Class XII Session 2025-26
Subject - Economics
Sample Question Paper - 2

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 main aim of monetary policy is _____. **[1]**

   a) employment generation in the country
   b) to bring price stability in the economy
   c) to generate greater tax revenue
   d) to increase trade surplus

2. Suppose in a hypothetical economy, the income rises from ₹ 500 crores to ₹ 600 crores. As a result, the consumption expenditure rises from ₹ 400 crores to ₹ 500 crores. Marginal propensity to consume in such a case would be _____. **[1]**

   a) 0.8
   b) 0.4
   c) 1
   d) 0.6

3. **Statement 1:** Accommodating transactions take place on both current and capital accounts. **[1]**
   Statement 2: Autonomous transactions are undertaken to maintain the balance in BOP account.

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

4. Due to the appreciation of the domestic currency, _____. **[1]**

   a) None on these
   b) Imports rise
   c) Exports rise
   d) Imports falls

5. 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

6. Which of the following forms a part of fiscal policy? **[1]**

a) Open market operation b) Deficit financing

c) Moral suasion d) Cash Reserve Ratio

7. According to the theory of Keynesian Economics, the value of Average Propensity to Consume can never be _____. **[1]**

a) More than one b) unity (1)

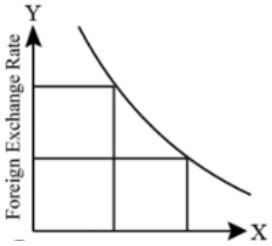
c) zero d) Less than one

8. Refrigerator purchased by a confectionery shop is an example of: **[1]**

a) Final good b) Final good and Capital good

c) Intermediate good d) Capital good

9. The downward-sloping demand curve for foreign exchange reflects **[1]**



a) Indirect relationship b) Inverse relationship

c) Exponential relationship d) Direct relationship

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

a) Increases b) Remains unchanged

c) Rise d) Decreases

11. Classify the following statements into positive economics or normative economics, with suitable reasons: **[3]**

a. The autonomy of the central bank of a country should be maintained as per the law.

b. Nominal Gross Domestic Product (GDP) is calculated on the basis of **current year prices**.

OR

If the Gross Domestic Product at current prices is ₹ 6,600 crore and GDP deflator is 110, calculate the Real Gross Domestic Product.

12. A country with trade deficit cannot have current account surplus in its Balance of Payments. Do you agree with the given statement? Discuss with reason. **[3]**

13. **Monetary measures offer a valid solution to the problem of Inflationary gap in an economy**. State and discuss any two monetary measures to justify the given statement. **[4]**

14. a. For a hypothetical economy, the government incurs an additional investment expenditure of ₹ 5,000 crore. Assuming that the Marginal Propensity to Save (MPS) becomes half from its present level of 20%, estimate the change in income due to this fall in Marginal Propensity to Save (MPS). **[4]**

b. State the meaning of autonomous investment.

OR

An economy is in equilibrium. Calculate Marginal Propensity to save from the following:

National Income = Rs 1,000

Autonomous consumption = Rs 100

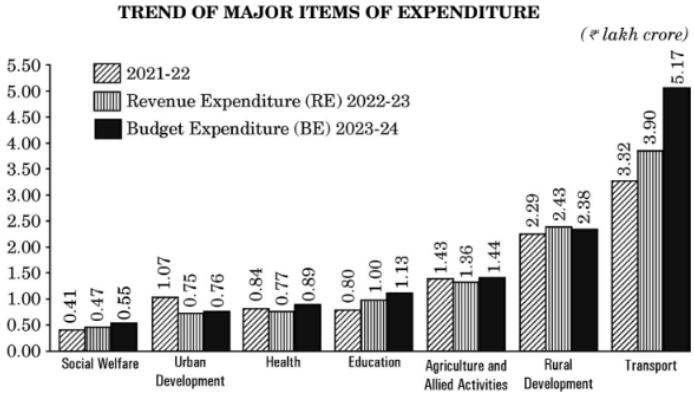
Investment expenditure = Rs 200

15. Explain the function of Central Bank as **Banker's Bank and Supervisor**. **[4]**

16. i. Study the following chart carefully and analyse the changing trends in the government expenditure on: **[6]**

I. Urban Development

II. Rural Development



ii. Distinguish between **Fiscal deficit** and **Primary deficit**.

