary functions of money. [2]
- (d) What is meant by Monopsony? Give an example. [2]
- (e) Define Fiscal Policy. [2]

Examiners' Comments

- (a) The characteristics of labour were explained instead of factors affecting supply of labour by most candidates.
- (b) The word 'too' was interpreted incorrectly by candidates who took it to be complementary goods instead of substitutes.
- (c) Candidates were not clear about the primary functions of money. Most mixed it up with the secondary functions.
- (d) A few candidates mistook 'monopsony' for monopoly and hence wrote irrelevant examples.
- (e) Candidates missed key terms while defining fiscal policy. They did not mention all the instruments of fiscal policy.

Suggestions for teachers

- Cover certain basic concepts to enable students to comprehend the topic extensively.
- Adequate practice on answering application based questions must be assigned.
- List the functions of money in a tabular form so that students can clearly understand and differentiate between the primary, secondary and contingent functions of money.
- Revision and practice of previous year question papers should be undertaken on a regular basis.

MARKING SCHEME

Question 2.

- (a) Factors affecting supply of labour;
 - Population of a country
 - Age structure
 - Immigration and Emigration
 - Wage rate
 - Number of able bodied persons
 - Labour force participation(Any two)
- (b) They are substitutes. Eg. Tea and Coffee (Any other relevant examples)
- (c) (i) Medium of exchange
(ii) Measure of value (No explanation required)
- (d) Monopsony:
Single buyer
The buyer controls the market (Any other relevant point)
e.g. (1) The Government of India is the single purchaser of fighter air crafts in India.
e.g. (2) Government of India is the single buyer of Warships (Any one example)
- (e) Fiscal policies are implemented by the Government, these are policies which are relevant to public revenue, public debt and public expenditure.

Question 3

- (a) State the market form of the following commodities:
 - (i) Railways
 - (ii) Automobiles
 - (iii) Shampoos
 - (iv) Fighter Aircrafts.

[2]

- (b) What is meant by shifting of tax burden?
To which tax is this relevant? [2]
- (c) A consumer purchased 10 units of a commodity when its price was ₹5 per unit. He purchases 12 units of the commodity when price falls to ₹4 per unit. Calculate the price elasticity of demand for the commodity. [2]
- (d) State *two* 'active' factors of production. Give reasons to support your answer. [2]
- (e) Differentiate between Floating and Sunk capital. Give an example for each. [2]

Examiners' Comments

- (a) Most candidates were unable to identify the correct market forms especially for *automobiles* and *shampoos*.
- (b) The concept of 'shifting of tax burden' was not clearly understood by most candidates. However they correctly linked it to indirect tax.
- (c) Candidates missed writing the formula and in some cases wrote the wrong formula (interchanging the numerator and the denominator) before proceeding with their calculations. They lost marks for not mentioning that the good was proportionately elastic.
- (d) The 'active' factors of production was not correctly identified by many candidates-they wrote capital instead of entrepreneur. They also failed to justify why these factors of production were considered active.
- (e) Most candidates failed to explain the differences and took wild guesses.

Suggestions for teachers

- Use appropriate and varied examples to make students understand the concept of markets better.
- Ensure that important concepts are taught well and reinforce their learning by frequent discussion.
- Train students to solve numerical problems step-wise and stress upon writing the formula and mentioning whether the good in question is relatively elastic, relatively inelastic or proportionately elastic.
- Explain even simple concepts like 'active' and 'passive' factors of production.
- Use day to day examples /situations for better application skills.

MARKING SCHEME

Question 3.

- (a) (i) Railways- Monopoly
(ii) Automobiles- Oligopoly/Monopolistic competitive
(iii) Shampoos- Monopolistically competitive
(iv) Fighter Aircrafts- Monopsony
- (b) The tax is imposed on one person but is finally paid partly or wholly by another, that is, the tax burden is shifted to someone else. This is possible in the case of indirect tax like sales tax, custom and excise duties.

