Class XII Session 2026-27
Subject - Economics
Sample Question Paper - 5

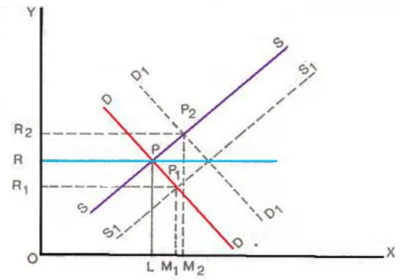
Time Allowed: 3 hours **Maximum Marks: 80**

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. The demand for foreign exchange and the exchange rate has **[1]**



a) Direct relationship
b) Exponential relationship
c) Inverse relationship
d) Indirect relationship

2. _____ is the total volume of money held by the public, for the purpose of disposing off, at a particular point of time. **[1]**

a) Money supply
b) Demand for money
c) Credit creation
d) Term deposits

3. In the Keynesian Economics, _____ starts from the origin and is always drawn at an angle of 45°. **[1]**

a) Aggregate demand curve
b) Reference line
c) Investment curve
d) Consumption curve

4. **Statement I:** External Assistance, e.g. Government Aid, Inter-governmental, **[1]**

Multilateral and Bilateral Loans is a component of capital account of BOP.

Statement II: Current Account Surplus signifies that the nation is a lender to the rest of the world.

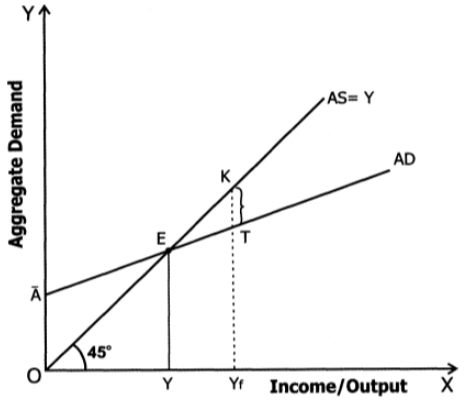
a) Both the statements are true.

b) Statement I is true and statement II is false.

c) Both the statements are false.

d) Statement II is true and statement I is false.

5. In the given figure, what does the gap **KT** represent? **[1]**



a) A situation of Deficient Demand

b) Over full employment equilibrium

c) Full employment equilibrium

d) A situation of Excess Demand

6. Under _____ exchange rate system, the Central Bank and Government of the country do not have any authority to interfere in the exchange rate determination. **[1]**

a) floating

b) managed floating

c) fixed

d) gold standard

7. **Statement I:** Budgetary incentives (tax concessions, subsidies, etc.) can be used to influence allocation of resources in the country. **[1]**

Statement II: Reallocation of Resources objective is sought to be achieved through progressive income taxation, in which higher the income, higher is the tax rate.

a) Both the statements are true.

b) Statement I is true and statement II is false.

c) Both the statements are false.

d) Statement II is true and statement I is false.

8. If Marginal Propensity to Save (MPS) is 0.25 and the initial change in investment is ₹ 250 crores, then the final change in income would be _____. **[1]**

a) ₹ 3,500 crores

b) ₹ 1,200 crores

c) ₹ 1,000 crores

d) ₹ 500 crores

9. **Assertion (A):** Intermediate goods have direct demand. **[1]**

Reason (R): The demand for intermediate goods depends on demand for final goods.

a) Both A and R are true and R is the

b) Both A and R are true but R is not

correct explanation of A. the correct explanation of A.

c) A is true but R is false. d) A is false but R is true.

10. Value of Money Multiplier _____ with an increase in Cash Reserve Ratio. **[1]**

a) Increases b) Remains unchanged

c) Rise d) Decreases

11. **Trade deficit must exist if a country is facing a situation of current account deficit**. Defend or refute the statement, with valid argument. **[3]**

12. If nominal income is ₹ 500 and price index is 125, calculate real income. **[3]**

OR

If the nominal gross domestic product = ₹ 4,400 and the price index (base = 100) = 110, calculate the real gross domestic product.

13. State any two precautions to be adopted while estimating National Income by Income Method. **[4]**

OR

Will the following be included in the domestic product of India? Give reasons for your answer.

a. Profits earned by foreign companies in India.

