Class XII Session 2025-26
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. 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]**

   (Choose the correct alternative)

   a) 1.0 b) 0.4

   c) 0.8 d) 0.6

2. Factor income earned by the domestic factors of production employed in the rest of the world - Factor income earned by the factors of production of the rest of the world employed in the domestic economy = ? **[1]**

   a) Net retained earnings b) Net exports

   c) Net factor income from abroad d) Net compensation of employers

3. If total amount of money created in the system is ₹ 10,000 with legal reserve ratio being 25%. How much will be the primary deposits? **[1]**

   a) ₹ 1,500 b) ₹ 2,000

   c) ₹ 2,500 d) ₹ 4,000

4. **Statement I:** An exchange rate between the two currencies fixed at government level is called managed floating exchange rate. **[1]**

   Statement II: Under fixed exchange rate system, the Central Bank actively uses its foreign exchange reserves to maintain the officially determined exchange rate.

   a) Statement II is true and statement I is false. b) Both the statements are true.

   c) Statement I is true and statement II is false. d) Both the statements are false.

5. Two-sector economy consists of: **[1]**

a) Households, firms
b) Households, Government
c) Firms, Foreign sector
d) Firms, Government

6. The effects of deficient demand in an economy are: **[1]**

a) Decrease in output, income, employment and price level.
b) Increase in output, income and employment, but no change in the price level.
c) Decrease in output, income and employment, but no change in the price level.
d) Increase in output, income, employment and price level.

7. **Statement I:** National income includes the value of final goods only. **[1]**
Statement II: Capital goods are also called durable use producer goods.

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

8. Demand deposits include: **[1]**

a) Saving account deposits and current account deposits
b) All types of deposits
c) Saving account deposits and fixed deposits
d) Current account deposits and fixed deposits

9. **Assertion (A):** Visible items are merely services and are not made of matter and material **[1]**
Reason (R): These are seen crossing the borders.

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. What will be the effect of increase in the **Repo Rate** on the money supply? **[1]**

a) Money supply will remain same
b) Money supply will increase
c) Money supply will decrease
d) Money supply will initially increase and then it will decrease

11. How do you distinguish between old-age pensions and retirement pensions in the context of estimation of national income? **[3]**

12. In an economy, if there is a fall in Bank Rate, how would it affect the demand for credit? Explain. **[3]**

OR

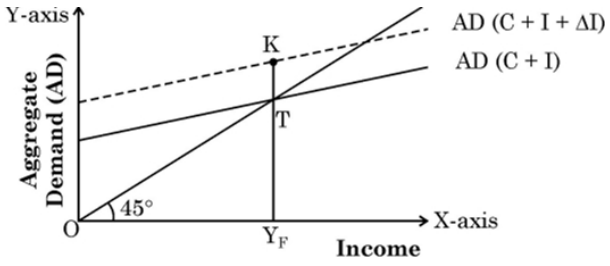
Explain the issue of currency function of a central bank.

13. Gross Domestic Product (GDP) is not the best indicator of the economic welfare of a country. Defend or refute the given statement with valid reasons. **[4]**

OR

State the various precautions of Product Method that should be kept in mind while estimating national income.

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



OR

Calculate Autonomous Consumption Expenditure from the following data about an economy which is in equilibrium.

National income = 900

Marginal Propensity to save = 0.10

Investment expenditure = 80

15. Explain how the repo rate can be helpful in controlling credit creation. **[4]**

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

(a) What is natural rate of unemployment? **[3]**

(b) Explain the meaning of underemployment equilibrium. **[3]**

17. Taxation is an effective tool to reduce the inequalities of income. Justify the given statement with valid reasons. **[6]**

SECTION B – INDIAN ECONOMIC DEVELOPMENT

18. Trade between two countries is known as: **[1]**

a) Multilateral trade
b) Domestic trade
c) Bilateral trade
d) Both Bilateral and Multilateral

19. In 1950, the Planning commission was set up with the _____ as its chairperson. **[1]**

a) General
b) President
c) Governor
d) Prime Minister

20. Physical capital refers to _____. **[1]**

a. stock of produced means of production
b. process of acquiring and increasing the number of people who have skill
c. share of the companies
d. All of these

a) Option (a)
b) Option (b)
c) Option (c)
d) Option (d)

21. **Assertion (A):** Even today, more than 10 per cent of goods produced in farms are wasted. **[1]**

Reason (R): The current infrastructure facilities are quite inadequate to meet the growing demand.