OR

i. Distinguish between direct tax and indirect tax with the help of suitable examples.

ii. Explain the **redistribution of income** objective of the Government Budget.

17. Calculate the National by Income and Expenditure method. **[6]**

Particulars	**(Rs. in Crore)**
Private final consumption expenditure	350
Mixed-income of self-employed	35
Gross domestic fixed capital formation	70
Opening stock	15
Compensation of employees	250
Closing stock	25
Government final consumption expenditure	100
Rent	75
Consumption of fixed capital	10
Net indirect taxes	25
Interest	25
Net factor income from abroad	-5
Exports	10
Profit	100
Imports	20

OR

I. How should the following be treated in estimating National Income of a Country? Give valid reasons.

i. Profits earned by Foreign Banks in India.

ii. Expenditure on upgradation of fixed asset by a firm.

II. Suppose in a financial year, the Gross Domestic Product (GDP) at market price of a country was ₹ 1,100 crore. Net factor income from Abroad was ₹ 100 crore, the net indirect taxes was ₹ 150 crore and National income was ₹ 850 crore.

Calculate the value of depreciation, on the basis of above information.

SECTION B – INDIAN ECONOMIC DEVELOPMENT

18. India entered the _____ stage of Demographic Transition after the year 1921. **[1]**

a) first
b) third
c) second
d) fourth

19. _____ acts as a measure of the extent of democratic participation in social and political decision-making. **[1]**

(Fill up the blank with correct alternative)

a) Human Development Index
b) Liberty Indicator
c) Economic Growth
d) Poverty Index

20. Modernization is an important economic planning objective that focuses on _____. **[1]**

i. Adoption of innovative technology
ii. Equal distribution of income and wealth
iii. Bringing positive changes in the social outlook

a) (i) and (ii)
b) (i) and (iii)
c) Only (i)
d) (i), (ii) and (iii)

21. Which scheme provides adequate and timely support from the banking system to the farmers for their cultivation needs in a flexible manner **[1]**



a) KCC
b) KMM
c) KMC
d) KBC

22. **Assertion (A):** Foreign exchange reserves declined to a level that was not enough to pay for the import bill of more than 2 weeks. **[1]**

Reason (R): Liberalisation implies controls and restrictions on trade and industry.

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.

23. Elementary education takes a major share of total education expenditure and the share of _____ is the least. **[1]**

a) Secondary Education
b) Tertiary education
c) Primary education
d) University Education

24. In 1958, there were _____ communes in China covering the entire farm population. **[1]**

a) 26,425.
b) 30,000
c) 24,000
d) 28,000

25. Two major environmental issues facing the world today are _____and_____ **[1]**

a) ozone depletion and pollution
b) global warming and ozone depletion
c) air pollution and noise pollution
d) global warming and air pollution

26. **Statement 1:** Agriculture was commercialised during the British rule to cater to the needs of British industries for necessary raw materials. **[1]**

Statement 2: The fall in production of food crops was responsible for frequent famines in India during the British days

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

27. Match the following. options are as follows **[1]**

a. Industries Act	i. 1973
b. MRTP	ii. 1951
c. FERA	iii. 1956

a) a. (ii)
b. (i)
c. (iii)

b) a. (ii)
b. (iii)
c. (i)

c) a. (i)
b. (iii)
c. (i)

d) a. (iii)
b. (ii)
c. (i)

28. State any two harmful effects of using chemical fertilizers. **[3]**

OR

State any two advantages of **sustainable development**.

