Class XII Session 2026-27
Subject - Economics
Sample Question Paper - 3

Time Allowed: 3 hours **Maximum Marks: 80**

General Instructions:

1. This question paper contains two sections:
   Section A – Macro Economics
   Section B – Indian Economic Development
2. This paper contains 20 Multiple Choice Questions type questions of 1 mark each.
3. This paper contains 4 Short Answer Questions type questions of 3 marks each to be answered in 60 to 80 words.
4. This paper contains 6 Short Answer Questions type questions of 4 marks each to be answered in 80 to 100 words.
5. This paper contains 4 Long Answer Questions type questions of 6 marks each to be answered in 100 to 150 words.

SECTION A – MACRO ECONOMICS

1. Average Propensity to Consume refers to _____. **[1]**

   a) additional income that is not saved
   b) ratio of savings to the income
   c) ratio of consumption to the income
   d) level of income at which savings are equal to income

2. Domestic territory of country includes **[1]**

   a) embassies of a country located abroad
   b) political frontiers
   c) territorial water
   d) All of these

3. By supply of money we mean: **[1]**

   a) Money deposited in the bank
   b) Money available with the public
   c) Deposits with post office savings bank
   d) All of these

4. **Statement-1:** Managed floating exchange rate system is an amalgamation of fixed and flexible exchange rate system. **[1]**
   Statement-2: Managed floating exchange rate system is also known as 'hybrid system'.

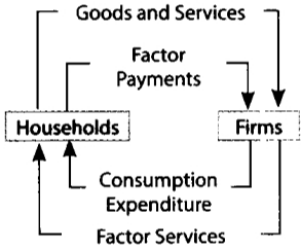
   a) Statement 1 is true and Statement 2 is false.
   b) Both Statements 1 and 2 are false.

c) Statement 1 is false and Statement 2 is true.

d) Both Statements 1 and 2 are true.

5. Circular Flow of Income is correctly represented in the diagram: **[1]**

a)



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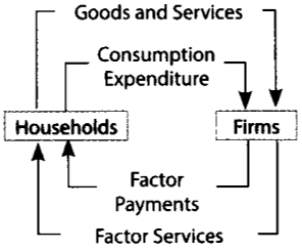
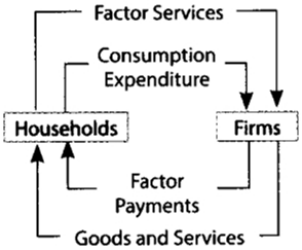
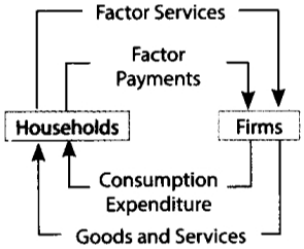


c)



d)



6. _____ refers to the situation when aggregate demand is less than aggregate supply corresponding to full employment level of output in the economy. **[1]**

a) Deficient Demand

b) Inflationary Gap

c) Excess Demand

d) Deflationary gap

7. **Statement 1:** Nominal GDP is a better measure to make periodic comparison in the physical output of goods and services over different years. **[1]**
Statement 2: Nominal GDP is affected by change in physical output only and not by change in price.

a) Both the Statements are true.

b) Statement 1 is true and Statement 2 is false.

c) Both the Statements are false.

d) Statement 2 is true and Statement 1 is false.

8. If amount of initial deposits with commercial banks is ₹ 3,000 crore and LRR is 25%, then total deposits created will be: **[1]**

a) ₹ 12,000 crore

b) ₹ 6,000 crore

c) ₹ 750 crore d) ₹ 9,000 crore

9. **Assertion (A):** Demand for domestic goods and services and Domestic demand for goods and services are one and the same thing. **[1]**

Reason (R): The demand for domestic goods and services is the sum total of demand for goods and services by both the domestic and foreign countries; whereas, domestic demand for goods and services is the sum total of domestic demand for domestic as well as foreign goods.

a) Both A and R are true and R is the correct explanation of A.
b) Both A and R are true but R is not the correct explanation of A.
c) A is true but R is false.
d) A is false but R is true.