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 ratio of labour force to total population is termed as: **[1]**

a) Both Labour force participation rate and Work force
b) Work force
c) The unemployment rate
d) Labour force participation rate

23. Which of the following is not the cause of unemployment in India? **[1]**

a) Emphasis on Labour intensive projects
b) Faculty employment planning
c) Increase in labour force
d) Slow growth process

24. In mountainous regions, streams can be found almost everywhere. A large percentage of such streams are perennial. Which plants use the energy of such streams to move small turbines? **[1]**

a) Nuclear
b) Mini-hydel
c) Hydel
d) Major hydel

25. State the correct combination between the following columns explaining the status of the following sectors during the colonial rule. **[1]**

Column A	Column B
(a) Agricultural sector	(i) Need for expansion and upgradation
(b) Industrial sector	(ii) Need for enhanced public investment and diversification
(c) Service sector	(iii) Saddled with surplus labour
(d) Infrastructural sector	(iv) Export surplus which was used to meet the war expenses

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

26. Under the British Rule, commercialisation of agriculture resulted in shifting of agricultural production from _____ crops to _____ crops. **[1]**
(Choose the correct alternative to fill up the blanks)

a) Cotton, Jute
b) Cash, Food
c) Jute, Food
d) Food, Cash

27. **Statement I:** China also follows the mixed economy model with co-existence of public and private sectors. **[1]**
Statement II: In the late 1950s and 1960s, Pakistan introduced a variety of regulated policy framework (for import substitution-based industrialisation).

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

28. How is China able to lead in the Human Development Index? **[3]**

29. How is sustainable development different from economic development? **[3]**

OR

Explain natural resources.

30. Why was public sector given a leading role in industrial development during the planning period? **[4]**

OR

State the changes made in the trade policy under economic reforms.

31. Some economists believe that the economic reforms have adversely affected the agriculture sector in India. **[4]**
Do you agree with the given statement? Justify your answer with valid reason.

32. State and explain the condition of Indian agriculture on the eve of independence. **[4]**

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

(a) i. Recently the Government of India has decided to merge MTNL and BSNL on account of rising losses. Justify the steps taken by the Government of India. **[3]**

ii. State the main objectives of liberalisation policy. **[3]**

(b) **OR**

i. Explain the 'Ryotwari' and 'Mahalwari' System of collecting land revenue prevalent under the British rule. **[3]**

ii. How did railways helped people when famines occurred during the colonial period? **[3]**

34. i. Discuss the need for promoting women's education in India. **[6]**

ii. Explain absorptive capacity of environment with example.

Solution

SECTION A – MACRO ECONOMICS

1. **(a)** 1.0
   Explanation:
   1.0
2. **(c)** Net factor income from abroad
   Explanation:
   Net factor income from abroad
3. **(c)** ₹ 2,500
   Explanation:
   Money Created = Primary Deposits $\times$ Money Multiplier
   Primary Deposits = $\frac{10,000}{4}$ = ₹ 2,500
4. **(a)** Statement II is true and statement I is false.
   Explanation:
   Statement II is true and statement I is false.
5. **(a)** Households, firms
   Explanation:
   Households, firms
6. **(a)** Decrease in output, income, employment and price level.
   Explanation:
   Decrease in output, income, employment and price level.
7. **(d)** Both the statements are true.
   Explanation:
   Both the statements are true.
8. **(a)** Saving account deposits and current account deposits
   Explanation:
   Saving account deposits and current account deposits
9. **(d)** A is false but R is true.
   Explanation:
   Visible items are merely are made of some matter and material. These are seen crossing the borders.
10. **(c)** Money supply will decrease
    Explanation:
    Money supply will decrease
11. Old-age pensions are unilateral payments or transfer payments. These are not included in the estimation of national income. On the other hand, retirement pensions are like a deferred wage. These are related to factor services rendered by the recipients prior to their retirement. Accordingly, these are included in the estimation of national income.