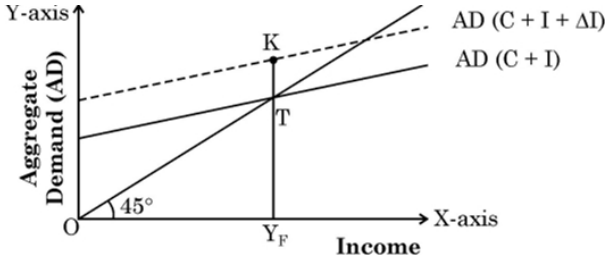
b. Salaries of Indians working in the Russian Embassy in India.

c. Profits earned by a branch of State Bank of India in Japan.

14. In an economy, a significant reduction in Aggregate demand raised concerns about future growth prospects of the country. This economic downturn underscores the urgent need for strategic measures to boost confidence of households and stimulate economic activities. **[4]**

Based on the above text and common understanding, explain the measures which the government may take to stabilise the indicated situation.

15. In the given figure, what does the gap **KT** represent? State any two fiscal measures to correct the situation. **[4]**



16. **Answer question (A) or (B) the following:** **[6]**

i. i. On the basis of following information, identify whether the economy is in equilibrium or not: **[3]**

S.No.	Particulars	Amount (in ₹)
(i)	Autonomous Consumption and Investment Expenditure ($\bar{A}$)	₹ 500 crores
(ii)	Marginal Propensity to Save (MPS)	0.2

(iii)	National Income	₹ 4,000 crores

ii. Explain the distinction between 'autonomous investment' and 'induced investment'.

ii. i. State the meaning of the following: **[2]**

i. Investment multiplier

ii. Full employment

ii. State the relationship between multiplier and MPC.

17. **Read the following text carefully and answer the questions that follow:** **[6]**

The government collects income from various sources to meet its expenditure needs. These receipts are broadly classified into revenue receipts and capital receipts. Revenue receipts include income from taxes and non-tax sources and do not create liabilities. Capital receipts include borrowings and recovery of loans and create liabilities or reduce assets. On the expenditure side, the government incurs revenue and capital expenditure. Revenue expenditure includes day-to-day administrative expenses, interest payments, and subsidies that do not create assets. Capital expenditure includes spending on infrastructure, machinery, and loans to states that create long-term assets. A balanced allocation between receipts and expenditure is necessary for sustainable development. If the government spends excessively without sufficient receipts, it leads to fiscal imbalance and higher public debt. Therefore, proper management of receipts and expenditures is essential for economic stability and long-term growth.

i. Differentiate between revenue receipts and capital receipts. (3)

ii. Distinguish between revenue expenditure and capital expenditure. (3)

SECTION B INDIAN ECONOMIC DEVELOPMENT

18. During colonial period, estimates of _____ on national income and per capita income were considered very significant. **[1]**

a) RC Desai b) William Digby

c) VKRV Rao d) Dadabhai Naoroji

19. The Great Leap Forward (GLF) campaign in China focused on _____. **[1]**
(Choose the correct alternative to fill up the blank)

a) New agricultural strategy b) Privatisation

c) Economic reforms d) Widespread industrialisation

20. "The Indian Government adopted a policy of fixing maximum land holding limit (ownership) for an individual." **[1]**
It is commonly known as _____.

a) Marketable Surplus b) Golden Revolution

c) Land Ceiling d) Green Revolution

21. **Assertion (A):** Under the Financial Sector Reforms, financial sector was allowed to **[1]**

take decisions after consulting RBI.

Reason (R): The role of RBI was reduced from regulator to facilitator of financial sector.

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. The expenditure on education by the Government is expressed as a percentage of _____. **[1]**

a) Gross Domestic Product (GDP)

b) Goods and Services tax

c) Disinvestment

d) Fiscal Deficit

23. Under which system people below the poverty line (BPL) could get essential goods at low subsidised rates: **[1]**



a) Maximum support price

b) Buffer stock

c) Public distribution system

d) Minimum support price

24. _____ is the population density the _____ is the pressure of population on land and the more the economic problems **[1]**

a) Higher, Lower

b) Lower, higher

c) Higher, Higher

d) Lower, Lower

25. Write the correct sequence of alternatives given in Column II by matching them with respective terms in Column I: **[1]**

Column I	Column II
(a) Karve Committee, 1955	(i) To encourage farmers for adopting new HYV technology.
(b) Industrial Policy Resolution, 1956	(ii) Using small-scale industries to promote rural development.
(c) Import Substitution Policy	(iii) To protect the domestic firm from foreign competition.
(d) Subsidies	(iv) To regulate private sector through a system of licensing to promote regional equality.