29. Compare and analyse the sector-wise trends in employment, based on following information: **[3]**

Trends in Employment (Sector-wise)

Sector	1999-2000	2011-12
Primary sector	60.4	48.9
Secondary sector	15.8	24.3
Tertiary sector	23.8	26.8
Total	100	100

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

31. Discuss any two liberalization measures pertaining to the tax reforms, introduced by the government, during the **[4]**

economic reform process of 1991.

OR

Discuss briefly any two major steps taken by the Government of India on **Financial Sector** front under the Economic Reforms of 1991.

32. a. Human capital formation gives birth to innovation, invention and technological improvements. Do you agree with the given statement? Support your answer with valid arguments. **[4]**

b. Critically evaluate the role of rural banking system in the process of rural development in India.

33. Define the following: **[6]**

a. Golden Revolution

b. Carrying Capacity of Environment

c. Poverty Line

d. Life Expectancy

OR

i. Discuss any two measures initiated by the government to improve Agricultural marketing in India. **(3)**

ii. Elaborate the importance of credit in rural development.? **(3)**

34. Comment on the growth rate trends witnessed in China and India in the last two decades. **[6]**

OR

Describe the path of developmental initiatives taken by Pakistan for its economic development.

Solution

SECTION A – MACRO ECONOMICS

1.

(b) to bring price stability in the economy

Explanation:

to bring price stability in the economy

2.

(c) 1

Explanation:

1 (because change is income is 100 cr. and change in consumption is 100 cr).

3.

(b) Both the Statements are false.

Explanation:

Both the Statements are false.

4.

(b) Imports rise

Explanation:

Due to the appreciation of the domestic currency imports rise.

5.

(c) ₹ 1,000 crores

Explanation:

Change in income₹ 1,000 crores

$\frac{250}{0.25}$ = 1000

6.

(b) Deficit financing

Explanation:

Deficit financing

7.

(c) zero

Explanation:

APC can never be zero.

8.

(b) Final good and Capital good

Explanation:

Refrigerator purchase by the confectionary store is Final good and Capital good.

9.

(b) Inverse relationship

Explanation:

Negative slope always reflects inverse relationship.

10.

(d) Decreases

Explanation:

Decreases

11. a. Normative statement- it deals with a situation as it 'ought to be'. so, autonomy of the central bank of a country should be maintained as per the law.

    b. Positive statement- it deals with a real life situation, justifiable by facts.

OR

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

So, Real GDP = $\frac{6600}{110} \times 100$

It is equal to ₹ 6000 crore

12. No, the trade deficit occurs when the value of goods/visible imported is more than the value of goods/ visible exported.

Trade deficit = Value of imports(Vm) < Value of exports (Vx)

Trade Surplus in this situation will arise when the deficit on trade account is less than the surplus on account of invisible. Current Account Surplus (CAS) refers to an excess of receipts for the value of import of visible items, invisible items and unilateral transfers over the payments from the value of export of visible items, invisible items and unilateral transfers.

13. Monetary measures offer a valid solution to the problem of Inflationary gap in an economy. Two monetary measures which may be used to solve the problem of inflation are as follows:

    a. **An increase in Cash Reserve Ratio (CRR)** may reduce the credit creation capacity of the commercial banks in the economy. This may lead to a fall in the borrowings from banks causing a fall in AD in the economy, and helps to correct the inflationary gap.

    b. **Sale of Government Securities in the open market by the Central Bank** will adversely affect the ability of the Commercial Banks to create credit in the economy. As a result Aggregate Demand in the economy may fall and correct the inflationary gap in the economy.

