Class XII Session 2025-26
Subject - Economics
Sample Question Paper - 7

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. **Statement I:** External Borrowings, e.g External Commercial Borrowings, Short-term Debt, etc are included in the capital account of BOP. **[1]**

   Statement II: Direct Investments, e.g. Foreign Direct Investments (FDIs), Equity Capital, Reinvested Earnings and other Direct Capital Flows are included in the current account of BOP.

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

2. Identify the **incorrect** feature(s) of money supply (M_1) from the following: **[1]**

   i. It is measured at a point of time.
   ii. It does not include stock of money held by the government.
   iii. It is always the currency in the hands of the Central Bank of a nation.

   a) (iii) only
   b) (ii) only
   c) (ii) and (iii)
   d) (i) and (ii)

3. Consumption function is the functional relationship between _____ and _____. **[1]**

   a) Consumption, National Income
   b) Consumption, Aggregate demand
   c) Aggregate Demand, Aggregate Supply
   d) National Income, Private Income

4. Decrease in the value of the foreign commodities is known as _____. **[1]**

   a) Devaluation
   b) All of these
   c) Revaluation
   d) Deflation

5. If a straight line consumption function makes a positive intercept at the Y-axis, it implies that the Marginal Propensity to Consume _____ and Average Propensity to Consume _____ as as the level of income rises. **[1]**

a) rises, rises

b) remains constant, falls

c) falls, falls

d) remains constant, rises

6. Desired AD less than its full employment level to sustain such demand is called **[1]**

a) effective demand

b) excess demand

c) deficient demand

d) inflationary gap

7. Marginal Propensity to Save (MPS) is the slope of _____ function. **[1]**

a) Cost

b) Saving

c) Investment

d) Consumption

8. Which of the following leads to unexpected obsolescence? **[1]**

a) Change in technology

b) Natural calamities

c) Change in demand

d) Change in income

9. Demand Deposits include _____. **[1]**

(Choose the correct alternative to fill up the blank)

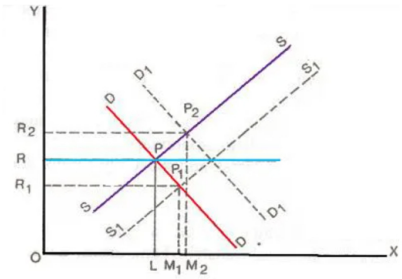
a) Current Account Deposits and Fixed Deposits

b) Savings Account Deposits and Current Account Deposits

c) Currency and coins held with the public

d) Other deposits with the Government

10. The equilibrium exchange rate is determined at the point where the **[1]**



a) Demand for and Supply of foreign exchange has maximum gap

b) Demand for and Supply of foreign exchange is equal

c) Demand for and Supply of foreign exchange has normal gap

d) Demand for and Supply of foreign exchange has minimum gap

11. If nominal income is ₹ 600 and price index is 100, find real income. **[3]**

OR

Calculate:

a. Domestic Income;

b. National Income.

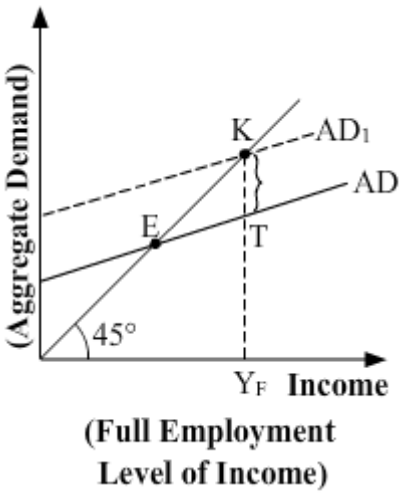
Particulars	₹ in crores
(i) GDP at MP	70,150
(ii) Indirect Taxes	5,200
(iii) Factor income from abroad	800
(iv) Consumption of Fixed Capital	3,100

(v) Factor income to abroad	300
(vi) Subsidies	4,000

12. State the meaning of autonomous and accommodating items, under Balance of Payments of India, with the help of an example. **[3]**

13. Suppose, the Indian Government decides to boost public investments with a defence project of ₹ 40,000 crore. Explain the likely impacts of the given situation on the Income, Employment and Output of the economy, assuming all other factors constant. **[4]**

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



OR

An economy is in equilibrium. From the following data, calculate the Marginal Propensity to Save.

a. Income = Rs.10,000

b. Autonomous consumption = Rs. 500

c. Consumption expenditure = Rs. 8,000

15. Read the following text carefully from 'The Economic Times' dated 8th June, 2023: **[4]**

"The Reserve Bank of India's (RBI's) rate setting panel unanimously decided to keep the benchmark lending rate unchanged at 6.5%. The committee voted to remain focused on the withdrawal of accommodating monetary policy."

