ECONOMICS

Maximum Marks: 80
Time Allotted: Three Hours
Reading Time: Additional Fifteen Minutes

Instructions to Candidates

1. You are allowed **additional fifteen minutes** for **only** reading the question paper.
2. You must **NOT** start writing during reading time.
3. This question paper has **12 printed pages**.
4. It is divided into **three sections** and has **thirteen questions** in all.
5. All questions are compulsory. Answer **all** questions.
6. **Section A** has **sixteen subparts** which are objective / very short answer questions. Each question carries 1 mark.
7. While attempting **Multiple Choice Questions** in Section A, you are required to **write only ONE option as the answer**.
8. **Section B** has **eight questions** which are short answer questions. Each question carries 4 marks.
9. **Section C** has **four questions** which are long answer questions. Each question carries 8 marks.
10. **Internal choices** have been provided in ***three questions in Section B*** and in ***two questions in Section C***.
11. The intended marks for questions are given in brackets [ ].

Instruction to Supervising Examiner

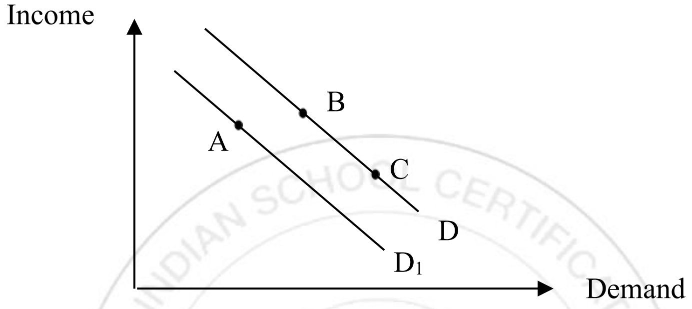
Kindly read **aloud** the Instructions given above to all the candidates present in the examination hall.

Note: The Specimen Question Paper in the subject provides a realistic format of the Board Examination Question Paper and should be used as a practice tool. The questions for the Board Examination can be set from any part of the syllabus, though the format of the Board Examination Question Paper will remain the same as that of the Specimen Question Paper. The weightage allocated to various topics, as given in the syllabus, will be strictly adhered to.

SECTION A – 16 MARKS

Question 1

(i) Study the diagram given below and choose the correct option. **[1]**



With an increase in income, the demand for an inferior good will move from point: **(Understand)**

(a) A to B.

(b) B to C.

(c) C to B.

(d) B to A.

(ii) The supply of a commodity will be relatively inelastic when: **(Recall)** **[1]**

(a) the producer is a risk averter.

(b) the product is durable in nature.

(c) modern technology is used in production.

(d) the product is supplied over a long period.

(iii) Sometimes a firm can sell its product at different prices to different buyers at the same time.
Which of the following market forms supports this practice? **(Recall)** **[1]**

(a) Oligopoly

(b) Monopoly

(c) Monopsony

(d) Monopolistic competition

(iv) A perfectly competitive firm must close its production in the short run when: **[1]** **(Understand)**

(a) marginal revenue is less than average cost.

(b) marginal revenue is less than marginal cost.

(c) average variable cost is less than average cost.

(d) average revenue is less than average variable cost.

(v) Which of the following statements is correct in the context of Keynesian break-even point? **[1]** **(Recall)**

(a) APC < 1

(b) APS > 1

(c) APS = 0

(d) APC = 0

(vi) 'The RBI delivered its first rate cut since Feb. 2025 on Friday, lowering the policy repo rate by 25 basis points to 5·25%.'

(Source: The Times of India, Saturday, December 6, 2025)

Which one of the following will **MOST LIKELY** be the impact of this move on Indian economy? **[1]** **(Evaluate)**

(a) Economic growth will accelerate.

(b) Loanable fund will become cheap.

(c) Fixed deposit interest rate will fall.

(d) Consumers' purchasing power will increase.

(vii) The table given below shows the Total Utility (TU) that a consumer derives by consuming slices of pizza:

No. of slices of Pizza	1	2	3	4	5	6
TU (Utils)	12	22	30	36	40	38

At which level of consumption does the marginal utility begin to diminish? **[1]** **(Apply)**

(a) 1^{st} slice

(b) 2^{nd} slice

(c) 5^{th} slice

(d) 6^{th} slice

(viii) Given below are two statements marked Assertion and Reason. Read the statements carefully and choose the correct option. **[1]**

Assertion: The standard of living of a country may fall even if its nominal per capita income rises.

Reason: Nominal per capita income does not adjust for inflation.

(Analyse)

(a) Both Assertion and Reason are true, and Reason is the correct explanation of Assertion.

(b) Both Assertion and Reason are true, but Reason is not the correct explanation of Assertion.

(c) Assertion is true but Reason is false.

(d) Both Assertion and Reason are false.

(ix) Given below are two statements marked Assertion and Reason. Read the statements carefully and choose the correct option. **[1]**

Assertion: The demand curve under oligopoly is indeterminate.

Reason: MR curve is always discontinuous in oligopoly. **(Analyse)**

(a) Both Assertion and Reason are true, and Reason is the correct explanation of Assertion.

(b) Both Assertion and Reason are true, but Reason is not the correct explanation of Assertion.

(c) Assertion is true but Reason is false.

(d) Both Assertion and Reason are false.

(x) 'The Summary of Union Budget 2026-27 confirms the absolute fiscal deficit is projected at ₹16·96 lakh crore.'

(Source: Government of India, Ministry of Finance (2026) Budget at a glance 2026-27)

Which of the following steps may be adopted by the government to meet the deficit? **(Apply)** **[1]**

(a) Sale of Treasury Bills to the RBI

(b) Repurchase of bonds from the public

(c) Salary hike for government employees

(d) Reduction of income tax rate on the high-income group

(xi) What will be the value of MPS if the change in income is twice the change in investment expenditure? **(Apply)** **[1]**

(xii) What is *sinking fund*? **(Recall)** **[1]**

(xiii) Study the data given below and answer the question that follows.