14. a. Given, Change in Investment (ΔI) = ₹ 5,000 crore

MPS	Investment Multiplier $K = \frac{1}{MPS}$	Change in Income (ΔY) $\Delta Y = K \times \Delta I$
0.2	$\frac{1}{0.2} = 5$	5 × 5,000 = 25,000
0.10 $\left(\frac{1}{2} \times 20\%\right)$	$\frac{1}{0.1} = 10$	10 × 5,000 = 50,000

Hence, with the change in MPS from 0.20 to 0.10, Increase in Income (ΔY) = 50,000 - 25,000 = ₹ 25,000 crore

b. Investments which are independent of the level of income in an economy, are known as Autonomous Investment.

OR

Calculation of Marginal Propensity to save

It is given that

1. Investment expenditure (I) = 200
2. Autonomous Consumption $(\overline{C})$ =100
3. National Income (Y) = Rs 1,000

Since the economy is in equilibrium level, Saving = Investment

Y = C + I, (as S = I)

or $Y = \overline{C} + bY + I$ ..... (i)

$\because C = \overline{C} + bY$

On substituting the given variable in equation (i), we get

$\Rightarrow$ 1000 = 100 + b(1000) + 200

or 1000 = 300 + 1000b

1000 - 300 = 1000b

or $\frac{700}{1000} = b = 0.7$

$\therefore$ ***Marginal Propensity to Consume (MPC) = 0.7***

Now,Marginal Propensity to Save (MPS) = 1 - MPC

= 1 - 0.7

∴ ***MPS = 0.3***

15. Central Bank, as the Banker's bank, accepts deposits from the commercial banks and offers them loans as and when required. Central Bank also provides clearing house facility to the commercial banks. In its supervisory role, it ensures that the commercial bank follow all the rules and instructions for the smooth functioning of the banking system. they ensures fair mergers, Acquistion, give licenses to open new branch etc.

16. i. I. Urban Development: The expenditure on urban development accounted for ₹ 1.07 lakh crore in the year 2021-22. In the year 2022-23, revenue expenditure of ₹ 0.75 lakh crore was allocated for this sector. Out of the total budget expenditure in the year 2023- 24, ₹ 0.76 lakh crore was allocated for the development of this sector.

II. Rural Development: In the year 2021-22, the expenditure on rural development accounted for ₹ 2.29 lakh crore. In the year 2022-23, of the total revenue expenditure ₹ 2.43 lakh crore was allocated for rural development. ₹ 2.38 lakh crore was allocated for the development of rural sector from the total budget expenditure in the year 2023 24.

ii. (a). Fiscal deficit refers to excess of the government's total expenditure over its total receipts excluding borrowing for a fiscal year.

(b). Primary Deficit refers to the difference between fiscal deficit and interest payments.

OR

i. Direct taxes are those taxes whose impact and incidence lies on the same entity. In other words, the liability of paying direct taxes can't be shifted. For example: income tax.

ii. Indirect taxes are those taxes whose impact and incidence lies on the different entity. In other words, the liability of paying indirect taxes can be shifted. For example: GST.

iii. The government budget objective of 'Redistribution of Income' aims to bring about equality in the distribution of income. Government can reduce inequalities of income through taxes and public expenditure. It may impose high taxes on the rich to reduce their disposable income. Furthermore, government may incur more public expenditure for the welfare of the poor, like providing free services etc. By adopting these measures, the government tries to bridge the gap between the rich and the poor.

17. **Income Method:**

NDP_{FC} = Compensation of Employees + Operating surplus (Rent + Royalty + Interest + Profit) + Mixed income of self employed

= 250 + (75 + 0 + 25 + 100) + 35 = Rs.485 crore

NNP_{FC} = NDP_{FC} + Net factor income from abroad

= 485 + (-5) = Rs. 480 crore

Expenditure Method:

GDP_{MP} = Private final consumption expenditure + Government final consumption expenditure + Gross domestic capital formation [Gross domestic fixed capital formation + Change in stocks (Closing stock - Opening stocks)]+ Net exports(Exports - Imports)

GDP_{MP} = 350 + 100{70 + 25 - 15)} + (10 - 20)

= Rs.520 crore

NNP_{FC} = GDP_{MP} - Depreciation + Net factor income from abroad - NIT

NNP_{FC} = Rs.520 - 10 + (-5) - 25

NNP_{FC} = Rs.480 crores

OR

I. i. Profits earned by foreign banks in India should not be included in the National Income because it is a factor income paid to non-residents.

ii. Expenditure on upgradation of fixed asset by a firm should be included in the National Income, as it is a part of capital formation.