On the basis of given text and common understanding, answer the following questions:

a. Identify and discuss the economic issue indicated in the above text.

b. Discuss the likely consequence on money supply if the rate setting panel would have decreased the said rate.

16. Explain the budgetary measures for achieving the following objectives **[6]**

i. Setting up of production units in backward regions.

ii. Reducing inequalities of income and wealth.

OR

Classify the following into revenue expenditure and Capital expenditure Give reasons.

i. Repayment of loan to the World Bank

ii. Salary paid to Army Officers.

iii. Interest paid on National Debt

iv. Construction of roads under the Pradhan Mantri's Gramin Sadak Yojnas

v. Financial grant given to Nepal for earthquake tragedy.

vi. Expenditure on constructions of Bullet train.

17. Calculate Gross National Product at Factor Cost from the following data by **[6]**

i. Income method and

ii. Expenditure method.

Particulars	**₹ in crores**
(i) Private final consumption expenditure	1,000
(ii) Net domestic capital formation	200
(iii) Profits	400
(iv) Compensation of employees	800
(v) Rent	250
(vi) Government final consumption expenditure	500
(vii) Consumption of fixed capital	60
(viii) Interest	150
(ix) Net current transfers from rest of the world	(-)80
(x) Net factor income from abroad	(-)10
(xi) Net exports	(-)20
(xii) Net indirect taxes	80

OR

I. While estimating Gross Domestic Product (GDP) by expenditure method, entire focus is on expenditures incurred by the residents of the country. Do you agree with the given statement? Give valid reason in support of your answer.

II. Calculate the value of Domestic Income from the following data:

S. No.	**Particulars**	**Amount in (₹ crore)**
(i)	Rent and Royalties	1,300
(ii)	Net Indirect Taxes	200
(iii)	Wages & Salaries (in cash & in kind)	1,700
(iv)	Corporate Tax	400
(v)	Depreciation	400
(vi)	Retained Earnings	300
(vii)	Dividends	400
(viii)	Net Factor Income from Abroad	(-) 120
(ix)	Mixed Income of Self Employed	1,400
(x)	Change in Stock	(-) 200

SECTION B – INDIAN ECONOMIC DEVELOPMENT

18. In _____, first **Industrial Policy Resolution** of Independent India was announced. **[1]**

a) 1956 b) 1947

c) 1951 d) 1948

19. Which of the following countries adopted **One Child Policy** as a measure to control population? **[1]**
(Choose the correct alternative.)

a) Russia b) China

c) India d) Pakistan

20. Which of the following is not a valid statement in the context of Industrial Policy Resolution (IPR) 1956? **[1]**

a. Ownership and management of the core industries were given to the public sector.
b. Tax benefits were given to industries being established in backward region to promote regional equalities.
c. A few industries were allowed to be owned by the private sector.
d. Goods produced by the small scale industries were dereserved.

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

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

21. Which one of the following was launched with the objective of helping the poor in rural areas to become self-employed? **[1]**



a) DDP b) DPAP

c) TRYSEM d) IRDP

22. **Assertion (A):** There has been a structural shift in the role of the RBI from regulator to facilitator of the financial sector. **[1]**
Reason (R): Financial sector has to consult RBI before taking any decision.

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. Investment in human capital contributes to growth by _____. **[1]**

a. providing effective utilisation of the physical capital
b. raises the level of both production and productivity
c. promotes innovations and creates ability to apply new technologies
d. all of these

a) Option (a) b) Option (b)

c) Option (c) d) Option (d)

24. Introduction of Economic Reforms in China took place in the year _____. **[1]**
(Choose the correct alternative.)

a) 1978 b) 1980

c) 1991 d) 1988

25. 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

26. **Statement I:** The introduction of railways in India in 1850 fostered the commericialisation of India agriculture and the volume of India's exports expanded. **[1]**

Statement II: Along with the development of roads and railways, the colonial dispensation also took measures for developing the inland trade and sea lanes. And, these measures were highly satisfactory.

a) Both the statements are false. b) Both the statements are true.

c) Statement II is true, but statement I is false d) Statement I is true, but statement II is false.