a) (a) - (ii), (b) - (iv), (c) - (iii), (d) - (i)

b) (a) - (iii), (b) - (i), (c) - (iv), (d) - (ii)

c) (a) - (i), (b) - (ii), (c) - (iii), (d) - (iv)

d) (a) - (iii), (b) - (iv), (c) - (i), (d) - (ii)

26. A UN Conference on Climate Change, held in _____ in 1997, resulted in an international agreement to fight global warming which called for reductions in emissions of greenhouse gases by industrialised nations. **[1]**

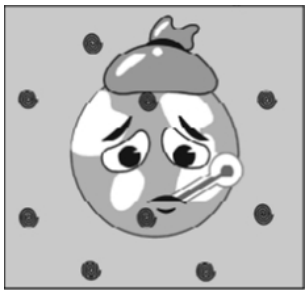
a) Japan
b) Brazil
c) USA
d) Chine

27. **Statement 1:** Railways discouraged commercialisation of Indian agriculture during the British rule. **[1]**
Statement 2: The British Government developed infrastructure to serve their own colonial interest.

a) Both the statements are false
b) Both the statements are true.
c) Statement 1 is true and Statement 2 is false
d) Statement 2 is true and Statement 1 is false

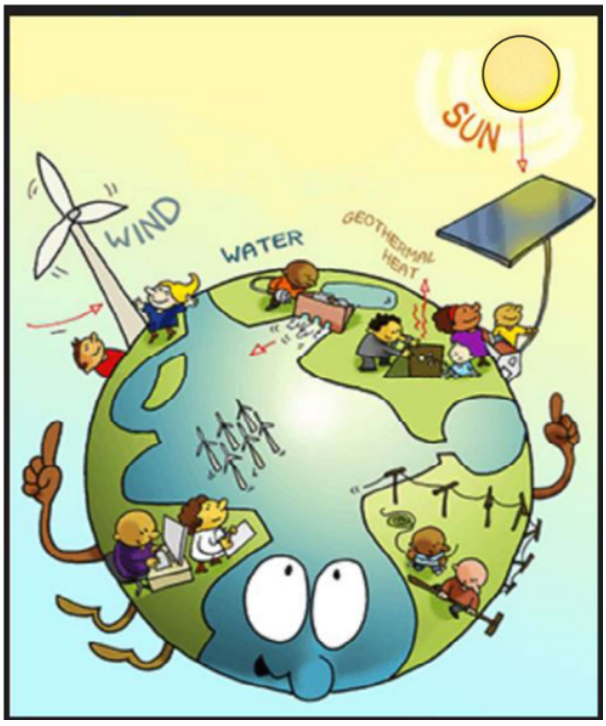
28. Briefly discuss the problems associated with informal sector. **[3]**

29. Interpret the situation of earth as depicted in the given picture, with reference to current environmental challenges: **[3]**



OR

Interpret the given picture with reference to current environmental challenges.



30. On the basis of the following information, compare and analyse the population growth rate among the given countries: **[4]**

Country	**Estimated Population (in**	**Annual Growth of Population (in**

	million)	%)
China	1371	0.5
Pakistan	188	2.1

Source: World Development Indicators, 2017

OR

From the given data, Compare and analyse Annual growth of Population and Urbanisation of China and Pakistan, with valid reasons:

Demographic Indicators, 2017-18

Country	Estimated Population (in million)	Annual Growth of Population	Population Density (per sq. km)	Sex Ratio	Fertility Rate	Urbanisation
India	1352	1.03	455	924	2.2	34
China	1393	0.46	148	949	1.7	59
Pakistan	212	2.05	275	943	3.6	37

31. Does modernisation as a planning objective create contradiction in the light of employment generation? Explain. **[4]**

32. **[4]**



Two images: one showing rapid urbanization with high-rise buildings, another showing a greenbelt of trees.

i. Compare the environmental impact of both scenarios.

ii. Provide one strategy for balancing urban growth and environmental preservation.

33. **Answer question (A) or (B) the following:** **[6]**

i. **Answer the following questions:** **[2]**

i. Explain the need for rural development.

ii. Why have Self Help Groups (SHGs) been set up?

ii. **Answer the following questions:** **[3]**

i. Explain three non-farm areas of employment for rural population.

ii. The Government of India has taken various measures to align the agricultural marketing system with the growing production activities in the rural areas.

Do you agree with the given statement? Give any two valid reasons in support of your answer.