12. Central bank through its expansionary monetary policy can increase the money supply in the economy. Central bank can use tools like bank rate to ensure greater money in the hands of general public which would in turn increase the aggregate demand in the economy and hence increase the demand for credit.

OR

Central bank of a country has the exclusive right of issuing notes or it is the only currency authority. It is the sole agency of note issuing in the country. Actually, till the beginning of 20th century, the central bank was known as 'Bank of Issue'. The notes issued by the central bank are an unlimited legal tender. Because of its sole currency authority, it has the following merits:

- The central bank imparts uniformity to the monetary system.
- People's confidence in the currency of the country remains high because the central bank enjoys the support of the Govt.
- It implies a central check on the supply of money in the country.
- It imparts elasticity to the monetary system.
- It is a profitable business. When it is done by the central bank, the profit so earned goes to the state exchequer.

13. **The given statement can be defended on the following grounds, as GDP may not take into account:**

i. Non-monetary exchanges like services of housewives.
ii. Externalities are Negative (benefits/harms) caused by human activities.
iii. Distribution of Income if it is unequal (GDP).

OR

Following are the precautions that must be taken while estimating national income by value-added method or product method:

i. **Double counting-** Value added equals value of output less intermediate cost. There is a possibility that instead of counting 'value-added' one may count the value of output. You can verify by taking some imaginary numerical example that counting only values of output will lead to counting the same output more than once. This will lead to the overestimation of national income. There are two alternative ways of avoiding double counting: (a) count only value-added and (b) count only the value of final products.
ii. **Second-hand goods-** Sale and purchase of second-hand goods should not be included in the national income because it does not represent the current year's production. However, any brokerage or commission paid to facilitate the sale of second-hand goods is a part of national income because the commission is a reward for the services rendered.
iii. **Production for self-consumption-** Production for self-consumption should be included in the national income because these goods are like those produced for the market. They are simply not sold owing to their need by the producers themselves. Hence, the car used by the car producers for transporting their employees.
iv. **Production from illegal activities-** Production from illegal activities like smuggling, theft, gambling etc. should not be included in the national income because no accounts are maintained for such production.

14. 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.

OR

Given,

National income (Y) = 900

Marginal Propensity to save (MPS) = 0.10

Investment expenditure = 80

Therefore, marginal propensity to consume

(MPC) = 0.90 (MPC + MPS = 1)

Now, we know that

Y = C + 1

Here, $C = \bar{c} + bY$, where b = MPC

Putting the given value, we get

$900 = \bar{c} + 0.90 \times 900 + 80$

$900 = \bar{c} + 810 + 80$

$\bar{c}$ = 900 - 800

$\bar{c}$ = 10

15. Repo rate is the rate at which commercial banks can borrow money from RBI to overcome the shortage of money. By varying the repo rates, the RBI can increase or decrease the supply of money. This rate relates to the loan offered by RBI with securities and only short term borrowings by the commercial banks. It is quite an effective quantitative tool for controlling credit creation. If the RBI wants to decrease the level of credit creation in the country, then it increases the Repo Rate which makes the credit dearer. As the cost of borrowings increase, the people's demand for credit goes down. This also leads to a fall in liquidity. All this leads to falling in the rate of credit creation. On the other hand, if the RBI wants to increase the level of credit creation in the economy then it decreases the repo rate which makes the credit cheaper. As the cost of borrowings falls, people's demand for credit goes up. This leads to an increase in the rate of credit creation. Thus RBI uses Repo rate to control credit creation.
16. Answer the following questions:
    (i) Natural rate of unemployment refers to unemployment which is bound to exist even when labour market is in a state of equilibrium. It occurs largely due to:
        i. Time required in shifting from one job to the other.
        ii. Time required in adjusting to make changes in technology.

