

MARKING SCHEME – ECONOMICS (Delhi)
(SET - 2)

Expected Answers / Value Points

GENERAL INSTRUCTIONS:

1. Please examine each part of a question carefully and allocate the marks allotted for the part as given in the marking scheme below. TOTAL MARKS FOR ANY ANSWER MAY BE PUT IN A CIRCLE ON THE LEFT SIDE WHERE THE ANSWER ENDS.
2. Expected suggested answers have been given in the Marking Scheme. To evaluate the answers the value points indicated in the marking scheme be followed.
3. For questions asking the candidate to explain or define, the detailed explanations and definitions have been indicated alongwith the value points.
4. For mere arithmetical errors, there should be minimal deduction. Only $\frac{1}{2}$ mark be deducted for such an error.
5. Wherever only two / three or a “given” number of examples / factors / points are expected only the first two / three or expected number should be read. The rest are irrelevant and must not be examined.
6. There should be no effort at “moderation” of the marks by the evaluating teachers. The actual total marks obtained by the candidate may be of no concern to the evaluators.
7. Higher order thinking ability questions are assessing student’s understanding / analytical ability.
8.  indicates value based questions.

General Note : In case of numerical question no mark is to be given if only the final answer is given.

| A2 | Expected Answer / Value Points | Distribution of Marks |
|---|---|-----------------------|
| 1 | If in an oligopoly market firms produce homogeneous products, it is called perfect oligopoly. | 1 |
| 2 | Returns to a factor refers to change in output when only one input is changed, other inputs remaining unchanged. | 1 |
| 3 | Budget line is the locus of points, each point representing a bundle of the two goods which cost the consumer exactly his income. | 1 |
|  4 | The economic value of reduction in unemployment is that it will help the economy in realizing its production potential. | 1 |

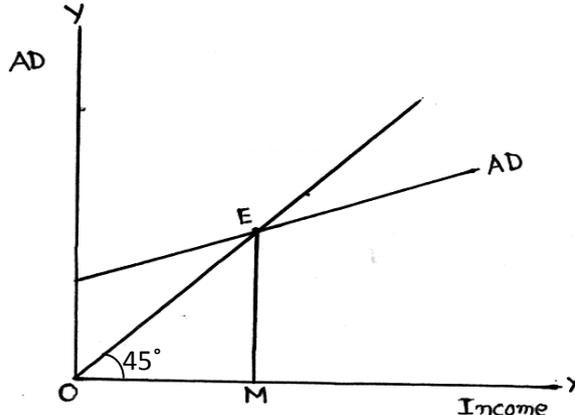
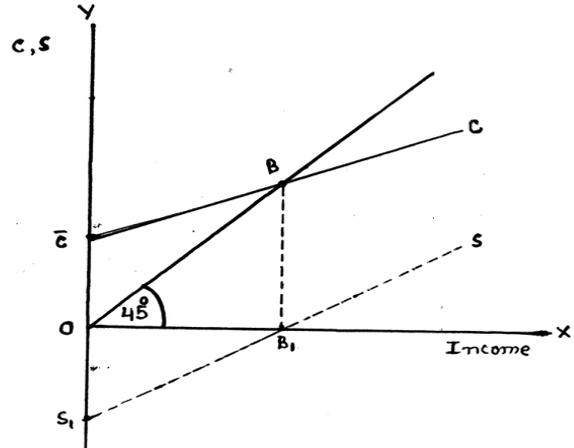
| | | |
|----|--|----------------------|
| 5 | Cost in economics refers to the sum of actual money expenditure on inputs and the estimated value of the free inputs supplied by the owner. | 1 |
| 6 | When $MR < AR$, AR falls When $MR = AR$, AR is constant When $MR > AR$, AR rises OR When TC rises at a decreasing rate, MC falls. When TC rises at an increasing rate MC rises. When TC rises at a constant rate MC is constant. | 3 3 |
| 7 | For whom to produce means that who will buy the goods and services produced. Clearly, those who have income will be able to buy. So, the problem amounts to how the national income is distributed in an economy. | 3 |
| 8 | $E_p = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P}$ $-1 = \frac{P}{16} \times \frac{2}{-1}$ $2P = 16$ or $P=8$ (No marks if only the final answer is given) | 1 1½ ½ |
| 9 | When there are only a few firms in the market, it is likely that each firm has some knowledge as to how its rivals operate. Each firm expects reactions from the rival firms. Therefore, each firm in deciding price and output, takes into account the expected reactions by the rival firms. In this way the firms are interdependent on each other. | 3 |
| 10 | AFC falls continuously as output is increased. It is because, even when output is increased TFC remains unchanged. (Diagram not required) | 1 2 |
| 11 | There are three phases of change in MP : (1) MP rises : Because when the variable input is increased, efficient utilization of the fixed inputs takes place due to specialisation. This raises efficiency of the variable input. (2) MP falls but is positive: Because beyond a point increasing variable input puts pressure on fixed inputs leading to decline in efficiency. (3) MP continues to fall and is negative: Because there is so much pressure of the variable input on the fixed inputs that total product starts declining. (To be marked as a whole. Diagram not required) | 4 |
| 12 | Assuming that the only two goods the consumer consumes are X and Y, the conditions of equilibrium are : (1) $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$ (2) MU falls as more is consumed Explanation : (1) Suppose $\frac{MU_x}{P_x} > \frac{MU_y}{P_y}$. The consumer will not be in equilibrium because per rupee MU of X is greater than per rupee MU of Y. This will induce the | 1 ½ |