Effective Date	CRR	SLR
Nov 29, 2025	3.00	18.00
Nov 01, 2025	3.25	18.00
Oct 04, 2025	3.50	18.00
Sep 06, 2025	3.75	18.00

(Source: website.rbi.org.in)

Compare the trend of CRR and SLR over the period shown above. **[1]**

(Analyse)

(xiv) ‘Under Indira Gandhi National Old Age Pension Scheme, a monthly pension of ₹ 200/- is given to elderly aged 60-79 years belonging to BPL category.’

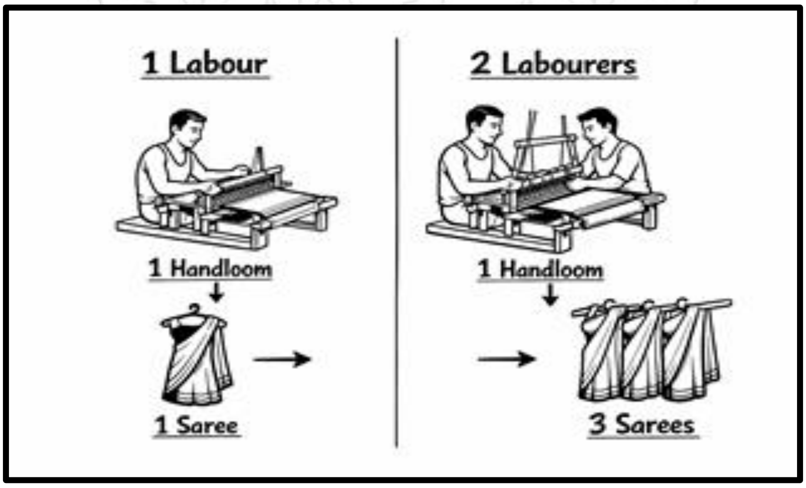
(Source: pib.gov.in)

This monthly pension scheme contributes to the growth of GDP in India.

Defend or refute the statement by giving a valid reason. **(Evaluate)** **[1]**

(xv) State the Law of Diminishing Marginal Utility. **(Recall)** **[1]**

(xvi)



Briefly discuss whether the image shown above depicts Returns to Scale or Returns to a Factor. **(Understand)** **[1]**

SECTION B – 32 MARKS

Question 2

(i) Aman compares two consumption bundles:

- Bundle A: 2 burgers + 1 pack of juice
- Bundle B: 4 burgers + 2 packs of juices

He claims that Bundle B lies on a higher indifference curve.
Explain with an appropriate reason whether Aman's claim is correct or not. **[2]**
(Understand)

(ii) Agro Gold Wheat Traders supplies wheat in the market. The firm purchases advanced grain storage technology, which reduces wastage and lowers its cost of handling wheat. As a result, Agro Gold is able to supply more wheat at the same price as before.

Later, due to a sudden rise in international wheat prices, the market price of wheat increases, leading Agro Gold to supply more wheat.

Illustrate these *two* types of changes in the supply of wheat in separate diagrams. **[2]**
(Understand)

Question 3

(i) Compare the demand curve faced by a perfectly competitive firm with the one faced by a monopolist. Substantiate your comparison with suitable reasons. **[2]**
(Analyse)

(ii) Briefly explain the meaning of the following terminologies in the context of market structure: **(Recall)**

(a) Product differentiation in monopolistic competition **[1]**

(b) Intense competition in oligopoly **[1]**

Question 4

Attempt either subparts (i) and (ii) or (iii) and (iv).

(i) 'Uber and Ola Cabs are two major app-based taxi services that operate in major cities in India. Each closely monitors the pricing strategy of the other. During peak hours, a surge in demand triggers an automatic increase in fares through surge pricing.'

(Source (edited): Economic Research Centre, CUHK, 31 May 2022)

Identify the market form in the above context. Outline *two* features of this market form evident in the scenario. **[2]**
(Understand)

(ii) If the state government imposes ceiling price on cab fares, it may cause a deficit in the supply of the cab services.

As owner of an app-based cab service company, formulate a measure that you would take to overcome this problem. Illustrate the suggested measure with the help of a diagram. **[2]**
(Create)

OR

(iii) The Indian government significantly reduced GST rates on many fast-moving consumer goods with effect from September 2025. One of these products was soap. Indian Soap and Detergent market have 700 companies including ITC Limited, Procter & Gamble and Hindustan Unilever Limited. These companies try to make their products different from those of other companies by adding various features to the existing product and promoting their products. What distinguishes them from one another are their marketing strategies and production.

With the help of a diagram, explain the effect of government's initiative on the price of the said product given that demand for this product is relatively elastic. **[2]** **(Understand)**

(iv) You have decided to start a soap manufacturing business. As a new entrepreneur in soap industry, devise a strategy to secure the market share of your product. Justify your strategy with a valid argument. **[2]** **(Create)**

Question 5

(i) Selling cost remains absent in a perfectly competitive market. Discuss. **[2]** **(Understand)**

(ii) What is meant by *supernormal profit*? Show it with the help of a diagram. **[2]** **(Understand)**

Question 6 **[4]**

(i) Calculate GNPmp and National Income using the expenditure method. **(Apply)**

S.No.	Items	₹ (in crore)
(a)	Private final consumption expenditure	2750
(b)	Government final consumption expenditure	300
(c)	Gross domestic fixed capital formation	250
(d)	Net factor income from abroad	(-)25
(e)	Import of goods and services	50
(f)	Subsidy	25
(g)	Decrease in stock	30
(h)	Export of goods and services	45
(i)	Consumption of fixed capital	100
(j)	Net indirect taxes	100