10. Raising bank rate by the central bank in India during excess demand is **[1]**

a) Inflationary
b) Deflationary
c) Stabilisation
d) Destabilisation

11. Given the nominal income, how can we find real income? Explain. **[3]**

12. Distinguish between money value (or monetary value) and commodity value of money. Give a suitable example. **[3]**

OR

What is meant by a central bank? Why is it known as the apex body?

13. If the Real GDP is Rs. 400 and Nominal GDP is Rs. 450, calculate the Price Index (base = 100). **[4]**

OR

How will you treat the following in the calculation of Net Domestic Product (NDP) of India? Give reasons for your answer.

a. Factor income from abroad.
b. Remittances from non-resident Indians to their families in India.

14. If planned saving is less than planned investment, what changes will bring an economy in equilibrium? **[4]**

OR

In an economy the Marginal Propensity to Save is 0.4. National Income in the economy increase by Rs 200 crore as a result of a change in investment. Calculate the change in investment.

15. What do you mean by open market operations? How does it control the availability of credit in the economy? **[4]**

16. **Answer the following questions:** **[6]**

i. Explain the distinction between voluntary and involuntary unemployment. **[3]**
ii. In an economy, marginal propensity to save is 0.10. How much increase in investment is required so that national income rises by ₹ 400 crores? **[3]**

17. Explain the objectives of resource allocation and income distribution in a government budget. **[6]**

SECTION B – INDIAN ECONOMIC DEVELOPMENT

18. Under GST, which is not a tax slab **[1]**

a) 5%

b) 28%

c) 20%

d) 12%

19. In the Second Five Year Plan, the top priority was given to _____. **[1]**

a) Infrastructure

b) Mining

c) Agriculture

d) Industry

20. To provide the educational facilities to the children of transferable central government employees _____ were established. **[1]**

a) Navodaya Vidayalas

b) Both Kendriya and Navodaya Vidayalyas

c) Kendriya Vidyalayas

d) Army Public School

21. **Assertion (A):** Agriculture loan default rate have been chronically high. **[1]**
Reason (R): It is alleged that farmers are deliberately refusing to pay back loans.

a) Both A and R are true and R is the correct explanation of A.

b) Both A and R are true but R is not the correct explanation of A.

c) A is true but R is false.

d) A is false but R is true.

22. Who of the following is employed in informal sector? **[1]**

a) Driver of a Chartered Accountant

b) A police constable

c) A private school teacher with 60 teachers

d) A private school teacher with 50 teachers

23. Structural unemployment is due to **[1]**

a) inflationary conditions

b) heavy industry bias

c) privatisation

d) shortage of raw materials

24. The government set up the Central Pollution Control Board (CPCB) in **[1]**

a) 1984

b) 1985

c) 1975

d) 1974

25. From the set of information given in Column A and Column B, choose the correct pair of options: **[1]**

Column A	**Column B**
A. First Railway Bridge linking Bombay with Thane	I. 1843
B. First Official Census	II. 1881
C. Battle of Plassey	III. 1857
D. Opening of Suez Canal	IV. 1879

a) D - IV

b) B - II

c) C - III

d) A - I

26. India experienced _____ death rate before 1921, i.e. Year of the Great Divide. **[1]**

a) Fickle
b) Constant
c) Low
d) High

27. **Statement I:** The population of Pakistan is very small and accounts for roughly about one-sixth of China or India. **[1]**

Statement II: Though China is the largest nation and geographically occupies the largest area among the three nations, its density is the lowest.

a) Statement II is true, Statement I is false.
b) Statement I is true, Statement II is false.
c) Both the statements are false.
d) Both the statements are true.

28. What is the important implication of the **one child norm** in China? **[3]**

29. **If the rate of resource extraction exceeds the rate of regeneration, it leads to reduction in carrying capacity of the environment**. Discuss the rationale of the given statement with valid reasons. **[3]**

OR

How has population explosion and the advent of industrial revolution resulted in environmental crisis?

30. a. Explain briefly the rationale behind the 'License Raj' under the Industrial Policy Resolution, 1956. **[4]**
b. Define Multilateral trade.

OR

What are the benefits of globalisation?