II. National Income (NNP_{FC}) = Gross Domestic Product at Market Price (GDP_{MP}) - Depreciation + Net factor income from abroad - Net Indirect Taxes

850 = 1,100 - Depreciation + 100 - 150

Depreciation = 1,100 + 100 - 150 - 850

Depreciation = ₹ 200 crore

SECTION B – INDIAN ECONOMIC DEVELOPMENT

18.

(c) second

Explanation:

second

19.

(b) Liberty Indicator

Explanation:

Liberty Indicator

20.

(b) (i) and (iii)

Explanation:

(i) and (iii)

21. **(a)** KCC

Explanation:

KCC stands for Kisan Credit Card scheme in which this card is issued to the farmers who otherwise eligible for short term credit.

22.

(c) A is true but R is false.

Explanation:

A is true but R is false.

23.

(b) Tertiary education

Explanation:

Tertiary education

24. **(a)** 26,425.

Explanation:

Some 120 million households (including some non-peasant ones) or 98.2 percent of the total number of households in the Chinese countryside, were organized into 26,425 people's communes.

25.

(b) global warming and ozone depletion

Explanation:

Global warming and ozone depletion show an increasing trend globally and both are harmful for the survival of living organisms on earth.

26.

(d) Both the statements are true.

Explanation:

Both the statements are true.

27.

(b)

a. (ii)
b. (iii)
c. (i)

Explanation:

Industries Act was established in the year 1951 for the regulation and development of certain industries. Monopolies and Restrictive Trade Practices act aims to prevent concentration of economic power, provide for control of monopolies, and protect consumer interest. FERA was established to conserve the foreign exchange resources of the country.

28. Harmful effects of using chemical fertilizers are:
    a. Excessive use of fertilizers causes severe land degradation.
    b. Fertilizers flow in to the river and causes water pollution.

OR

Sustainable development is the process of growth that fulfills the needs of the present generation without challenging the ability of future generations to fulfill their needs. Its advantages are:

a. It protects natural resources by recycling waste materials like paper or plastic instead of disposing them in landfills.
b. It ensures a better life for present and future generations.

29. The table shows that the workforce engaged in the primary sector has decreased from 1999-2000 to 2011-12. The proportion of the workforce employed in the secondary and tertiary sectors has increased. Though the shift from primary to secondary and tertiary sector is encouraging, the increase is not significant. the trends show the structural changes in primary sector to secondary sector and tertiary sector due to advancement in information technology and education sector in India.
30. 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.
31. Two liberalization measures pertaining to the tax reforms introduced by the government, during the economic reform process of 1991 were:
    - There has been a reduction in taxes as high tax rates were an important reason for tax evasion.
    - To encourage better compliance on the part of taxpayers many tax paying procedures have been simplified.

OR

Financial Sector Reforms: Financial sector includes financial institutions, such as commercial banks, investment banks, stock exchange operations and foreign exchange market. The financial sector in India is regulated by the Reserve Bank of India (RBI). You may be aware that all banks and other financial institutions in India are regulated through various norms and regulations of the RBI. The RBI decides the amount of money that the banks can keep with themselves, fixes interest rates, nature of lending to various sectors.

32. a. The given statement is correct. Human Capital Formation not only increases the productivity of available human resources but also stimulates innovation and creates ability to adopt new technologies. makes changes according to changes needed in the field of production.