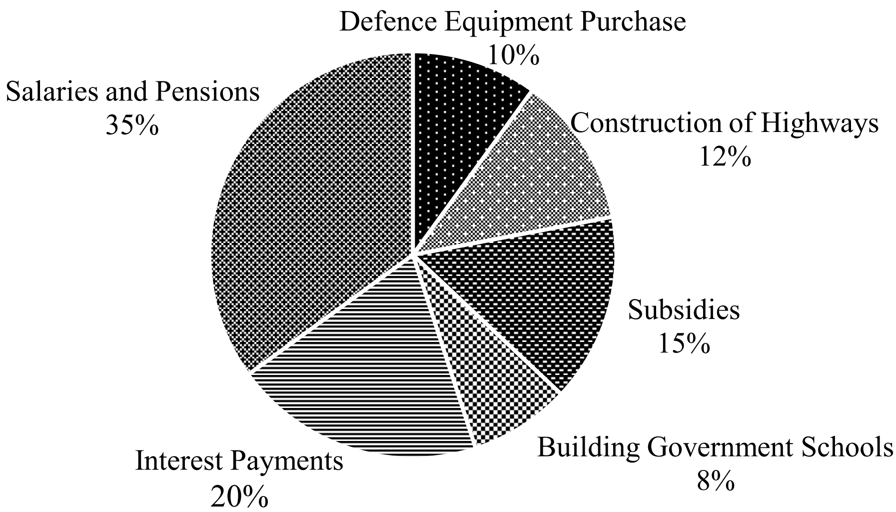
OR

(ii) Calculate the Income from Entrepreneurship from the following data: **(Apply)**

S.No.	Items	₹ (in crore)
(a)	Net Indirect Taxes	40
(b)	Gross domestic product at factor cost	500
(c)	Consumption of fixed capital	100
(d)	Wages and salaries	90
(e)	Mixed income of self-employed	105
(f)	Rent	30
(g)	Interest	20
(h)	Employer's contribution to ESI fund	50
(i)	Interest free loan given to the staff	35
(j)	Contribution to provident fund by the employer	20

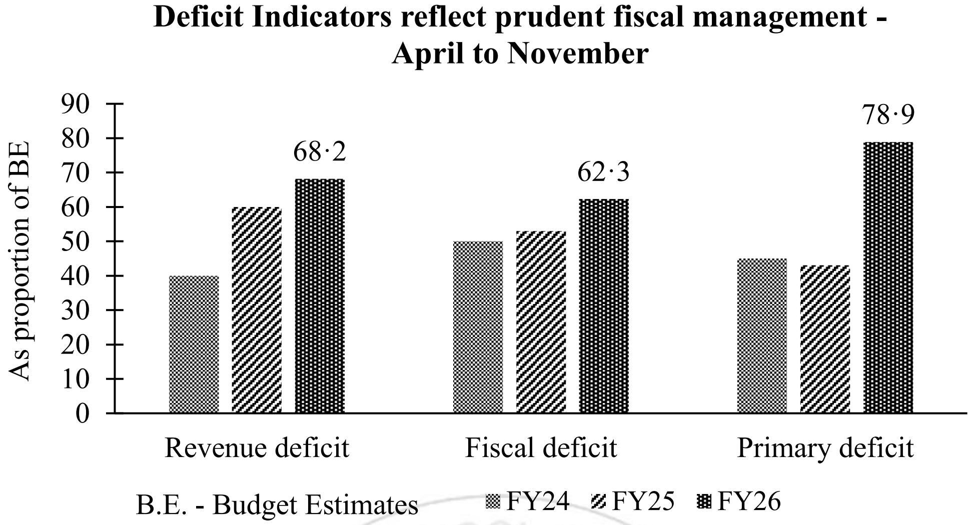
Question 7

(i) The pie chart below presents a scenario depicting the distribution of public expenditure. Study it carefully and answer the question that follows.



Comment on the distribution of public expenditure as revenue expenditure and capital expenditure shown in the above pie chart. **(Analyse)** **[2]**

(ii) Observe the bar chart of deficit indicators and answer the questions that follow.



(Source: Economic Survey, 2025-26)

(a) Compare the revenue deficit and fiscal deficit for the financial year 2024 (FY24). **(Analyse)** **[1]**

(b) What is the implication of the trend in primary deficit over the period depicted in the graph? **(Analyse)** **[1]**

Question 8

Attempt either subparts (i) and (ii) or (iii) and (iv).

(i) 'In its Monetary Policy Statement dated February 8, 2024, the Reserve Bank of India (RBI) observed that retail inflation stood at 5·1% in January 2024. The RBI further noted that a significant portion of bank credit was being directed towards speculative activities in the stock market and real estate sector, leading to artificial price increase.'

(Source: Ministry of Statistics and Programme Implementation (MOSPI), Government of India; RBI Monetary Policy Statement, February 2024)

To control this situation, the measure Margin Money would be more appropriate than repo rate in a developing country like India. Justify the statement. **(Evaluate)** **[2]**

(ii) The process of credit creation comes to an end when the required reserves become equal to the initial deposit. Defend or refute the statement with a valid reason. **(Evaluate)** **[2]**

OR

(iii) In different border areas of India, currency of neighbouring country is used as money, but not as legal tender. Justify the statement. **(Evaluate)** **[2]**

(iv) 'Digital payments have become deeply embedded in India's everyday life. As of early 2026, UPI is the dominant payment method in India, accounting for 57% of transaction and surpassing cash.'

(Source: PIB and Ministry of Finance (India))

This development propels people to hold less cash which ultimately leads to the reduction of money supply in the economy. Defend or refute the statement with a valid reason. **(Evaluate)** **[2]**

Question 9 **[4]**

India's nominal GDP is projected to grow by 8·6% over the previous year in FY 2025-26.

Does this indicate the economic welfare of the country? Justify your answer with *four* reasons. **(Evaluate)**

SECTION C – 32 MARKS

Question 10

(i) Explain how the following factors affect the price elasticity of demand for a product: **(Recall)** **[6]**

- (a) Availability of substitutes
- (b) Proportion of income spent
- (c) Necessity versus Luxury
- (d) Short run versus long run

(ii) Explain *two* reasons for the upward slope of the supply curve. **(Recall)** **[2]**

Question 11

Attempt either subparts (i) and (ii) or (iii) and (iv).

(i) Compare *repo rate* and *reverse repo rate* in the context of the Indian monetary policy. **(Analyse)** **[2]**

(ii) With the help of a diagram, explain the concept of Deficient Demand. Discuss *one* fiscal measure and *one* monetary measure to correct it. **(Understand)** **[6]**

OR

(iii) How is High Powered Money different from Broad Money? **(Analyse)** **[2]**

(iv) National output or real national income is said to be at equilibrium level when aggregate supply becomes equal to the aggregate demand. Explain this phenomenon with the help of a diagram.