(c) $Q=10$ $\Delta Q=2$
 $P=5$ $\Delta P=1$

Price Elasticity or $\sum_p = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q} = \frac{2}{1} \times \frac{5}{10} = 1$ or Unitary Elastic or $\sum_p = 1$

(d) Labour and Entrepreneur are considered to be active factors of production because without these land and capital are not productive.

(e)

Floating Capital	Sunk Capital
If the capital can be used in alternative lines of production	It has a specific use and cannot be used as input in any other line of production.

Any relevant example for each

Question 4

- (a) State *two* advantages of opening a bank account. [2]
- (b) ‘The role of the State is important in developing the economic infrastructure of a developing economy’. Give *two* reasons to support your answer. [2]
- (c) State the impact of an increase in Cash Reserve Ratio on loanable funds. [2]
- (d) Classify the following types of tax into direct and indirect taxes:
- (i) Entertainment tax
 - (ii) Income tax
 - (iii) House tax
 - (iv) Sales tax. [2]
- (e) Which of the following is a function of a Commercial Bank? Give a reason to support your answer.
- (i) Acting as a lender of last resort.
 - (ii) Deciding what is legal tender.
 - (iii) Determining monetary policy.
 - (iv) Providing cash credit facility. [2]

Examiners' Comments

- (a) Most candidates answered correctly.
- (b) General answers were written and only a few candidates could actually explain the role of the State. Only a few candidates mentioned the long 'gestation period'.
- (c) Though most candidates knew what CRR was, they failed to link it with loanable funds.
- (d) Answered correctly by most candidates. Some confusion about house tax persisted as some candidates identified it as an indirect tax.
- (e) Most candidates could identify that *providing cash credit facility* was a function of Commercial banks but could not provide a suitable reason to support their answers.

Suggestions for teachers

- Guide students to write complete answers.
- Use economic terms in the explanation of concepts associated with Economics to reinforce the learning process.
- Explain the credit control measures with the help of flow charts - the step by step action can easily be understood by this method.
- Encourage students to apply different concepts.
- Discuss the different ways in which questions may be posed and the best options to answer them.

MARKING SCHEME

Question 4.

- (a) - Money is safer
- Earns interest
- Inculcates the habit of savings/mobilizes savings
- Safe transactions through cheques
- Facilities of overdraft, discounting Bills of exchange, ECS
(Any other relevant points) [Any two]
- (b) The state has to develop the economic infrastructure as they are needed for economic development. The Private Sector do not enter this field as these sectors:
 - (i) need large capital
 - (ii) they have long gestation periods
- (c) An increase in Cash Reserve Ratio means that the Commercial Banks have to keep more cash reserve with the Central Bank and therefore will have less money to lend. So, the loanable fund will come down.
- (d) (i) Entertainment tax-Indirect tax
(ii) Income tax- Direct tax
(iii) House tax – Direct tax
(iv) Sales tax- Indirect tax
- (e) (iv) **Providing cash credit facility** – this is because all the other statements are functions of a Central Bank.

Question 5

- (a) What do you understand by *division of labour*?
Explain *three* ways by which division of labour is beneficial to producers. [7]
- (b) State the Law of Demand. Explain *three* exceptions to this law. [8]

Examiners' Comments

- (a) The definition of 'division of labour' was improper in many cases. Candidates wrote that labour was divided (skilled, semi-skilled and unskilled) instead of the production process being divided. The advantages of division of labour was written in general instead of being specific to producers.
- (b) The Law of Demand was stated without the *Ceteris Paribus* or the assumption of *other things being equal*. The exceptions to the Law of Demand were relatively better explained, however in certain cases the subheading and the explanations did not match.

Suggestions for teachers

- Discuss the benefits in class and ask students to categorize them as benefits to producers, consumers and workers.
- Visit a manufacturing unit to show them how division of labour works. Alternately videos on this can be shown.
- Impress upon the need to write definitions correctly. Identify the key words and phrases which should be mentioned in a definition

MARKING SCHEME

Question 5.