| | | |
|------------------|--|--|
| | <p>consumer to buy more of X by reducing expenditure on Y. It will lead to fall in MU_x and rise in MU_y. This will continue till $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$.</p> <p>(2) Unless MU falls as more of a good is consumed the consumer will not reach equilibrium.</p> <p>(Explanation based on $\frac{MU_x}{P_x} < \frac{MU_y}{P_y}$ is also correct.)</p> <p style="text-align: center;">OR</p> <p>Given $\frac{MU_A}{P_A} = \frac{MU_B}{P_B}$ (Consumer is in equilibrium)</p> <p>Given that P_B falls, then</p> <p>$\frac{MU_A}{P_A} < \frac{MU_B}{P_B}$ (Or $\frac{MU_B}{P_B} > \frac{MU_A}{P_A}$)</p> <p>Since per rupee MU of B is higher than per rupee MU of A, the consumer will reduce expenditure on A and increase that on B. So, when P_B falls, demand for B rises.</p> | <p style="text-align: right;">2</p> <p style="text-align: right;">½</p> <p style="text-align: right;">4</p> |
| <p>13</p> | <p>Related goods are either substitutes or complements. When the price of the substitute good rises (falls) it makes the given good relatively cheaper (expensive), so it is substituted for the other good (the other good is substituted for). As a result the demand for the given good will increase (decrease).</p> <p>If price of a complementary good rises (falls), its demand falls (rises). As complementary goods are used jointly the demand for given good will fall (rise).</p> | <p style="text-align: right;">2</p> <p style="text-align: right;">2</p> |
| <p>14</p> | <div style="text-align: center;"> </div> <ul style="list-style-type: none"> - OP₁ is the equilibrium price and OQ₁ is the equilibrium quantity. Demand decreases so that demand curve shifts to the left. The new demand curve is D₂ - This creates an excess supply (A₁E₁) at the existing price OP₁. - The excess supply creates competition among sellers, resulting in fall in price. - Fall in price leads to rise in demand and fall in supply as indicated by the arrows. - These changes continue till the market reaches new equilibrium at E₂ with a lower price OP₂ and lower quantity OQ₂. <p>For the blind candidate :</p> <ul style="list-style-type: none"> • Decrease in demand results in excess supply. • Excess supply causes competition among sellers which reduces price • Fall in price results in rise in demand and fall in supply. | <p style="text-align: right;">2</p> <p style="text-align: right;">4</p> |