    (ii) It refers to a situation when the aggregate demand is equal to the aggregate supply when the resources are not fully employed. It occurs prior to the full employment level.
17. Taxation is an effective tool to reduce the inequalities of income. Government budget refers to the annual statement of government estimated revenue and estimated expenditure during a financial year . 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. Equitable distribution is a way to attain social justice and in India. This is a principal objective of welfare, and it is the responsibility of the government to ensure a fair distribution of income.In order to ensure equity of income progressive tax structured is followed in India, which imposes higher burden of taxes on higher income group and lesser burden on lower income group. Also, those who earns below a substantial limit are also exempted from payment of taxes, and the additional income generated from higher income group is redistributed 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 redistribution of income.

SECTION B – INDIAN ECONOMIC DEVELOPMENT

18.

(c) Bilateral trade

Explanation:

Bilateral trade

19.

(d) Prime Minister

Explanation:

Prime Minister

20. **(a)** Option (a)

Explanation:

stock of produced means of production

21.

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

Explanation:

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

22.

(d) Labour force participation rate

Explanation:

Labour force participation rate

23. **(a)** Emphasis on Labour intensive projects

Explanation:

Caste System, Slow Economic Growth, Increase in Population, Agriculture is a Seasonal Occupation, Joint Family System, Fall of Cottage and Small industries, Slow Growth of Industrialisation, Less Savings and Investment, Causes of Under Employment, Defective Planning, Expansion of Universities, Inadequate Irrigation Facilities.

24.

(b) Mini-hydel

Explanation:

Mini-hydel Plants: In mountainous regions, streams can be found almost everywhere. A large percentage of such streams are perennial. Mini-hydel plants use the energy of such streams to move small turbines. The turbines generate electricity which can be used locally. Such power plants are more or less environment-friendly as they do not change the land use pattern in areas where they are located; they generate enough power to meet local demands. This means that they can also do away with the need for large scale transmission towers and cables and avoid transmission loss.

25.

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

Explanation:

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

26.

(d) Food, Cash

Explanation:

Food, Cash

27.

(c) Statement II is true, Statement I is false.

Explanation:

Statement II is true, Statement I is false.

28. China is able to lead in the Human Development Index due to following measures taken by the Chinese government successfully.

i. **Alleviation of Poverty-** China has transformed its closed economy to an open economy i.e., market economy. China has shown a strong political will to use its resources in the best interest of the nation. China has succeeded in raising the level of growth along with the alleviation of poverty through employment opportunities. The poverty rate in China is 13% as compared to 24% in Pakistan and 29.8% in India.

ii. **Social Infrastructure-** China has performed better with regard to the provision of social infrastructure such as education, health, sanitation nourishment, etc.

iii. **Social Security-** China has ensured social security to all its citizens.

29. Difference between sustainable development and economic development:

Points of Distinction	**Economic Development**	**Sustainable Development**
(i) Approach	It is an immediate and short term approach because it fulfils the needs of the present generation only.	It is a long-term and everlasting approach because it fulfils the needs of present and future generations.
(ii) Emphasis	It emphasises on the output of goods and services irrespective of the environment.	It emphasises on the safeguarding the environment and the use of renewable resources.
(iii) Aim	Its aim to ensure a high standard of living of the present generation.	Its aim is to ensure that there will be a sustained rise in economic welfare over time through rising in real per capita income.