Does this equilibrium always take place at full employment level? Explain. **(Understand)** **[6]**

Question 12

Attempt either subparts (i) and (ii) or (iii) and (iv).

(i) Green Field Farm, located on the outskirts of a city, owns a fixed area of 10 acres of land. The farm manager decided to increase the number of workers to boost output.

Initially, the hiring of additional workers led to a rapid increase in total crop production. The workers were able to divide tasks such as ploughing, sowing, watering, and harvesting more efficiently, leading to better utilisation of resources.

However, the increase in total output began to slow down after a certain point, despite the employment of more workers which eventually led to a decline in the farm's total output.

(a) With the help of a diagram, explain the law applicable to this situation. **(Analyse)** **[4]**

(b) '……… *which eventually led to a decline in the farm's total output*'. Briefly explain the reasons behind this phenomenon. **(Understand)** **[2]**

(ii) Explain the *total cost curve*. **(Understand)** **[2]**

OR

(iii) A potato farmer sells his produce at ₹ 850 per quintal, like other potato farmers.

Consider the following data:

- For 6 quintals of potato, MR = ₹ 850 & MC = ₹ 850
- For 7 quintals of potato, MR = ₹ 850 & MC = ₹ 845
- For 8 quintals of potato, MR = ₹ 850 & MC = ₹ 850
- For 9 quintals of potato, MR = ₹ 850 & MC = ₹ 856

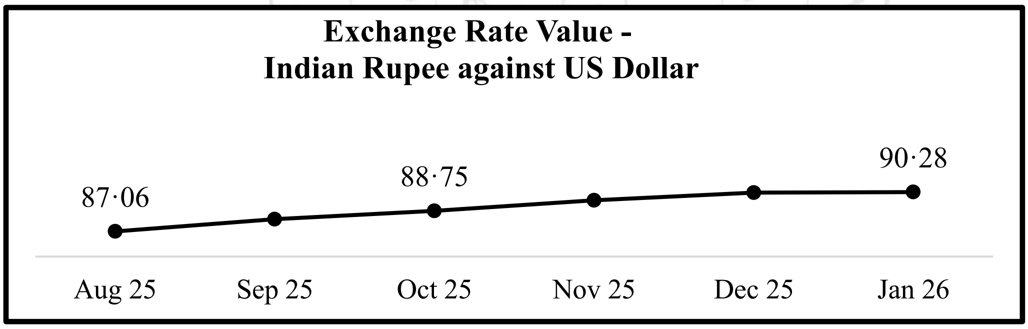
(a) What amount of potato will he produce to maximise his profit? With reference to the given data, explain the principles that would motivate his decision. **(Analyse)** **[4]**

(b) Represent the profit maximising level of output diagrammatically. **(Understand)** **[2]**

(iv) Explain the *total revenue curve* under the imperfectly competitive market. **(Understand)** **[2]**

Question 13

Study the graph given below and read the excerpt that follows. Answer the questions based on the information provided.



Exchange Rate Value - Indian Rupee against US Dollar

1. India's total exports during April-December 2025 are estimated at US\$634·26 billion registering a positive growth of 4·33 percent. Total imports during April-December 2025 are estimated at US\$730·84 billion registering a growth of 4·95 percent.
2. The Indian diaspora sent home \$135·46 billion in the last fiscal year, the highest on record.
3. Foreign investors started December on a sharply negative note, pulling out ₹11,820 crore from the Indian equities in the first week. This offloading by the foreign portfolio investors was majorly driven by the steep decline of the rupee.

(Sources (edited): Economics Times; Times of India; https://www.pib.gov.in and: https://www.xe.com/)

(i) Analyse the trend in exchange rate of rupee in terms of US dollar over the period depicted in the graph. **(Analyse)** **[2]**

(ii) The present trend of Indian rupee is associated with the flexible exchange rate system. Discuss whether this trend would be possible in fixed exchange rate system. **(Analyse)** **[2]**

(iii) Categorise the transactions mentioned in the passage into different components of Balance of Payments. **(Understand)** **[2]**

(iv) Predict the impact of change in exchange rate of rupee against US dollar, on the national income of India. **(Create)** **[2]**

ECONOMICS

ANSWER KEY

SECTION A – 16 MARKS

Question 1

In answering Multiple Choice Questions, candidates have to write either the correct option number or the explanation against it.
Please note that only ONE correct answer should be written.

(i)	(c) C to B.	**[1]**
(ii)	(a) the producer is a risk averter.	**[1]**
(iii)	(b) Monopoly	**[1]**
(iv)	(d) average revenue is less than average variable cost.	**[1]**
(v)	(c) APS = 0	**[1]**
(vi)	(b) Loanable fund will become cheap.	**[1]**
(vii)	(b) 2^{nd} slice	**[1]**
(viii)	(a) Both Assertion and Reason are true, and Reason is the correct explanation of Assertion.	**[1]**
(ix)	(c) Assertion is true but Reason is false.	**[1]**
(x)	(a) Sale of Treasury Bills to the RBI	**[1]**
(xi)	$\Delta Y = 2\,\Delta I$ $\Delta Y/\Delta I = 2 = k = \frac{1}{MPS}$ $\frac{1}{MPS} = 2$ or $MPS = \frac{1}{2}$	**[1]**
(xii)	Sinking Fund is a debt redemption method in which the government deposits a fixed equal amount every year into a separate fund. These deposits earn interest and gradually accumulate over time which can be used to repay public loan.	**[1]**
(xiii)	CRR falls whereas SLR remains unchanged.	**[1]**
(xiv)	This statement is refuted. Monthly Pension Scheme does not *directly* contribute to the GDP as it is a transfer payment. Or This statement is defended. Monthly Pension Scheme may cause increase in demand for goods and services which will stimulate the production and hence growth in GDP. Therefore, it *indirectly* contributes to the growth of GDP. ***(Candidates may defend or refute the statement. They must write a valid reason to substantiate their stance.)***	**[1]**