31. Why has the industrial sector performed poorly in the reform period? **[4]**

32. Due to its quality, Indian indigo was in great demand in Britain. In 1810, almost 95% of the indigo imported into Britain was from India. Indigo production became a very profitable business and many Britishers became indigo planters. They advanced loans to peasants at high rate and forced them to cultivate indigo in 25% of their land. They paid a low price for the indigo. As the indigo plant had deep roots, it exhausted the soil fertility and the land was unfit for rice cultivation. Do you think that the above practices of the British were justified? **[4]**

33. **Answer the following questions:** **[6]**

i. i. State the main objectives of liberalisation policy. **[3]**
ii. In your opinion, what are the advantages of privatisation to the economy?

ii. **OR** **[3]**
i. Explain the 'Ryotwari' and 'Mahalwari' System of collecting land revenue prevalent under the British rule.
ii. Explain the main causes of India's agricultural stagnation and deterioration during British rule.

34. a. In the recent past the Government of India has taken vital steps to revive and popularise Indian System of Medicine (ISM). **[6]**

Do you agree with the given statement? Justify your answer with valid reasons.

b. **Casualization of workforce has became a perennial problem of the Indian economy.** Justify the given statement with valid arguments.

Solution

SECTION A – MACRO ECONOMICS

1.

(c) ratio of consumption to the income
Explanation:
ratio of consumption to the income

2.

(d) All of these
Explanation:
All of these

3.

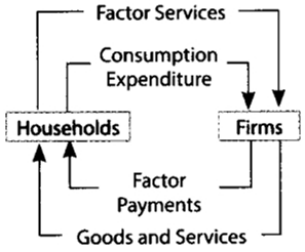
(d) All of these
Explanation:
All the options are means of supply of money.

4.

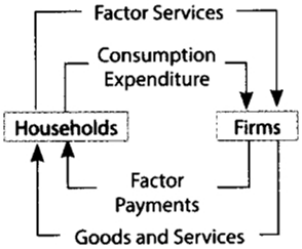
(d) Both Statements 1 and 2 are true.
Explanation:
Both Statements 1 and 2 are true.

5.

(c)



Explanation:



6. **(a)** Deficient Demand
Explanation:
Deficient Demand

7. **(c)** Both the Statements are false.
Explanation:
Both the Statements are false.

8. **(a)** ₹ 12,000 crore
Explanation:
₹ 12,000 crore

9. **(d)** A is false but R is true.
Explanation:
A is false but R is true.

10. **(b)** Deflationary
Explanation:
Doing so would discourage investment and lead to deficient aggregate demand via multiplier process

11. i. Nominal income is the income one gets in money terms and real income is the number of goods and services a person can buy from the nominal income.
ii. Nominal income is calculated with the current year price and real income is calculated with base year' price.
iii. Real income is calculated by dividing nominal income by the price level.
iv. Real income changes with production only whereas nominal income changes with Price as well as with Production also.

For example: If Nominal income is Rs.420 and Price Index is 105,
Real Income = (Nominal Income/Price Index of the Current Year) $\times$ 100
=(420/105) $\times$ 100 nominal income
Real income = 400.

12. Money value of money refers to what is inscribed on a coin or written on a paper note. Thus, money value of a paper note is what is written on it, i.e. ₹ 100, ₹ 500, etc. You can buy goods and services worth of that amount in the market. Commodity value of money refers to value of the material out of which coins or currency notes are made.

OR

Central Bank is an 'Apex' body that controls, operates, regulates and directs the entire banking and monetary structure of the country.
It is known as the apex (supreme) body as it occupies the top most position in the monetary and banking system of the country. All the financially developed countries have their own central bank. India's Central Bank is the Reserve Bank of India (RBI). RBI was established in April 1, 1935 under Reserve Bank of India Act passed in 1934.

13. Real GDP = Rs 400
Nominal GDP = Rs 450
Price Index in terms of Real GDP and Nominal GDP is given by

$$\text{Price Index} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

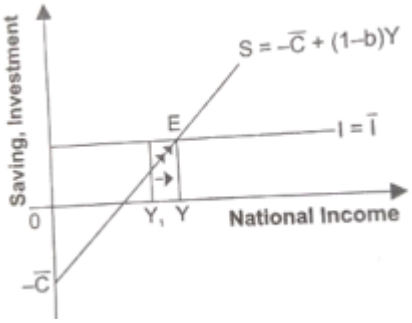
$$= \frac{450}{400} \times 100 = 112.5$$

Therefore, Price Index is 112.5

OR

a. No, it is not included in NDP of India because the factor income is earned outside the domestic territory of India.
b. No, it is not included in NDP of India because it is a transfer income from abroad and it is not earned within domestic territory of a country.