34. Read the following text carefully and answer the given questions on the basis of the same and common understanding: **[6]**

India urged the World Trade Organisation (WTO) to relax rules to allow the country to export food grains from its public stocks to the nations facing food crisis. India can help, reduce food insecurity but there is hesitation on the part of the WTO, in relaxing its rules. India's Finance Minister said food, fuel and fertilizers are global public goods and ensuring access of these for developing and emerging economies is critical. She also shared India's experiences, including robust gains in agriculture production, citizen centric food security programmes and innovative delivery mechanisms such as the 'One Nation one Ration Card' Scheme.

(Source: The Economic Times; July 16, 2022)

a. State and discuss any two objectives of World Trade Organisation.n (3)

b. Name any two steps taken by India to strengthen the food security. (3)

Solution

SECTION A MACRO ECONOMICS

1. **(c)** Inverse relationship
Explanation:
More foreign currency is earned when exchange rate is lower and less foreign currency is earned when foreign exchange rate high.

2. **(a)** Money supply
Explanation:
Money supply

3. **(b)** Reference line
Explanation:
Reference line

4. **(a)** Both the statements are true.
Explanation:
Both the statements are true.

5. **(a)** A situation of Deficient Demand
Explanation:
A situation of Deficient Demand

6. **(a)** floating
Explanation:
floating

7. **(b)** Statement I is true and statement II is false.
Explanation:
Statement I is true and statement II is false.
Statement II is false because **Reallocation of Resources** objective is sought to be achieved through Heavy taxes can be imposed on production units engaged in producing harmful products like liquor, cigarettes, tobacco, etc. Thus, it discourages those occupations which are not beneficial to the society by imposing taxes at higher rates.

8. **(c)** ₹ 1,000 crores
Explanation:
Change in income₹ 1,000 crores
$\frac{250}{0.25}$ = 1000

9.

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

10.

(d) Decreases
Explanation:
Decreases

11. Trade deficit must exist if a country is facing a situation of current account deficit. The given statement is refuted because the Current Account Deficit (CAD) is a broader concept. CAD occurs when the foreign exchange payments on account of visible, invisibles and current transfers are in excess over the receipts of visible, invisibles and current transfers. A country may face a situation of CAD, even if the country has trade surplus, with greater negative balances on account of services and unilateral transfers.
12. Real national income = $\frac{\text{Nominal national income}}{\text{price index}} \times 100$

    Real national income = $\frac{500}{125} \times 100 = 400$

    OR

    Real GDP = $\frac{\text{Nominal GDP}}{\text{Current price index}} \times 100$

    Real GDP = $\frac{4,400}{110} \times 100 = ₹\ 4,000$
13. **While using the income method for computing National Income, the following precautions should be taken:**
    i. Income from illegal activities like smuggling, theft, gambling etc, should not be included. As regards, income generated in terms of Black Money, it is not included simply because no estimates are available of such incomes.
    ii. Corresponding to production for self-consumption, the generation of income should be taken into account
    iii. Brokerage on the sale/purchase of shares and bonds is to be included.
    iv. Income in terms of windfall gains should not be included.
    v. Transfer earnings like old-age pensions, unemployment allowances, scholarships, pocket expenses etc, should not be included.
    vi. Income from the sale of shares, bonds and debentures will not be included as such transactions do not contribute to the current flow of goods and services.
    vii. Payments out of past savings are not included in the National income.
    viii. Indirect taxes are not included in national income at factor cost.

    OR

    i. **Profits earned by foreign companies in India:** Profit earned by foreign companies in India will be included in the domestic product of India as they lie within the domestic territory of the country.
    ii. **Salaries of Indians working in the Russian Embassy in India:** No, this will not be included in the domestic product as the Russian Embassy is not a part of the domestic territory of India.
    iii. **Profits earned by a branch of State Bank of India in Japan:** No, this will not be included in the domestic product as the branch of State Bank is located in Japan and thus, is not a part domestic territory of India.
14. The highlighted issue is deflation. To control deflation, the government may:
    - decrease the tax rates which may increase the disposable income (purchasing power) in the hands of the general public. Consequently, it may lead to a rise in Aggregate Demand,

thereby correcting the situation of deflation.

- increase the public expenditure which may increase the level of income in the economy. Consequently, it may lead to a rise in Aggregate Demand, thereby correcting the situation of deflation.