27. Match the following and choose the correct alternative: **[1]**

(a) Quota	(i) Quantity of goods that can be imported
(b) Land Reforms	(ii) Seeds that give large proportion of output
(c) HYV Seeds	(iii) Improvements in the field of agriculture to increase its productivity
(d) Subsidy	(iv) The monetary assistance given by government for production activities.

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

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

28. State any two advantages of Mini-hydel Plants. **[3]**

OR

Maintaining Air Quality Index (AQI) is the need of the hour.

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

29. Discuss briefly the concept of **Informalisation of the workforce** in India. **[3]**

30. Discuss briefly the rationale behind implementation of land reforms in the post-independence era. **[4]**

31. State and discuss any two major **Tax Reforms** taken under the New Economic Policy of 1991. **[4]**

OR

i. State the meaning of **Privatisation**.

ii. Agriculture sector has been adversely affected by the Economic reform process. Comment.

32. State, giving valid reasons whether the following statements are true or false: **[4]**

i. Capital formation is the key to eradication of poverty.

ii. Skill formation is a key factor for ensuring 'economic development'.

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

a. Poverty Line

b. Human Capital

c. Self-Help Groups

d. Green Revolution

OR

i. How did horticulture encourage rural development in India?

ii. Explain briefly any two functions of the environment.

34. Compare India, China and Pakistan in their development in areas of structural reforms and population control. **[6]**

OR

Explain the role of the following strategies in the development of China:

a. Great Leap Forward

b. Special Economic Zone

c. Dual Pricing System

Solution

SECTION A – MACRO ECONOMICS

1.

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

Explanation:

Statement I is true and statement II is false.

2. **(a)** (iii) only

Explanation:

(iii) only

3. **(a)** Consumption, National Income

Explanation:

Consumption, National Income

4.

(c) Revaluation

Explanation:

A decrease in the value of foreign commodities is known as revaluation.

5.

(b) remains constant, falls

Explanation:

remains constant, falls

6.

(b) excess demand

Explanation:

excess demand

7.

(b) Saving

Explanation:

Saving

8.

(b) Natural calamities

Explanation:

Unexpected obsolescence occurs owing to:

i. natural calamities

ii. fall in market value of the assets when there is an economic recession

Loss of value of fixed assets owing to unexpected obsolescence is called a capital loss.

9.

(b) Savings Account Deposits and Current Account Deposits

Explanation:

Savings Account Deposits and Current Account Deposits

10.

(b) Demand for and Supply of foreign exchange is equal

Explanation:

At this point, the market for foreign exchange gets cleared.

11. Real income = $\frac{\text{Nominal income}}{\text{price index}} \times 100 = \frac{600}{100} \times 100 = 600$

OR

a. Domestic Income = NDP_{FC}

$NDP_{FC} = GDP_{MP}$ - 3,100 - (5,200 - 4,000)

NDP_{FC} = 70,150 - 3,100 - 1,200

NDP_{FC} = 65,850 crores

b. National Income = NNP_{FC}

NNP_{FC} = NDPFC + (800 - 300)

NNP_{FC} = 65,850 + 500

NNP_{FC} = 66,350 crores

12. i. Autonomous transactions are those international economic transactions which are independent of the state of Balance of Payments (BOP). These transactions generally take place with some economic motive. For example, exports of goods.

ii. Accommodating transactions are those international economic transactions which are undertaken (by competent authorities) to cover the surplus/deficit in Balance of Payments (BOP). These transactions are independent of economic motive. For example, loan taken from the World Bank to cover the deficit in the BOP Account.

13. Assuming all other factors constant, any increase in investments generally leads to multiple increase in final income which in turn leads to increase in employment. If the Indian government decides to infuse additional investment of ₹ 40,000 crore in the defence project, it would lead to increase in demand for goods and services leading to rise in output and employment, and consequent increase in income.