14. AD = AS
C + I = C + S
I = C + S -C = S
i. when planned saving is less than planned investment, then national income will decrease as shown in the below diagram.



ii. When, investment > saving [at Y1], then production will have to be increased to meet the excess demand. Consequently, national income will increase leading to rise in saving until saving becomes equal to investment. It is here that equilibrium level of income is established because what the savers intend to save becomes equal to what the investors intend to invest.

OR

Given,MPS = 0.4

1.Calculation of Multiplier:

Multiplier $(\mathrm{K}) = \frac{1}{\mathrm{MPS}} = \frac{1}{04} = \frac{10}{4} = 2.5$

2.Calculation of Change in Investment:

$$\Delta I = \frac{\text{Change in Income } (\Delta Y)}{K}$$

$$\therefore \Delta I = \frac{200}{2.5} = 200 \times \frac{10}{25} = Rs\ 80\text{crores}$$

15.
- Open market operations means buying and selling of government securities by the central bank in an open market.

Selling:
- Central bank sells the Government Securities to commercial banks and reduces their lending capacity or it sells Government Bonds to General Public to reduce their capacity to spend on consumer goods.

Buying:
- Central bank buys the securities back from commercial banks and increases their lending capacity (liquidity) or and it purchases its securities back from the public to increase their capacity to spend.

Credit Control:
- In case of Inflation or excess demand, Central Bank starts selling government securities in the open market.
- This reduces the money supply in the economy
- As a result Consumption, AD falls and there is reduction in Inflationary Gap.
- In case of deflation or deficient demand, Central Bank starts purchasing government securities in the open market.
- This increase the money supply in the economy.
- As a result Consumption, AD rises and there is fall in Deflationary Gap.

16. Answer the following questions:
(a) Voluntary unemployment refers to a situation when people who are able to work but are not willing to work although suitable work is available for them. In other words, they are voluntarily unemployed. Involuntary unemployment is a situation in the economy when

even if people are able and willing to work at existing wage rates, they are not getting work. Hence, they are unemployed against their wishes.

(b) MPS = 0.10

$K = \frac{1}{MPS}$

$K = \frac{1}{0.10} = 10$

$K = \frac{\Delta Y}{\Delta I}$

$10 = \frac{400}{\Delta I}$

$\Delta I = \frac{400}{10}$

ΔI = 40 crores

17. Government Budget is a statement of the estimates of the government's expected receipts and government's expected expenditure during the financial year or fiscal year which runs from 1st April to 31st March. One of the important objectives of the government budget is 're-allocation of resources'.

Re-allocation of Resources:

Through the budgetary policy, Government aims to re-allocate resources in accordance with the economic (profit maximisation) and social (public welfare) priorities of the country. Government can influence the allocation of resources through:

Tax concessions or subsidies:

To encourage investment, government can give tax concession, subsidies etc. to the producers. For example, Government discourages the production of harmful consumption goods (like liquor, cigarettes etc.) through heavy taxes and encourages the use of 'Khaki products' by providing subsidies. So, the government levies a tax on the richer sections of society. The money collected from taxes is spent on providing public goods and giving subsidies on necessary goods to the poorer section of society. So, the government re-allocates resources by collecting taxes from the rich and giving subsidies to the poor and tries to achieve equitable distribution of income.

Distribution of income in society: Reducing inequality is a major objective of government's budget especially in developing country like India, where inequality of income and wealth is very high.

Government uses its financial tools of taxation and subsidies to enhance equal distribution of income and wealth. In order to ensure equity of income, the progressive tax structure is followed in India, which imposes a higher burden of taxes on higher income group and a lesser burden on lower income group. Also, those who earn below a substantial limit are exempted from payment of taxes. The additional income generated from the higher income group is re-distributed by the government in the form of subsidies to the poor sections of the society, to ensure the objective of welfare. LPG subsidy is a good example of such re-distribution of income.