15. KT represents inflationary gap

Two fiscal measures are-

a. **Increase in Taxes-** it is an effective tool to control the inflationary gap in the economy. to curb the inflationary gap the government may increase the taxes. This may reduce the purchasing power in the hands of the public which in turn may reduce the Aggregate Demand in the economy to bring it equal to the Aggregate Supply.

b. **Reduction in Government Expenditure-** To curb the inflationary gap the government may reduce its non developmental expenditure. This may reduce the purchasing power in the hands of the people which in turn will reduce the Aggregate Demand in the economy to bring it equal to the Aggregate Supply.

16. Answer question (A) or (B) the following:

(a) i. The economy is in equilibrium when AD = AS (Y)

AD = $\bar{A}$ + MPC (Y)

AD = 500 + 0.8 (4,000) (Given Y = ₹ 4,000 and MPC = 1 - MPS = 1 - 0.2 = 0.8)

AD = 500 + 3200

AD = ₹ 3,700 crores Therefore,

AD (₹ 3,700 crores) < AS (₹ 4,000 crores),

Thus from the above explanation,the economy is not in equilibrium.

ii. Differences between autonomous investment and induced investment

Basis	**Autonomous Investment**	**Induced Investment**
Meaning	Autonomous investment is that investment which is independent of the level of income or profit. Thus, it is not induced by any changes in the income.	In simple language, when an increase in investment is due to the increase in the current level of income and production, it is known as induced investment.
Motive	It is done to promote social welfare.	It is driven by a profit motive.
Sector	It is generally undertaken by the government sector.	It is generally done by the private sector.
Income elasticity	It is not affected by the changes in income level.	It is affected by the change in the income level.

(b) i. i. Investment multiplier is the ratio of the total change in final income to a given change in initial investment. it is process creating income with initial investment.

ii. Full employment refers to a situation where all those who are willing and able to work at the prevailing wage rate, are getting work.

ii. The higher the marginal propensity to consume (MPC), the greater is the value of multiplier. It is expressed as: Multiplier (k) = $\frac{1}{1-\text{MPC}}$.

17. i. Revenue receipts are those receipts that neither create liabilities nor reduce assets, such as tax and non-tax revenue. Capital receipts either create liabilities or reduce assets, such as borrowings and recovery of loans. Revenue receipts are regular in nature, while capital receipts are non-recurring.

ii. Revenue expenditure refers to expenditure on routine administrative services, subsidies, and interest payments which do not create assets. Capital expenditure refers to spending on infrastructure, machinery, and loans which lead to the creation of assets and support long-term economic growth.

SECTION B INDIAN ECONOMIC DEVELOPMENT

18.

(c) VKRV Rao
Explanation:
VKRV Rao

19.

(d) Widespread industrialisation
Explanation:
Widespread industrialisation

20.

(c) Land Ceiling
Explanation:
Land Ceiling

21.

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

22. **(a)** Gross Domestic Product (GDP)
Explanation:
Gross Domestic Product (GDP)

23.

(c) Public distribution system
Explanation:
PDS implies distribution of food grains through fair price shops at subsidised rates.

24.

(c) Higher, Higher
Explanation:
The **population density** of an area can greatly affect that area's economy and social conditions.

25. **(a)** (a) - (ii), (b) - (iv), (c) - (iii), (d) - (i)
Explanation:
(a) - (ii), (b) - (iv), (c) - (iii), (d) - (i)

26. **(a)** Japan
Explanation:
A UN Conference on Climate Change, held at Kyoto, Japan, in 1997, resulted in an international agreement to fight Global Warming which called for reductions in emissions of greenhouse gases by industrialised nations.

27.

(d) Statement 2 is true and Statement 1 is false
Explanation:
Statement 2 is true and Statement 1 is false

28. i. Workers in the informal sector do not have consistent employment.
ii. The informal sector accounts for a very small portion of national income.
iii. Workers in the informal sector are less educated and skilled.
iv. The informal sector is not covered by labour laws.

v. They don't have their own trade union.
vi. they don't have any future benefit from their employer such as pension, gratuity etc.

29. The given image depicts the environmental challenge of 'Global Warming'. Global warming is a gradual increase in the average temperature of the earth's lower atmosphere. It is caused by increases in carbon dioxide and other greenhouse gases. Burning of fossil fuels and deforestation are the major causes of Global Warming. Global warming is responsible for melting of polar ice, leading to rise in sea level and coastal flooding etc.