14. The vertical gap 'KT' represents 'Excess Demand'. The fiscal measures to correct 'Deficient Demand' are:

i. The decrease in government expenditure

ii. Increase in taxes.

iii. Increase in public borrowings.

OR

We know that,

$C = \overline{C} + bY^d$

Where, C= Consumption

$\overline{C}$ = Minimum level of consumption at zero income

i.e. autonomous consumption

b = Marginal Propensity to Consume

Y^d = Disposable income i.e. income after tax(Y - T)

Where, Y= Income, T= Direct tax

So, on Substituting the given variables, we get

8,000 = 500 + b.10,000

or 8,000 - 500=b.10,000

or $b = \frac{7.500}{10,000} = 0.75$ i.e.

Marginal Propensity to Consume=0.75

We also know that,

MPC+MPC=1,Where,

MPC= Marginal propensity to Consume, and

MPS= Marginal propensity to Save On substituting MP=0.75, we get

0.75+MPS= 1,

or MPS=1-0.75=0.25.i.e

Marginal Propensity to Save=0.25

15. a. Inflation in the economy may be the economic issue indicated in the above text. The situation of excess demand may be the underlying cause behind the decision taken by the Reserve Bank of India (RBI) to keep the benchmark lending rate unchanged at 6·5%.

b. If the rate setting panel would have decreased the benchmark lending rate, the commercial banks may reduce their lending rates. Consequently, it may encourage the borrowings by the general public leading to an increase in the money supply in the economy.

16. i. The possible budgetary incentives that a government might decide to give to investors for making investments in the backward region are as follows:

a. The government might give a tax-holiday for a stipulated period for such investors. The reason behind this is that the incentive of tax-holiday might motivate the investors to invest in the backward region. Because giving a tax holiday would make their products relatively cheaper and their products would be demanded. Thus, they will have a tendency to produce more in the region.

b. The government may offer subsidy on loans for such investors. The provision of subsidy implies that the investors will not be required to pay back a certain percentage of the loan taken by them. As a result, the cost of investment would fall and profits would increase. This might induce them to invest.

c. The government might waive-off the excise duty on goods manufactured by investors in these regions. Excise duty is levied on goods manufactured or produced in India. Waiving of the excise duty will ensure that the price of the good is less and this will increase the demand for the good and ensure a ready market for the product. This will motivate the investors to invest m backward region.

ii. For reducing inequalities of income and wealth, the government can initiate the following budgetary measures:

a. **High taxes on higher income** The government may levy higher taxes on people with higher incomes. Thus, shifting purchasing power from higher income group to lower income group such that a gap between the two gets reduce. In this way, the wealth gets redistributed in the society.

b. **Providing subsidies to lower income groups** To reduce inequalities, the government may provide subsidies on necessary consumption items to lower income groups. These subsidies result from the tax revenue collected from the rich and spent on the poor. Usually, such subsidies are provided on necessities which are of daily use and the rich class is exempted from these subsidies.

c. **Improving social infrastructure** The government can increase it's expenditure on social infrastructures, such as the construction of schools and hospitals so that the lower income group can avail of such facilities and improve their standard of living. As a result, the cost of living of the poor falls and their income increase.

OR

Salary paid to Army Officers, interest paid on National Debt and financial grant given to Nepal for earthquake tragedy are revenue expenditures because they neither create assets nor reduce any liability.

Repayment of loan to the World Bank and expenditure on constructions of Bullet train and construction of roads under the Pradhan Mantri's Gramin Sadak Yojnas are capital expenditures because first one reduces the liability and the second one leads to the creation of an asset.

17. **Gross National Product at Factor Cost by Income Method**

= (v) + (viii) + (iii) + (iv) + (vii) + (x)

= 250 + 150 + 400 + 800 + 60 + (-10) = ₹ 1,650 crores

Gross National Product at Factor Cost by Expenditure Method

= (i) + (vi) + (ii) + (vii) + (xi) + (x) - (xii)

= 1,000 + 500 + 200 + 60 + (- 20) + (-10) - 80 = ₹ 1,650 crores

OR

I. No. This is because Gross Domestic Product (GDP) by expenditure method takes into account the aggregate spending on all the final goods and services in the domestic territory, whether incurred by the residents or non-residents during a given period of time.