(xv) With a continuous increase in the consumption of a commodity, total utility increases at a diminishing rate, i.e., marginal utility diminishes. **[1]**

(xvi) The image depicts the law of Returns to a Factor. **[1]**

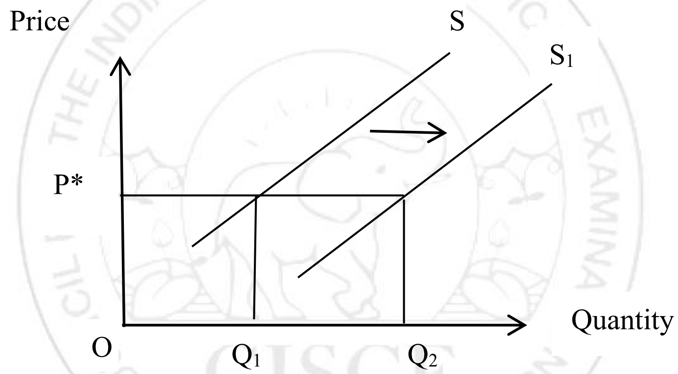
Here production (number of saree) has increased due to increase in labour (L) from one labourer to two labourers, but the number of handlooms, i.e., the capital (K) remains unaltered. Here K/L is variable.

SECTION B – 32 MARKS

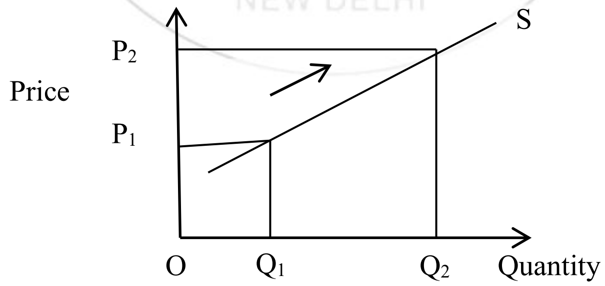
Question 2

(i) Bundle B contains both the commodities more than Bundle A. Following the axioms of non-satiety and monotonicity, Bundle B is preferred to Bundle A, i.e., Bundle B provides higher level of utility. It lies on the higher indifference curve because higher indifference curve represents higher level of utility. **[2]**

(ii) The first situation indicates *increase in supply* of wheat which is illustrated as follow: **[2]**



The second situation indicates *expansion of supply* which is shown below:



Question 3

(i) A perfectly competitive firm faces a horizontal or perfectly elastic demand curve because a firm can sell any amount of the product at the market determined price as it is a price taker. A monopolist, on the other hand, faces a negatively sloped demand curve because if it wants to sell more, price is to be lowered to induce the consumer to demand the increased quantity. **[2]**

(ii) (a) Product differentiation under monopolistic competition **[1]**

Each firm under monopolistic competition sells non-homogeneous product. They are close substitutes but not similar as their advertisement, packaging, after sales service, quality of inputs used in production differs.

(b) Intense competition in oligopoly **[1]**

As there are a few big firms under oligopoly market, each firm is aware of the strategy of the rival firms and uses appropriate strategy to deal with the competitors for increasing its own market share. For this, they follow price competition and different types of non-price competitions.

Question 4

(i) The form of market evident here is oligopoly. **[2]**

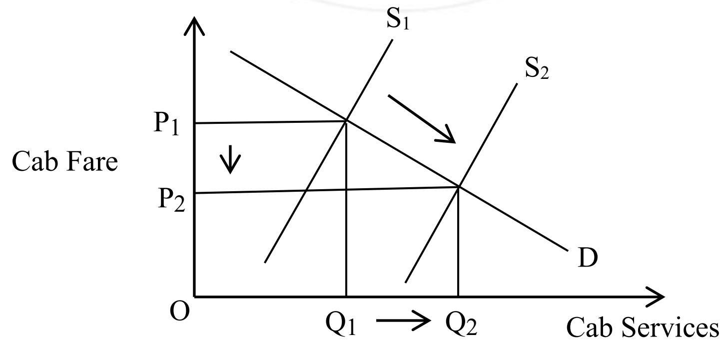
The features of this market form are given below.

- This market form is characterised by few sellers. In the given situation, there are only two big app-based cab service companies in the market.
- Intense competition and interdependence is another feature evident in this scenario. The two companies always closely monitor the strategy of each other while fixing their own price.

(ii) ***Candidates have to devise a measure that they would use, as the owner of the cab service company, to tackle the mentioned problem. The measure must be relevant to the given situation.*** **[2]**

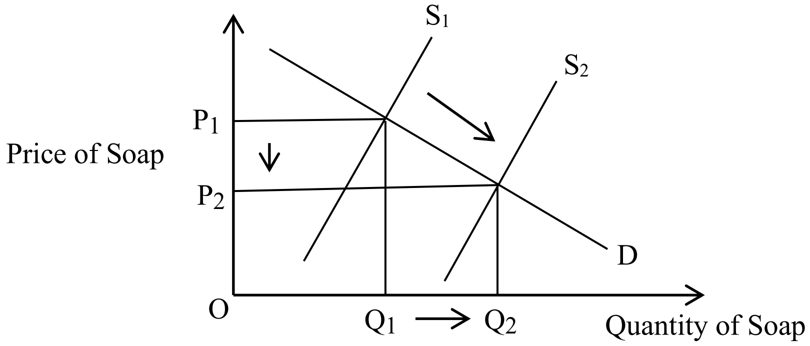
Suggested possible measure:

Declaration of bonus or incentives to the drivers in peak time of the day to encourage them to operate on the road at that time. It will lead to an increase in the supply of cab services and stabilise the fares at lower level as shown in the diagram below.