| | <ul style="list-style-type: none"> • Excess supply is reducing. • These changes continue till demand and supply are equal at new price. • New equilibrium price is less | 6 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--------|---|---|----|----|----|----|---|---|---|---|---|---|----|----|---|---|---|----|----|---|---|---|----|----|---|---|---|----|----|---|---|--|
| 15 | <p>Let the two goods the consumer consumes be X and Y. The two conditions of equilibrium are :</p> <p>(1) $MRS = \frac{P_x}{P_y}$</p> <p>(2) MRS falls as more of X is consumed in place of Y.</p> <p>Explanation :</p> <p>(1) Suppose $MRS > \frac{P_x}{P_y}$ i.e. consumer is not in equilibrium. It means that to obtain one more unit of X consumer is willing to sacrifice more units of Y as compared to what is required in the market. The consumer buys more of X. MRS falls and continue to fall till it is equal to $\frac{P_x}{P_y}$ and the consumer is in equilibrium.</p> <p>(2) Unless MRS falls as consumer consumes more of X , the consumer will not reach equilibrium again.</p> <p style="text-align: center;">(Explanation based on $MRS < \frac{P_x}{P_y}$ is also correct)</p> <p style="text-align: center;">OR</p> <p>The Three properties are</p> <p>(i) IC slopes downwards from left to right. (ii) IC is strictly convex (iii) IC to the right has higher utility.</p> <p>Explanation :</p> <p>(1) Slopes downward because to consume more of good X , the consumer must give up some quantity of good Y so that the consumer remains on the same level of satisfaction.</p> <p>(2) Strictly convex because it is assumed that MRS continuously falls due to the law of diminishing marginal utility.</p> <p>(3) IC to the right has higher utility level because it is assumed that higher consumption means higher utility.</p> | <p>1</p> <p>1</p> <p>3</p> <p>1</p> <p>1x3</p> <p>1</p> <p>1</p> <p>1</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 16 | <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Output</th> <th>TR</th> <th>TC</th> <th>MR</th> <th>MC</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>7</td> <td>8</td> <td>7</td> <td>8</td> </tr> <tr> <td>2</td> <td>14</td> <td>15</td> <td>7</td> <td>7</td> </tr> <tr> <td>3</td> <td>21</td> <td>21</td> <td>7</td> <td>6</td> </tr> <tr style="border: 2px solid black;"> <td>4</td> <td>28</td> <td>28</td> <td>7</td> <td>7</td> </tr> <tr> <td>5</td> <td>35</td> <td>36</td> <td>7</td> <td>8</td> </tr> </tbody> </table> <p style="text-align: right; margin-right: 20px;">Equilibrium</p> <p>The producer is in equilibrium at 4 units of output</p> <p>Reasons (1) $MC = MR$</p> <p style="padding-left: 40px;">(2) $MC > MR$ after equilibrium</p> <p>Profit = $TR - TC = 28 - 28 = 0$</p> | Output | TR | TC | MR | MC | 1 | 7 | 8 | 7 | 8 | 2 | 14 | 15 | 7 | 7 | 3 | 21 | 21 | 7 | 6 | 4 | 28 | 28 | 7 | 7 | 5 | 35 | 36 | 7 | 8 | <p>2</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p> |
| Output | TR | TC | MR | MC | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1 | 7 | 8 | 7 | 8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 | 14 | 15 | 7 | 7 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3 | 21 | 21 | 7 | 6 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4 | 28 | 28 | 7 | 7 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5 | 35 | 36 | 7 | 8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| <u>SECTION - B</u> | | |
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| 17 | MPC is the ratio of 'change in consumption expenditure' to 'change in income' | 1 |
| 18 | When foreign exchange receipts in the current account fall short of foreign exchange payments, it is called current account deficit. | 1 |
| 19 | The deposits which can be withdrawn from the banks on demand, through cheques. | 1 |
| 20 | Full employment is a situation in which all those who are able and willing to work at the prevailing wage rate find work. | 1 |
| 21 | Government budget is an annual financial statement showing estimated receipts and estimated expenditure of government. | 1 |
| 22 | <p>The significance of money as a store of value is that money can be stored for use in future. One can use one's present income in future because money comes in convenient denominations and is easily portable.</p> <p style="text-align: center;">OR</p> <p>Medium of exchange function has solved the problem of double coincidence of wants. The buyer can pay money to the seller and the seller in turn can buy what he wants to buy. Money facilitates the exchange.</p> | 3 3 |
| 23 | Deficit in the BOP occurs when autonomous foreign exchange receipts fall short of autonomous foreign exchange payments. Autonomous transactions are those which are not influenced by other transactions in the BOP. | 3 |
| 24 | It will raise demand for foreign exchange for spending the same in foreign countries. Supply of foreign exchange remaining unchanged, exchange rate is likely to rise. | 3 |
| 25 | Externalities refer to the benefits (or harms) a firm or an individual causes to another for which it is not paid (or penalised) | 1 |
| | Example : Polluting river by an oil refinery Or any other relevant example. | 1 |
| | Impact : Reduces welfare through negative effect on health | 1 |
| 26 | <p>(i) Expenditure on collection of taxes is revenue expenditure because it neither creates any asset nor reduces any liability.</p> <p>(ii) Expenditure on purchasing computers is capital expenditure because it creates assets.</p> | 1 ½ 1 ½ |
| 27 | <p>Increased expenditure by government on public goods like defence, maintaining law and order etc. increases their availability to the people of the country. For example more expenditure on maintaining law and order raises the sense of security among the people. Any such expenditure raises welfare of the people.</p> <p style="text-align: right;">(To be marked as a whole)</p> | 4 |