- (a) Allocation of different parts of the production process to different workers or different groups of workers according to their ability and aptitude.
- Increases the quantity of production
 - Increases the quality of production
 - Reduces the cost of production
 - Greater possibilities of production
 - Saving of time and tool
 - Benefits of large scale production (Any three)
- (b) Other things being equal, an increase in price will bring about a fall in demand and a decrease in price will bring about an increase in demand.
- Exceptions to the Law of Demand
- Conspicuous consumption
 - Bandwagon Effect
 - Snob effect
 - Insignificant share in the consumer's income
 - Veblen Effect
 - Giffen's Paradox
 - Speculative activities
 - Future changes in price (Any three)

Question 6.

- (a) What is meant by migration?
Explain *three* ways by which migration impacts the ecosystem. [7]
- (b) (i) What is capital formation?
(ii) What are the *three* stages of capital formation?
(iii) Explain *three* reasons for the low rate of capital formation in India. [8]

Examiners' Comments

- (a) Very general and vague answers were written. In many cases the effects explained did not pertain to the eco-system. Some candidates even wrote about the migration of animals and birds from colder regions to warmer regions.
- (b) A partial definition of capital formation was written by most candidates. They spent a lot of time in writing a detailed account of the stages of capital formation which was irrelevant to the question asked, However the causes for the low rate of capital formation was answered correctly.

Suggestions for teachers

- Cover all topics given in the scope of the syllabus.
- Question students on these topics.
- Projects must be assigned to ensure a comprehensive understanding.
- Adequate practice in writing different types of answers must be assigned so that students avoid writing irrelevant points.

MARKING SCHEME**Question 6.**

- (a) Migration refers to movement of people from one region to another within the country due to various reasons.
Migration from thinly populated regions to thickly populated regions causes greater pressure upon natural resources and destruction of ecosystem.
Impacts are the following:
1. Deforestation, cutting of trees to construct houses.
 2. Growing volume of municipal waste, domestic waste due to poor sanitation and poor waste disposal system.
 3. Migration to thickly populated areas will cause a sharp increase in vehicular traffic leading to environmental pollution.
 4. Increase in demand for water and depletion of water resources. (Any three)
- (b) A change in the stock of capital in any economy during a particular time period. Three stages of capital formation :
- (i) Creation of Savings
 - (ii) Mobilisation of savings
 - (iii) Investment of mobilized savings
 - Causes of low capital formation in India:
 - Lack of ability to save
 - Lack of willingness to save
 - Inadequate mobilization of savings
 - Problems of investment
 - Problems of investment
 - Tax policies
 - Fear of Government takeover (Any three)

Question 7

- (a) Who is an entrepreneur? Explain any *three* functions of an entrepreneur. [7]
- (b) With reference to the taxation policy:
- (i) Mention *three* differences between direct taxes and indirect taxes.
- (ii) Differentiate between progressive and regressive taxes giving an example for each. [8]

Examiners' Comments

- (a) The distinction between functions and qualities of an entrepreneur posed a challenge to candidates as they tend to mix-up the two terms. The two important functions of risk bearing and co-ordination were missing in many answers.
- (b) Many candidates wrote the basic differences without an explanation. Differences in some cases were written in phrases and not complete sentences. Candidates lacked the conceptual clarity on progressive and regressive taxes and what was expected of them to answer- some drew graphs or tables. The examples mentioned were incorrect in many cases.

Suggestions for teachers

- While explaining, stress on the important functions which distinguishes an entrepreneur from other factors of production.
- Clearly differentiate between the functions and qualities of an entrepreneur.
- Do a comparative study of the different types of taxes and tax systems.
- Revision of these concepts is essential for a better understanding.

MARKING SCHEME

Question 7.