OR

The given picture indicates the usage of renewable sources of energy. Power is the need of the hour and the usage of non-renewable sources of energy lead to an environmental crisis. On the other hand, using renewable sources of energy like solar, wind, and hydro energies ensure sustainable development without any adverse impact on the environment. The power generated through these resources is a cleaner and greener alternative.

30. The population growth rate of Pakistan is highest between the two with an increase of 2.1%. i.e 191.84 million.

OR

The given data shows that China's population growth rate is relatively low at 0.46%, indicating a slower rate of population after the adoption of One Child norm; whereas Pakistan's population growth rate is significantly higher at 2.05%, which is more than 4 times to the annual growth of China's population.

China's urbanization rate is relatively high at 59%, owing to developmental strategies adopted by China over the years; whereas, Pakistan's urbanization rate is lower at 37% compared to China, suggesting a lesser degree of urbanisation.

31. No, modernisation as a planning objective does not contradict employment generation. In fact, both modernisation and employment generation are positively correlated in the long-run. Modernisation refers to the use of new and modern technology in the production process. For example, a farmer can increase the output on the farm by using new seed varieties instead of using the old ones. Similarly, a factory can increase output by using a new type of machine. This does not cut down the employment generation opportunity rather this facilitate the manpower in their works. However, this may make some people lose their jobs in the initial stages, as machines take place of men.

    But gradually, the use of modern technology and input will raise productivity and consequently the income of the people, that will further raise the demand for goods and services. In order to fulfil this increased demand, more production output will be required and there will be more job opportunities, that will lead to higher employment in the economy. Even in the short-run, modernisation leads to the creation of employment opportunities for skilled workers. If proper training and vocational education are provided, it will lead to better employment in terms of quality of work and earnings. The concept of modernisation is never contradictory to the employment generation activities, rather it has always worked towards changing the thinking of the people and society at large.

    Hence, both modernisation and employment generation are not contradictory but are complementary to each other.

32. i. Rapid urbanization increases pollution and resource consumption, while greenbelts reduce pollution and conserve biodiversity.
    ii. Strategy: Implement planned urban development with adequate green spaces to balance growth and environmental protection.

33. Answer question (A) or (B) the following:
    (a) Answer the following questions:
        i. More than two-thirds of India's population depends on agriculture and about 60% of India's population lives in rural areas. The development of all aspects within rural communities is vital for the effective development of the country. Hence, India's economic development requires speedy rural development. The following points highlight the need for rural development:

i. **Increase in Productivity-** Rural development is needed to provide rural people with various means that will help them increase productivity. This will make agriculture a profitable venture. There can be no development without rural development.

ii. **Employment-** Rural development is needed to create employment opportunities particularly in rural areas. This will be possible by promoting non-farm activities.

iii. **Better Living-** Rural development is needed to improve the standard of living of rural people by providing better access to healthcare, education and sanitation.

ii. Self-Help Groups Bank Linkages Programme has emerged as the major microcredit programme in the country. Self Help Groups (SHGs) have been set up to fill the gap in the formal rural credit system which has proved to be inadequate and has not been fully integrated into the rural, social and community development.

(b) Answer the following questions:

i. Census reports reveal that around 42 million people work for the **non-farming activities** in rural India. This census constitutes nearly about 47% of the total nonfarm employment of rural areas.Manufacturing, social or personal service and most importantly retail trade are the three major own account establishments of **non-farming activities**.The percentage of the three however varied to a large extent.

1) So while the category of retail and manufacturing constituted about 43.12%,example pickle industry, farm based manufacturing and handicraft etc.

2)the social and personal service shopkeeper etc. constituted only about 7.67% of the total employment in the own account establishments in the rural areas.

3) Employment in the non-farming sectors like mining, quarrying, electricity, gas and water supply, or other activities like financial inter mediation was found to be near to negative. However, trade, transport, manufacturing, business services or construction-such non-farming activity percentage was seen to be much higher.

ii. Yes. The Government of India has taken various measures to align the agricultural marketing system such as:

- For the welfare of farmers as well as consumers, various market regulations were initiated to create orderly and transparent marketing conditions.
- The government took measures to enhance infrastructural amenities such as roads, railways, warehouses, cold storage facilities, and processing units to meet the growing demand.

34. a. Objectives of World Trade Organisation (WTO) are:

- It helps in providing greater market access to all member countries as it provides equal opportunities to all countries in the international market.
- It facilitates bilateral and multilateral trade by removing tariff and non-tariff barriers.

b. Two steps taken by India to strengthen food security are:

- Robust gains in agriculture production.
- Citizen-centric food security programme.