    Investment in education creates ability to adopt newer technologies, facilitates invention and innovation since educated workforce generally adapts to modern technologies and innovation and reduces the labour turnover rate in the economy.

    b. Rapid expansion of the banking system had positive effect on rural farm and non farm output, income and employment. In spite of it, following problems have been faced in the rural banking such as-
        - The volume of rural credit in the country is still insufficient in comparison to its demand and institutional sources have failed to cover the entire rural farmers of the country.
        - Less attention has been given on the credit requirements of needy (small and marginal farmers) and the problem of overdue in agricultural credit continues.

33. a. **Golden Revolution:** A significant increase in production of fruits, vegetables and other horticultural products in India. it is used as diversification of agriculture activities.
    b. **Carrying capacity of environment:** It implies that the resources extraction is not above the rate of regeneration of the resources and wastes generated are within the assimilating capacity of the environment. there is a capacity of environment of absorption of waste.
    c. **Poverty Line:** is the per capita expenditure on minimum needs of a person including average minimum calories in take of 2400 calories per person per day in rural areas and 2100 calories per person per day in urban areas.
    d. **Life Expectancy:** is defined as number of years on an average an individual is expected to live.

OR

i. Two measures initiated by the government to improve Agricultural marketing in India are-
    - 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.

ii. Growth of rural economy depends primarily on infusion of capital, from time to time, to realise higher productivity in agriculture and non-agriculture sectors. As the gestation period (duration between crop sowing and realisation of income after production) is quite long, hence rural credit is required to meet their initial investment needs of seeds, fertilisers, implements, etc. Rural credit is also required for other expenses like improving soil quality, machinery, irrigation facilities, etc.

34. India, with democratic institutions, performed moderately, but the majority of its people still depend on agriculture. Infrastructure is lacking in many parts of the country. It is yet to raise the Standard of living of more than one-fourth of its population that lives below the poverty line.

On the other hand, the lack of political freedom and its implications in China are the major concern in the last two decades. The country used the market system without losing political commitment and succeeded in raising the level of growth along with poverty alleviation. China used a market mechanism to create additional social and economic opportunities. The country has also ensured social security in the rural areas by retaining collective farming known as Commune System.

When many developed countries were finding it difficult to maintain a growth rate of even 5%, China was able to maintain near double-digit growth for more than two decades. Its growth rate in 1980-90 was 10.3% and for 2005-2013, it was 10.2%. In1980-90, China was having double-digit growth and India was stuck at 5.7% decadal growth rate. This rate showed improvement in 2005-2013 at 7.6%, but still, it was far behind China's growth rate.

As far as the sectors wise contribution to growth is concerned, in 2013, the contribution of agriculture to GDP in China was 10% while in India it was 18%. On the other hand, manufacturing contributes the highest to GDP in China at 44%, whereas in India the service sector contributes the highest at around 57%.

In the last two decades, the growth of the agriculture sector has declined in both countries. In the industrial sector, China has maintained a double-digit growth rate, whereas for India industrial growth rate has declined. In the case of the service sector, China has been able to raise its rate of growth in 2005-13, while service sector growth in India has stagnated. China's growth is mainly contributed by the manufacturing sector and India's growth by the service sector.

OR

Following are the initiatives taken by Pakistan for its economic development:

a) Pakistan adopted the pattern of a mixed economy where both private and public sectors coexist.

b) Pakistan introduced a variety of regulated policy framework for import substitution, industrialisation during 1950s and 1960s. This implies producing goods domestically to substitute imports, thereby, discouraging imports and simultaneously encouraging and developing domestic industries.

c) In order to protect domestic industries producing consumer goods, policy measure was initiated to create t tariff barriers.

d) The introduction of Green Revolution mechanised agriculture leading to an increase in the production of food grains.

e) The mechanisation of agriculture was followed by the nationalisation of capital goods industries in 1970s.

f) In the late 1970s and early 1980s, Pakistan shifted its policy orientation by denationalising the thrust areas, thereby, encouraging the private sector.

g) All these above measures created an environment conducive to initiate the economic reforms that were ultimately initiated in 1988.