OR

Natural resources are the resources which have been provided by nature in the form of land, air, water, forests, animals, sunshine, etc. Natural resources are free gifts of nature. In other words, natural resources are useful raw materials that we get from the Earth. They occur naturally, which means that humans cannot make natural resources. Instead, we use and modify natural resources in ways that are beneficial to us. The materials used in human-made objects are natural resources. They are the foundation of the prosperity of a country.

Natural resources may be of two types

i. Renewable natural resources
ii. Non-renewable natural resources

30. At the time of independence, Indian economic conditions were very poor and weak. There was neither much private capital nor did India have international investment credibility so as to attract foreign investment. Moreover, Indian planners did not want to be dependent on foreign capital for economic development. In such a situation, it was only logical that the public sector should take the initiative.

During the planning period, the public sector was given a leading role in industrial development because of the following reasons:

i. **Lack of Capital with the Private Entrepreneurs:** At the time of Independence, the requirement of capital for diversified industrial growth far exceeded its availability with private entrepreneurs. Accordingly, it became essential for the state to foster industrial growth through public sector undertakings.
ii. **Lack of Incentive among the Private Entrepreneurs:** The Indian market was comparatively small which discouraged Indian industrialists to invest in major projects (even though they had sufficient capital to invest). Thus, the government promoted the industrial sector.
iii. **Socialistic Pattern of Society:** Indian planners wanted to develop the Indian economy on a socialist base, so they focused on government-funded major projects.
iv. **Social welfare:** In India, there were certain projects in which the profit margin was negligible. Thus, the private sector was not interested in such projects, and it was only the public sector which could bring the balanced regional growth with the establishment of government units in the backward areas. This move could increase the employment and income of the people.

OR

Following were the changes made in the trade policy under economic reforms:

i. **Removal of restrictions-** Prior to 1991, India followed a protectionist policy marked by quantitative restrictions. Under economic reforms, quantitative restrictions on imports and exports have been removed.
ii. **Reduction of tariff rates-** Prior to 1991, India had a policy of high tariffs on imports and exports. This reduced efficiency and competitiveness of Indian industries. Indian government reduced tariff rates on exports and imports.
iii. **Simplification-** The government of India introduced simple procedures relating to exports and imports. Many formalities have been abolished.

31. The given statement that 'Agriculture Sector was adversely affected by reform process' is correct. This can be supported with the following arguments:

a. **Reduction in public investment in agriculture sector:** especially in infrastructure such as irrigation, power etc. has been reduced in reform period. no such provision given for the infrastructure development for agriculture sector in new economic reform.
b. **Removal of fertilizers:** subsidy increased the cost of production, which adversely affected the small and marginal farmers.

32. **Stagnant agricultural sector** - Agriculture sector experienced continued stagnation and deterioration. The primary cause for this was exploitative land settlement system followed under the British rule.

Commercialisation of Agriculture - For the benefit of British industries cash crops were forced upon the Indian farmers. In place of food crops, farmers started producing cash crops like indigo, jute, cotton etc.

33. Answer the following questions:

(i) i. The decision taken by the Government of India to merge BSNL and MTNL is quite appropriate. The Government has merged the two loss incurring businesses, with a motive to:

i. Achieve higher economic and functional efficiency.
ii. Minimise possible losses.

ii. 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) 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. The railways had a main role in the transportation of surplus amount of grains to the states who were lagging behind in the production of the same as well as the famine affected areas of the country. Railways applied a check on the occurrence of famines. It helped to transport food supplies to famine affected areas quickly. Medical support could also be extended to famine affected people with the help of railways. Therefore, railways helped the people immensely when famines occurred.

34. i. The need to promote education for women in India is imminent. It helps in improving economic independence and social status of women. Women education makes a favourable impact on fertility rate and health care of women and children.

ii. Absorptive capacity means the ability of the environment to absorb degradation. For instance, high population and the affluent consumption in the developing countries and production standards of the developed nations have placed a huge stress on the environment. Many resources are becoming extinct and the wastes generated are beyond the absorptive capacity of the environment.