OR

(iii) Reduction in GST rate will enable the firm to supply the same quantity at a lower price or higher quantity at the given price. It will lead to a rightward shift in supply curve to S_2 and new equilibrium price will be P_2 as shown in the diagram below, that is, price will fall. **[2]**



(iv) ***As a new entrepreneur of soap, candidates have to create a strategy that would help them increase their market share. The strategy must be relevant to the given situation.*** **[2]**

Suggested possible strategies:

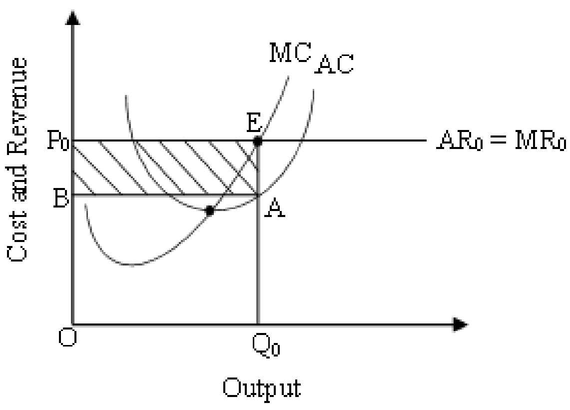
- New features can be added to the product such as the use of new fragrance or extract of any medicinal herb required for bodily care.
- Packaging of soap can be done by reusable material.

These will make the product different and attractive to the consumer. Through this type of product differentiation, market share can be secured.
(*Any other creative and logical measure appropriate for monopolistic competition will be accepted.*)

Question 5

(i) Any firm under perfect competition does not require selling cost to raise its market share as every firm sells homogeneous product and faces a perfectly elastic demand curve. It can sell any amount of its product at the given price. Moreover, the buyers have perfect knowledge about the market. **[2]**

(ii) The profit over and above the normal profit is called supernormal profit. Normal profit remains included in the total cost of production. So, supernormal profit arises when total revenue of the firm exceeds total cost of production. **[2]**



The area P_0EAB indicates supernormal profit.

Question 6 **[4]**

(i) $GNP_{mp} = (a) + (b) + [(c) - (g)] + (d) + (h) - (e)$
$= 2750 + 300 + [250 - 30] + (-25) + 45 - 50$
$=$ ₹3240 Cr.

NI or $NNP_{fc} = GNPmp - (i) - (j)$
$= 3240 - 100 - 100$
$=$ ₹3040 Cr.

OR

(ii) $NDP_{fc} = (b) - (c)$
$= 500 - 100 = 400$

$NDP_{fc} = (d) + (e) + (f) + (g) +$ income from entrepreneurship (profit) $+ (h) + (j)$

Income from Entrepreneurship = $NDPfc - (d) - (e) - (f) - (g) - (h) - (j)$
$= 400 - 90 - 105 - 30 - 20 - 50 - 20$
$=$ ₹85 Cr.

Question 7

(i) In the given pie chart, revenue expenditures are Salaries and Pensions, Subsidies and Interest payments which constitute 70% of the total budgetary expenditure. **[2]**

The expenses on the purchase of Defence Equipment and, Construction of Highways and Government School Buildings are Capital expenditures. It is altogether 30% of the government expenditure. Hence, the pie chart depicts that there is more provision for revenue expenditure than the capital expenditure in the budget.

(ii) (a) In the Financial Year 2024, revenue deficit was estimated as 40% of the B.E. (Budget Estimates) whereas fiscal deficit was around 50% of the B.E. It shows fiscal deficit was estimated more than the revenue deficit. **[1]**

(b) In the Financial Year 2025, primary deficit has been reduced insignificantly in comparison with 2024. However, it depicts an alarming increase in the Financial Year 2026. It implies that government borrowing was made in huge amount to meet current expenditure other than interest payment. **[1]**

Question 8

(i) In the given situation, RBI can raise the margin money only for the loan provided for speculative activities in the stock market which will discourage the borrowing for this purpose. But if repo rate is raised, it will make all types of loans costlier along with this speculative loan and hence credit flows will be less even in the priority sectors. This would not be desirable in a developing country like India. **[2]**

(ii) The statement is defended. **[2]**

Commercial bank lends from every deposit over and above its required reserve in the process of credit creation. But if the required reserve is same as initial deposit, that is, if CRR is 100%, then the entire amount of the deposit would be kept as required reserve and bank will not be able to lend. Thus, the process of credit creation will cease to operate.

OR

(iii) People in different border areas use currency of neighbouring country in their daily life to purchase and sell different goods and services. This currency is used as a medium of exchange in these areas and regarded as money. However, it is not backed by the legal order of the government of the country concerned. Thus, it is not the legal tender money. **[2]**

(iv) This statement is refuted. **[2]**

This practice implies more money in the demand deposits which increases loan giving capacity of the bank and through credit creation process, money supply eventually increases in the economy.

Or

This practice leads to less notes and coins with public (C) but more demand deposits with commercial bank (DD) in the form of primary and derivative deposits through the process of credit creation. Therefore, money supply, as M_1, will be more in the economy.

(Candidates have to write a valid reason to substantiate their stance.)

Question 9 **[4]**

No, it does not lead to economic welfare of the country for the following reasons:

- Increase in nominal GDP may be the reflection of inflation.
- It may not lead to the increase in per capita GDP for high population growth.
- Increase in nominal GDP may not ensure equality.
- Environmental degradation is not reflected through increase in nominal GDP.

(Candidates are required to support their stance by <u>expanding</u> on the above-mentioned points. Any other relevant reason(s) will be accepted.)

SECTION C – 32 MARKS

Question 10

(i) Factors affecting the price elasticity of demand for a product: **[6]**

(a) <u>Availability of substitutes</u>: The demand for the product with a greater number of substitutes is relatively elastic than the product with less number of substitutes. This is so because with rise in price of the product, consumer can shift to other substitutes and as a result demand for the commodity concerned will fall more. But the consumer cannot reduce the demand much for the product in the same situation which has less number of substitutes or no substitute. Hence, demand becomes relatively inelastic.

(b) Proportion of income spent: If a very small proportion of income is spent on a particular commodity, consumer will not be impacted by a change in price of the commodity and demand for this commodity will become inelastic. Whereas, if already a noticeable proportion of income is spent on any good, consumer will respond more to change in price of such good, i.e., demand will be elastic.

(c) Necessity versus Luxury: The demand for any necessary good is inelastic as its demand does not change much with change in its price, whereas demand for luxury good is elastic because its demand changes much with change in its price as consumer can do without it if its price rises.