- (a) A person who carries the risk of business and co-ordinates the activities of all the other factors of production.
- Risk bearing
 - Decision making
 - Co-Ordination and Supervision
 - Distributive functions
 - Innovative function
- (Any three)

- (b) (i)

DIRECT TAX	INDIRECT TAX
Imposed upon income, wealth and property	Indirect taxes are imposed on expenditure on goods and services
They are paid by the person on whom it is imposed	They are imposed on one person but the burden is borne by another
They cannot be shifted on to others	These taxes can be shifted
Evadable	Not evadable
Usually progressive in nature	Usually regressive in nature
Promotes civic consciousness	Does not promote civic consciousness

(Brief explanation of any three)

- (ii) Progressive- When the rate of tax increases as the taxpayer's income/ tax base increases

Regressive- When the rates of tax decreases as the income /tax base increases.

Example of a progressive tax is when Government imposes a tax at the rate of 10% on an income between ₹50,000.00 and ₹1,50,000.00 and 20% on individuals who earn more than ₹1,50,000.00 per annum.

1. Example of regressive tax : If Government collects ₹100 per year as tax from a person whose income is ₹1,000.00 per year, the rate of tax is 10%. Suppose a person with an income of ₹3,000.00 per year pays ₹150.00 as tax, the rate of tax is 5%. $\left(\frac{150}{3000} \times 100\right)$.

Thus the average tax rate has fallen with an increase in income and thus is regressive in nature.

Question 8

- (a) What do you understand by price elasticity of demand? With the help of diagrams explain the conditions when:

(i) $\sum_p > 1$

(ii) $\sum_p < 1$

(iii) $\sum_p = 1$

[7]

- (b) With reference to the Central Bank of a country:

(i) State *two* reasons for the need of a Central Bank in a country.

(ii) List *two* ways in which a Central Bank acts as a Banker to the Government.

(iii) What is meant by open market operations? How does it act as a method to control credit?

[8]

Examiners' Comments

- (a) Candidates explained the price elasticity of demand correctly in most cases. They however were confused about elastic and inelastic demand. The diagrams were incomplete –not labelled, the curves were not named and in some cases the curves were missing.
- (b) Candidates wrote about the functions of Central bank instead of the need for a Central bank. In the second part of the question, they were confused between a Central bank's function as a banker to the government and as a banker to the commercial banks. They were unable to describe how open market operations control inflation.

Suggestions for teachers

- Train students to draw complete diagrams.
- While explaining ensure that complete diagrams are drawn on the board.
- Instruct students to read questions carefully and make a note of what is being asked. Advise them to underline the key words in the question.
- E.g., reasons for the need of a Central bank in a country; acts as a Banker to the Government
- Use flowcharts to explain Credit control methods.

MARKING SCHEME

Question 8.

(a) Price elasticity of demand is the responsiveness of demand to a change in price.

OR

$$\sum_p = \frac{\% \text{change in quantity}}{\% \text{change in price}}$$

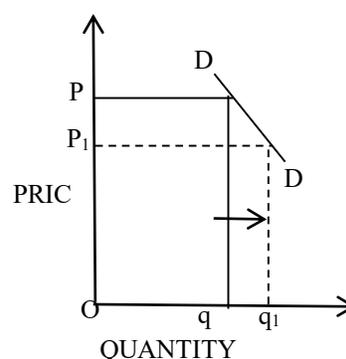
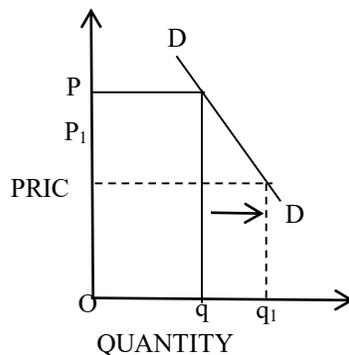
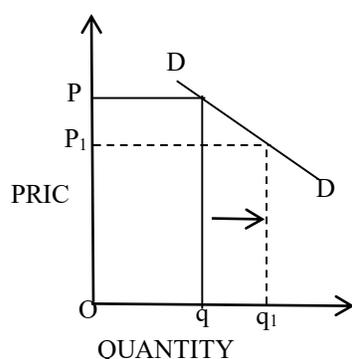
OR

$$\sum_p = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P}$$

Relatively elastic demand: when a small change in price will bring about a large change in quantity demanded

Relatively Inelastic Demand: when a large change in price brings about only a small change in quantity demanded

Unitary elastic: When a change in price brings about a proportional change in quantity demanded.