SECTION B – INDIAN ECONOMIC DEVELOPMENT

18.

(c) 20%

Explanation:

20%

19.

(d) Industry

Explanation:

In the Second Five Year Plan, the top priority was given to Industry.

20.

(c) Kendriya Vidyalayas

Explanation:

The Kendriya Vidyalayas were established to cater to the educational needs of transferrable Central Government employees including Defence and Para-military personnel by providing a common program of education.

21. **(a)** Both A and R are true and R is the correct explanation of A.
Explanation:
Both A and R are true and R is the correct explanation of A.

22. **(a)** Driver of a Chartered Accountant
Explanation:
Any worker outside public sector and private sector establishment is an informal worker like driver of chartered accountant.

23. **(c)** privatisation
Explanation:
Structural unemployment is a type of long-term unemployment caused by shifts in the economy.

24. **(d)** 1974
Explanation:
In order to address two major environmental concerns in India, viz., water and air pollution, the government set up the Central Pollution Control Board (CPCB) in 1974.

25. **(b)** B - II
Explanation:
B - II

26. **(d)** High
Explanation:
High

27. **(d)** Both the statements are true.
Explanation:
Both the statements are true.

28. The one child norm introduced in China in the late 1970s has been the major reason for low population growth. This measure led to a decline in the sex ratio defined as the proportion of females per 1000 males.
The important implications of the 'one child norm' are:
    i. Low population growth
    ii. Decline in the sex ratio
    iii. After a few decades, there will be more elderly people in proportion to young people
    iv. In the long run, China will have to provide more social security measures with fewer workers

29. **If the rate of resource extraction exceeds the rate of regeneration, it leads to reduction in carrying capacity of the environment**. The environment is able to perform its functions uninterruptedly so long as the demand for these functions is within the carrying capacity of the environment. This means that the resources are not extracted beyond the rate of their regeneration.

If there is a disequilibrium (i.e. demand being more than supply), the environment fails to replenish itself, which will lead to environmental crisis. Therefore, to maintain a healthy environment, the carrying capacity of the environment must be valued and respected.

OR

With population explosion and with the advent of industrial revolution, to meet the growing needs of the expanding population, the demand for resources for both production and consumption has gone beyond the rate of regeneration of the resources and due to this, the pressure on environment has increased tremendously. The increasing population has led to increased demand for housing and this has led to widespread deforestation. In order to accelerate the process of industrialisation, natural resources are being used up at a much faster pace. We are now faced with increased demand for environmental resources and services but their supply is limited due to overuse and misuse of these resources. Hence, the environmental issues of waste generation and pollution have become critical today.

30. a. The aim of License Raj under the Industrial Policy Resolution 1956, was to keep the private sector under control. No new industry was allowed unless a license was obtained from the Government. This policy was used for ensuring regional equality.
    b. Multilateral trade refers to exchange of goods and services between more than two nations.

OR

Globalisation results in the following benefits for the economy

i. It helps the economy to adopt new and flexible methods of production.
ii. It results in raising the productivity of the industrial sector by reducing capital output ratio, increasing exports, raising the efficiency of the workforce, modernising the technology used and increasing capital flow in the country.
iii. It helps in restructuring the production units of the country towards the production of those goods which the country can produce effectively and efficiently with the use of the domestically available factors of production.
iv. It helps to increase the flow of foreign capital into the country.
v. It helps to improve the quality of goods produced in the economy.
vi. It helps to address the problem of unemployment.
vii. Advantages from the free movement of labour between countries.
viii. Gains from the sharing of ideas/ skills/ technologies across national borders.
ix. Competitive pressures of globalisation may prompt improved governance and better labour protection.
x. Encourages producers and consumers to benefit from the deeper division of labour and economies of scale.