(d) Short run versus long run: Demand for any product in the short run is generally inelastic as consumer is unable to change their habit and find the substitutes of the product within a short time. In the long run, as more substitutes can be made available and consumer can also change habit, demand for a commodity responds more to change in its price, i.e., demand becomes elastic.

(ii) Reasons for upward slope of the supply curve: **[2]**

- Profit motive: Higher price raises profit margin which attracts the producer to produce and supply a larger quantity to enjoy this excess profit, i.e., supply of the commodity varies directly with the price.
- Increase in the number of firms: Higher prices attract new firms that were unable to produce and supply the good at lower prices. Hence, quantity of supply increases with increase in price.
- Increase in marginal cost of production: Producing additional units often becomes more expensive due to diminishing returns. In this situation, higher market price is needed to cover this rising marginal cost.

(Candidates have to write any two reasons for the upward slope of the supply curve.)

Question 11

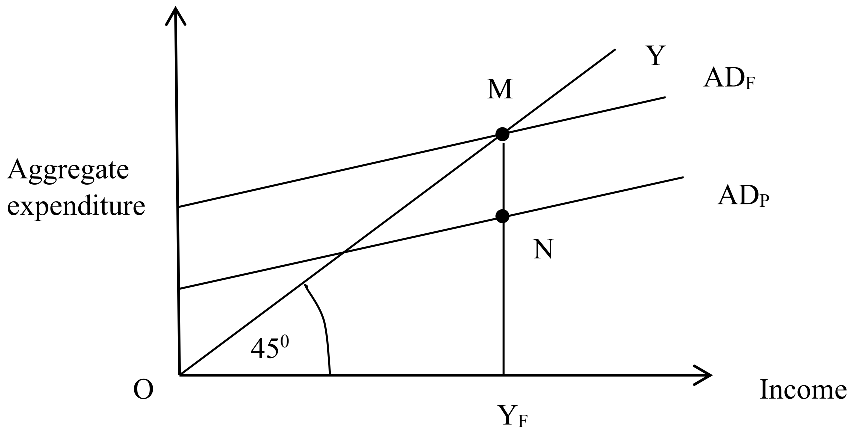
(i) **Similarity:** **[2]**

Repo rate and reverse repo rate are short term monetary instruments used by central bank to control inflation and recession in the same way. Both of them are raised to curb inflation and are reduced to tackle recession.

Dissimilarities:

Repo rate is the rate of interest charged by central bank on the commercial bank while short-term loan is given by central bank to the commercial bank. On the other hand, reverse repo rate is the rate of interest offered by central bank to the commercial bank when former takes short term loan from the latter.

(ii) If the aggregate desired expenditure or aggregate demand falls short of the aggregate supply available at the full employment level of output, it is considered as a situation of deficient demand. **[6]**



We observe that at the full employment level of output represented by Y_F, the present aggregate demand, i.e., AD_P, falls short of aggregate demand required to maintain full employment, i.e., AD_F or Y_F by an amount of MN. This MN represents the deficiency of demand / deficient demand.

Fiscal measure:

Taxation: Government can reduce the direct tax rate which will raise the disposable income of the people. This will lead to an increase in the consumption expenditure and hence the aggregate demand.

Monetary measure:

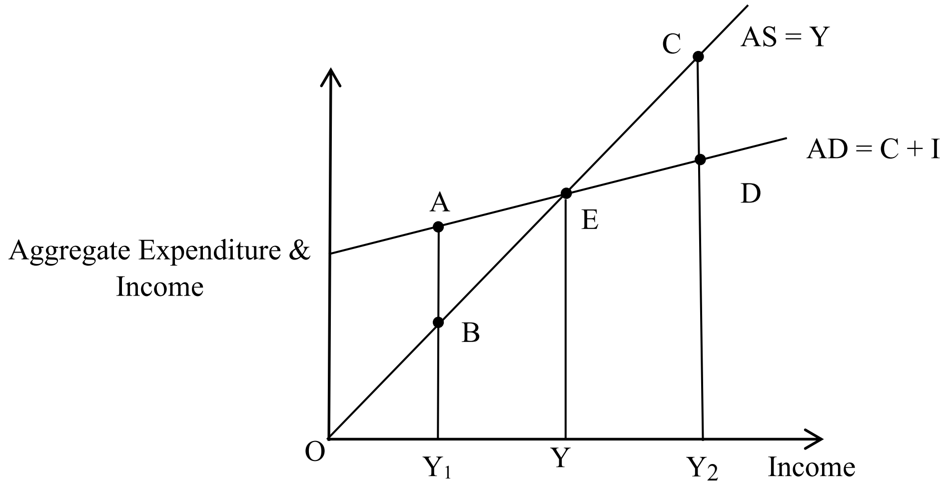
Bank rate: Central bank can reduce the bank rate which will lead the commercial banks to lend at lower rate of interest. It will cause more borrowing by the people and ultimately raise the consumption expenditure. Moreover, lower lending rate of interest will encourage more investment. Thus, present aggregate demand will rise.

OR

(iii) **[2]**

- High Powered Money (M_0) is the monetary base of the country, whereas Broad Money (M_4) is the total money supply in the economy.
- The components of High Powered Money are currency held by the public, cash reserve with commercial bank, required reserve of the commercial banks with the central bank and other deposits with the RBI. Broad Money, on the contrary, consists of currency held by the public, demand and time deposits with the commercial bank, postal savings bank deposits and other deposits with the RBI.
- High Powered Money contains highest level of liquidity of money, but Broad Money contains least liquid money.

(iv) **[6]**



Equilibrium level of income has been determined at the level Y_e because at this level of income AD = AS.

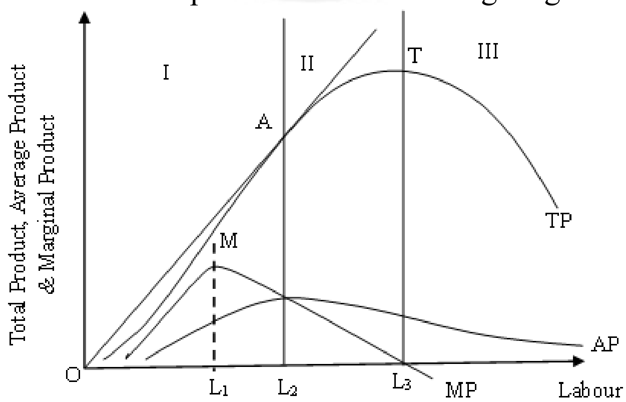
At Y_1 level of income, AD > AS. Excess demand, AB, induces the producers to produce more and hence income increases until Y = C + I.