| | | |
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| <p>28</p> | <p>Money supply refers to the stock of money in the country on a particular day. It has two components : Currency with public outside the banks and demand deposits with banks. Demand deposits are deposits which can be withdrawn by writing cheque. Both these are directly usable for carrying out transactions at will.</p> <p style="text-align: center;">OR</p> <p>Lending of money by the Central Bank to commercial banks in times of emergent need is referred to as the 'lender of last resort' function of the central bank.</p> | <p style="text-align: center;">4</p> <p style="text-align: center;">4</p> |
| <p>29</p> | <p>$Y = \bar{C} + MPC(Y) + I$ $1200 = \bar{C} + (1 - 0.2)1200 + 100$ $\bar{C} = 1200 - 960 - 100 = 140$</p> <p style="text-align: right;">(No marks if only the final answer is given)</p> | <p style="text-align: center;">1½</p> <p style="text-align: center;">1½</p> <p style="text-align: center;">1</p> |
| <p>30</p> | <div style="text-align: center;">  </div> <p>The national income is in equilibrium when $AD = AS$. In the figure the equilibrium is at E, the intersection of the AD curve and the 45° line. The equilibrium income is OM.</p> <p>When the economy is not in equilibrium AD is not equal to AS. Suppose $AD > AS$, it will lead to fall in inventories with the producers. The producers in turn will produce more to reach the desired level of inventories : This raises AS till it becomes equal to AD.</p> <p style="text-align: right;">(Answer based on $AD < AS$ is also correct)</p> <p style="text-align: center;">OR</p> <div style="text-align: center;">  </div> | <p style="text-align: center;">1</p> <p style="text-align: center;">2</p> <p style="text-align: center;">3</p> <p style="text-align: center;">3</p> |

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| | <p>Steps :</p> <p>(i) $\bar{C}C$, is the given consumption curve on OY axis take OS_1 equal to $O\bar{C}$. (ii) Draw a 45° line from point of origin. It intersects $\bar{C}C$ at B. (iii) From point B draw a perpendicular on OX which cuts OX at B_1. (iv) Join S_1 and B_1 by a straight line and extend it to S. (v) SS_1 is the saving curve</p> <p>For Blind Candidates</p> <ul style="list-style-type: none"> - The sum of demand of all goods and services is called aggregate demand. - Equilibrium level of income is that level of income at which aggregate demand and supply are equal. - When the economy is not in equilibrium then aggregate demand and supply are not equal. Suppose aggregate demand is greater than aggregate supply. This will reduce inventories. To make up this deflation producers will produce more. - This will increase aggregate supply and ultimately it will become equal to aggregate demand. <p style="text-align: center;">OR</p> <p>Relation between saving and income is saving function $C = \bar{C} + MPC (Y)$ $S = Y - C$ $= Y - \bar{C} + MPC (Y)$ $= -\bar{C} + (1 - MPC)Y$</p> <p>This is derivation of saving function from C function.</p> | <p style="text-align: right;">3</p> <p style="text-align: right;">1</p> <p style="text-align: right;">2</p> <p style="text-align: right;">3</p> <p style="text-align: right;">2</p> <p style="text-align: right;">4</p> |
| <p>31</p> | <p>$NNP_{fc} = (ii + viii) + iv + vi + x - ix$ $= (600 + 100) + 200 + 300 + 300 - 50$ $= Rs\ 1450\ arab$</p> <p>Private income = $NNP_{fc} - vii + I + v - iii$ $= 1450 - 400 + 60 + 70 - 20$ $= Rs\ 1160\ arab$</p> <p style="text-align: right;">(No marks if only the final answer is given)</p> | <p style="text-align: right;">2</p> <p style="text-align: right;">1½</p> <p style="text-align: right;">½</p> <p style="text-align: right;">1</p> <p style="text-align: right;">½</p> <p style="text-align: right;">½</p> |
| <p>32</p> | <p>(i) Fees paid to mechanic by a firm is not included because it is an intermediate cost of the firm.</p> <p>(ii) Interest paid by an individual is not included because the loan is taken to meet consumption expenditure and therefore interest paid on such a loan is not a factor payment.</p> <p>(iii) Expenditure on purchasing car by a firm is included because it is an investment expenditure, a final expenditure.</p> <p style="text-align: right;">(No marks if the reason is not given)</p> | <p style="text-align: right;">2</p> <p style="text-align: right;">2</p> <p style="text-align: right;">2</p> |