(b) (i) A Central bank is needed because:

- To supervise, regulate and control the monetary sector of an economy.
- To control and maintain uniformity in issue of currency
- For proper maintenance of the banking activities of the government
- To control the credit expansion or contraction activities of the commercial banks
- To achieve full employment and maintain price stability (Any two)

(ii) As banker to the government:

- Receives deposits from the government and collects cheques deposited in government accounts
- Purchases and sells government securities
- Provides cash to the government as required for payment of wages and other cash requirements.
- Makes payments on behalf of the government
- Advances short term loans to the government
- Supplies foreign exchange to the government for repaying external debt or making other payments. (Any two)

(iii) Open Market Operations:

This refers to purchase and sale of Government securities or treasury bills by the Central Bank. At the time of inflation, the Central Bank sells Government securities in the open market to reduce money supply. These securities are purchased by Commercial Banks and

other financial institutions. When Commercial Banks and other financial institutions invest on these securities, the volume of loanable fund will decline leading to higher interest rate and subsequently fall in credit flow.

Question 9

- (a) What is Perfect Competition?
Describe any *three* characteristics of Perfect Competition. [7]
- (b) Give a reason for each of the following statements:
- (i) The fixed income group is adversely affected during periods of inflation.
 - (ii) Selling costs are higher in Monopolistic Competition.
 - (iii) High rates of taxes reduce the savings capacity in an economy.
 - (iv) The demand for newspaper is inelastic. [8]

Examiners' Comments

- (a) The definition of perfect competition was answered correctly by most candidates though some failed to mention the presence of homogeneous products. The characteristics of this market form was not explained properly. Candidates just mentioned the features and failed to offer a brief explanation.
- (b) (i) The terms 'real income' or 'purchasing power' were missing in many answers.
(ii) Few candidates were unable to relate selling costs to advertising costs.
(iii) The term 'disposable income' or the fact that people have less money to spend and cannot therefore save was not explained clearly.
(iv) Candidates could not correctly justify why the demand for newspaper is inelastic.

Suggestions for teachers

- Emphasise the need for clear and correct explanations for answers in Part II. Sub-headings are not adequate for scoring marks.
- Guide students in attempting application based questions. Discuss the answers after they receive their test/exam papers and make them note the missing points. Discuss the answers of even the class tests.
- Use economic terms while explaining so that the students become familiar with them.

MARKING SCHEME

Question 9.

- (a) Perfect Competition is a market situation, where there are a large number of buyers and sellers selling identical products. Features :
- Very large number of buyers and sellers
 - Homogeneous products
 - Free entry and exit
 - Perfect knowledge
 - Absence of transportation cost
 - Absence of Selling Cost
 - Perfect mobility of factors of production. (Any three)
- (b) (i) During inflation, their real income goes down as they can buy less quantity of goods with their fixed income. So, they are adversely affected.
- (ii) As competition is high they have to spend a lot on advertisements to attract customers.
- (iii) When people have to pay high taxes their disposable income decreases. They will have less money available for consumption and savings.
- (iv) Only a small percentage of the household budget is spent on newspaper. Therefore the consumer will not be bothered much by small changes in price. The demand is therefore inelastic.