If Y = Y_2, AD < AS and for this excess supply, CD, producers will reduce production and hence income will fall to the level of Y_e. That is the income will be stable only when AD =AS.

Equilibrium does not always take place at the full employment level. Equilibrium takes place when aggregate demand is equal to aggregate supply. It is not necessary that this aggregate supply will always be the maximum potential supply generated at the full employment level. If the desired aggregate expenditure of the economy becomes equal with the given output which is produced even without utilising the entire resources of the economy, equilibrium will take place.

Question 12

(i) (a) The phenomenon indicates the operation of the Law of Variable Proportions which is explained in the following diagram: **[4]**



Stage I (Increasing return): Initially Total Product (TP) increases at an increasing rate up to point M, and increases at a diminishing rate between M and A. The point M, at which the TP curve changes its curvature, i.e., TP starts increasing at diminishing rate, is known as the point of inflexion.

MP rises first, reaches its maximum at L_1 level of employment and then starts decreasing but remains positive throughout. AP rises throughout. This stage ends when the AP reaches maximum at the level of employment, L_2.

Stage II (Diminishing return): Total Product increases at a decreasing rate and reaches its maximum at T.

Marginal Product diminishes. When Total Product reaches the maximum, marginal product becomes zero at L_3 level of employment. AP begins to decrease from the maximum but remains positive.

Stage III (Negative return): Total Product diminishes with further increase in labour. MP becomes negative. AP continues to decrease but remains positive.

(b) The causes are as follow: **[2]**

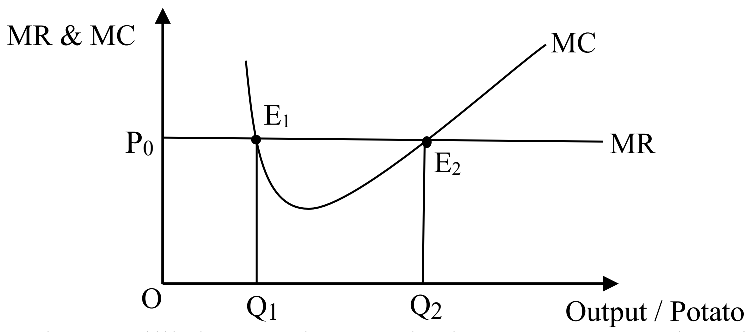
- Machine breakdown and overcrowding: The employment of more and more labour on the same machine causes its breakdown. Moreover, lesser availability of machines per labour reduces labour efficiency.
- Inefficient labour management: Too many workers may cause inefficient labour management and a tendency of neglecting duties among the workers and hence decline in production.

(ii) Total Cost (TC) curve is a positively sloped 'inverted S' shaped curve with positive intercept. Due to the operation of the law of increasing return, TC curve is initially concave to the output axis as TC increases at a diminishing rate with increase in output. Later, it increases at increasing rate due to the operation of the law of diminishing return and the curve becomes convex to the output axis. **[2]**

OR

(iii) (a) The farmer will produce 8 quintals of potato. **[4]**

Every producer takes decision regarding the profit maximising level of output to be produced for which both necessary and sufficient conditions get satisfied.
For both 6 quintals and 8 quintals, MR = MC = 850. The necessary condition has been satisfied for both these quantities. But the sufficient condition has been satisfied only for 8 quintals of output.
The sufficient condition implies that the slope of the MC curve will be greater that the slope of MR curve. In other words, if a firm produces a slightly higher level of output than the level for which MR = MC, its additional cost will be greater than the additional revenue or simply MC > MR and if it produces a slight lower level of output, its additional cost will be lesser than that of revenue, i.e., MC < MR.
Here at 7 quintals, MC (₹ 845) < MR (₹ 850)
And at 9 quintals, MC (₹ 856) > MR (₹ 850)
Therefore, the producer would follow the principles of MR = MC and slope of MC curve > slope of MR curve while determining the level of output (8 quintals) for maximisation of its profit.

(b) 

[2]

E_2 is the equilibrium point as both necessary and sufficient conditions have been satisfied here, and farmer will produce OQ_2 level of output (8 quintals of potato).

(iv) TR curve under imperfect competition is positively sloped concave to the horizontal axis and passing through origin. As firm under imperfect competition has to lower the price of its product to sale more, TR increases at a diminishing rate and for this TR curve slopes positively and concave to the quantity axis. **[2]**

Question 13

(i) In the month of August 2025, \$1 = ₹87·06 which changed to \$1= ₹90·28 in the month of January 2026. It shows that more and more Rupee had been exchanged for 1 USD. Over the period of six months, the value of Rupee in terms of US dollar had continuously declined. It shows the depreciation of Rupee. **[2]**

(ii) Under fixed exchange rate system, exchange rate is determined and maintained by the central bank of the country. Naturally, value of rupee cannot fall by the market forces. But the central bank can deliberately reduce the value of rupee against USD through devaluation for the purpose of correcting adverse BOP. Therefore, this trend is possible in the fixed exchange rate system also. **[2]**

(iii) The passage mentions three different components of Balance of Payment: **[2]**

- Point 1 mentions total exports and total imports which are the components of current account.
- Point 2 refers to unilateral receipts under current account.
- Point 3 indicates capital payment under capital account.

(iv) Depreciation of Rupee would make Indian product cheaper in the foreign market and foreign product will be expensive in the Indian market. Consequently, export (X) from India would increase and import (M) would fall. **[2]**

We know that,

National Income = Consumption expenditure (C) + Private investment expenditure (I) + Government expenditure (G) + Net export (X-M) + Net factor income earned from abroad – Depreciation – Net indirect tax.

For higher export and less import, net export would not only be positive but also increase which would cause a rise in national income.