31. The Industrial Sector has performed poorly in the reform period because of decreasing demand for industrial products due to various reasons such as cheaper imports, inadequate investment, infrastructure, etc. Following reasons may be enumerated in this context:

i. Cheaper imports have decreased the demand for domestic industrial goods.
ii. Globalisation created conditions for the free movement of goods and services from foreign countries that adversely affected the local industries and employment opportunities in developing countries.
iii. There was an inadequate investment in infrastructural facilities such as power supply.
iv. A developing country like India still does not have access to developed countries markets because of high non-tariff barriers.
v. The investment made in infrastructure facilities including power supply has remained inadequate and hence domestic industries have not found conditions favourable to compete with foreign goods. Globalisation has led to the free movement of goods and services from foreign countries and thus, caused the local industries to die out and employment opportunities to fall in developing countries like India.

32. No, I don't think that the above practices of the British are justified.
The factors which disturb me in above scenario are as follows:

i. The Britishers exploited Indian peasants by advancing them loans at a high rate of interest and by paying a low price for their produce.

ii. The Britishers forced Indian peasants to cultivate indigo on 25% of their land holding. Since indigo plant exhausted the soil fertility, therefore the peasants had less land to cultivate in subsequent years.

33. Answer the following questions:

(a) i. The main objectives of liberalisation policy are as under:

i. To increase competition among domestic industries by giving them freedom regarding the decisions pertaining to production.

ii. To increase foreign capital formation and improve technology.

iii. To decrease the debt of the country.

iv. To encourage cross border trade.

v. To expand the size of the market by reducing the limit on the quantity of output produced.

Since the NEP aims to achieve all the above stated objectives, therefore it is said that NEP is liberal.

ii. Advantages of privatisation are as under:

i. It will introduce efficiency and profitability in Public Sector Undertakings (PSUs).

ii. It promotes consumer's sovereignty. High degree of consumer's sovereignty implies wider choice and better quality of goods and services.

iii. It will reduce budgetary deficits which result from expenditure on loss making PSUs.

iv. It promotes diversification of production. Also, unlike PSUs, private enterprises invariably generate high profits.

v. Often privatisation of state owned monopolies occurs alongside deregulation – i.e. policies to allow more firms to enter the industry and increase the competitiveness of the market.

(b) OR

i. **Ryotwari System:** It was the way of collecting tax revenue (in British controlled areas in India) directly from cultivators of farmland.

- In Ryotwari System the ownership rights were handed over to the peasants. British Government collected taxes directly from the peasants.
- The revenue rates of Ryotwari System were 50% where the lands were dry and 60% in irrigated land

Mahalwari System: This system consisted of landlords or zamindars representing an entire village or even a group of villages. Along with the tillers, they were jointly as well as individually responsible for the payment of revenues. The land under this system included the land of the villages as well as adjoining forestland and pastures.

- The Mahalwari system had many provisions of both the Zamindari System and Ryotwari System.
- In this system, the land was divided into Mahals. Each Mahal comprises one or more villages.
- Ownership rights were vested with the peasants.

ii. Following were the main causes of India's agricultural stagnation and deterioration during British rule:

i. **Zamindari system-** Under zamindari system, zamindars acted as middlemen between cultivators and the government for land revenue. The actual collections by zamindars from cultivators were much higher than land revenue payable to the government. Zamindars exploited the farmers and led a lavish life.

ii. **Absence of improvement-** Zamindars did nothing to improve the condition of agriculture. Agriculture was subject to the low levels of technology, lack of

irrigation and negligible use of fertilisers, etc. This led to a low level of productivity.

iii. **Forced commercialisation of agriculture-** Farmers were forced to shift to commercial crops(Indigo) from the conventional subsistence crops. While earlier they would grow grain for their family consumption, now they needed cash to buy it from the market. But they would seldom have cash owing to their mounting indebtedness.

34. a. This statement is true, to promote the education of Indian system of medicines and Ayurveda globally, ministry has signed 13 MoUs for setting up AYUSH academic chairs with foreign universities under which AYUSH experts are deputed in reputed universities to undertake teaching activities.

b. The term "casualization of the workforce" means the transition of a workforce that is engaged in permanent jobs to one that is engaged on a temporary or casual basis. Due to the increase in the number of workers engaged on a temporary basis, this has become a concern for the Indian economy. This might occur as a result of migration to metropolitan regions where people only work as daily-wage or casual workers and disguised unemployment in rural areas. With India's informal workforce, a rise in GDP is accompanied by a decline in job security. Daily wage workers are not get the same privileges or status as permanent employees in India.