Question 10

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

PTI Jun 15, 2014,

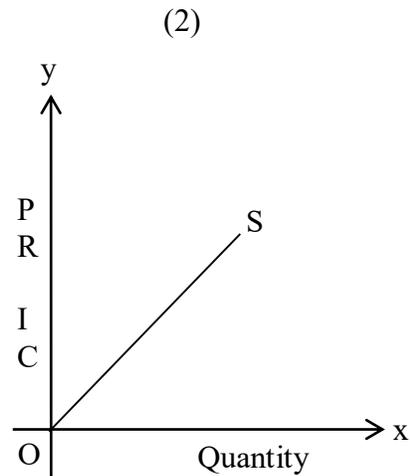
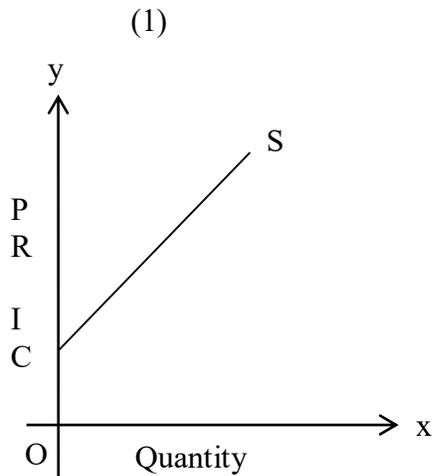
NEW DELHI: The Finance Ministry has asked the Department of Disinvestment to complete the groundwork for sale of shares in state-owned companies soon after the budget to take advantage of the bull phase in the stock market.

The government is expected to retain the disinvestment target of ₹36,925 crore proposed in the interim budget for 2014-15.

- (i) What is disinvestment?
- (ii) How will privatisation lead to:
 - (1) Control of budgetary deficits
 - (2) Flow of funds to Public Exchequer.
 - (3) Greater flexibility in decision making.

[7]

- (b) (i) Indicate the degree of elasticity on the Supply curves given below:



(ii) Explain *three* determinants of Elasticity of Supply.

[8]

Examiners' Comments

- (a) Only a few candidates attempted this question. The fact that the concept of disinvestment and privatisation is not clear as reflected in the vague and general answers written by candidates.
- (b) The graphs were not clearly identified by the candidates. The factors affecting the elasticity of supply was not explained satisfactorily. Most candidates got confused with the factors affecting supply of a commodity.

Suggestions for teachers

- Disinvestment and privatization are current topics and articles on these are found in newspapers and magazines. Use these in discussions to make the concepts clearer.
- Elasticity of Demand/ Supply requires a through clarity in understanding concepts. Make it clear and easy by way of tables, flow charts.
- Give tests and assignments on these concepts to reinforce learning.

MARKING SCHEME

Question 10.

- (a) Selling off a part of the equity of public sector undertakings is called disinvestment
- Government need not spend on these loss making units → Public expenditure reduces → Deficit comes down
Or the government can spend the money got from the sale of these companies to cover its deficit.
 - The sale of the shares of these companies will increase the revenue of the government
 - Public sector suffers from red tapism in decision making and do not enjoy sufficient autonomy. Private sector enjoy greater autonomy and therefore take decisions faster.
- (b) (i) diagram(1) - $\epsilon_p < 1$
diagram(2) - $\epsilon_p = 1$
- (ii)
- (1) Possibility of shift from one line of production to the other.
 - (2) Time horizon.
 - (3) Supply of inputs
 - (4) Nature of inputs
 - (5) Level of commodity
 - (6) Cost of production
 - (7) Size and nature of entrepreneurship
- (Any three)

Topics/Concepts found difficult

- Elasticity of Demand and Supply
- Privatisation and disinvestment
- Methods of Credit Control
- Types of capital
- Functions of money
- Division of labour.

Suggestions for students

- Avoid selective study.
- Practice graphs and diagrams and remember to label them neatly.
- Solve previous year papers to understand the different types of questions.
- 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.
- Do not waste time writing extra points. It will not fetch you extra marks. You might fall short of time or may not be able to complete your paper.