II. Domestic Income (NDP_{fc}) = (iii) + (i) + (iv) + (vi) + (vii) + (ix)

= 1,700 + 1,300 + 400 + 300 + 400 + 1,400

= ₹ 5,500 crore

SECTION B – INDIAN ECONOMIC DEVELOPMENT

18.

(d) 1948

Explanation:
1948

19.

(b) China
Explanation:
China

20.

(c) Option (d)
Explanation:
Goods produced by the small scale industries were dereserved.

21.

(c) TRYSEM
Explanation:
TRYSEM stands for 'Training Rural Youth for Self-Employment'. It is a national scheme launched in the year 1979. The main objective of this policy is to train youth in the age group for 18-35 to develop the technical skill of people under poverty line.

22.

(c) A is true but R is false.
Explanation:
Financial sector may be allowed to take decisions on many matters without consulting the RBI.

23.

(d) Option (d)
Explanation:
All of these

24. **(a)** 1978
Explanation:
1978

25. **(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.

26.

(d) Statement I is true, but statement II is false.
Explanation:
Statement I is true, but statement II is false.

27.

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

28. Mini hydel plants generate electricity from the flow of water on a small scale. These are developed in mountainous areas where there are lot of streams. Its benefits are:
    a. They are environment-friendly as they do not burn coal to generate electricity.
    b. There is no need for large investments as they do not need large transmission towers and cables.

OR

AQI is the air quality index. The index value indicates the current pollution status in the city, or how polluted the air currently is. An AQI value of 50 or below is classified as good air quality. Once the AQI Index reaches 100 or above is when the air quality is considered unhealthy and may impact certain groups of people. It is important to maintain the air quality index because air pollution in India is causing 670000 deaths annually and particularly aggravates respiratory and cardiovascular conditions including chronic bronchitis, lung cancer, and asthma.

29. In the recent years India has witnessed an unprecedented shift of the workforce from the formal sector to informal sector. This process whereby, the proportion of informal worker in the total workforce increases is known as informalisation of workforce. The government has initiated the modernization of the informal sector and provision of social security of measure to the worker in the informal sector.
30. After independence the government of India took several institutional/land reforms to ensure transformation of Indian agriculture, such as:
    i. Land ceiling - It ensured reduction of concentration of land ownership in few hands. it serves the purpose of goal of the government such as growth with social justice or equitable distribution.
    ii. Abolition of Zamindari system - It focused on elimination of farmers' exploitation and promotion of agricultural growth.

    These reforms have led to stability of farming as an occupation and promoted equity.
31. Two major tax reforms implemented under the New Economic Policy of 1991 in India were the removal of tariff on export and the reduction of tax rates. The reduction of tax rates aimed to incentivize investment, spur economic growth, and attract foreign investment by making the tax regime more competitive.

    OR

    i. Privatisation refers to shedding of the ownership or management of a government owned enterprise.
    ii. The agricultural sector was adversely affected by the economic reform process in India as public investment in agriculture sector especially in infrastructure has fallen to a great extent. Furthermore, the partial removal of fertiliser subsidy has led to increase in the cost of production, which has severely affected the small and marginal farmers. Moreover, there has been a shift from production for the domestic market towards export-oriented production focusing on cash crops putting pressure on prices of food grains.
32. i. **Capital formation is the key to eradication of poverty:** True. Capital formation refers to the accumulation of physical and financial assets, such as infrastructure, machinery, technology, and savings. Adequate capital formation can contribute to poverty eradication by promoting economic growth, creating employment opportunities, and improving productivity. With increased capital investment, industries can expand, leading to increased production, income generation, and poverty reduction. Additionally, capital formation enables the development of social infrastructure like education and healthcare, which are crucial in breaking the cycle of poverty.
    ii. **Skill formation is a key factor for ensuring 'economic development':** True. Skill formation is indeed a key factor in driving economic development. A skilled workforce is essential for the efficient utilization of resources, adoption of new technologies, and productivity improvement. Skilled individuals are more likely to contribute to innovation, entrepreneurship, and economic growth. They are better equipped to meet the demands of a changing job market and participate in higher-value economic activities. Skill development initiatives, such as vocational training programs and education, can enhance human capital, promote employment, and contribute to overall economic development.
33. a. 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.
    b. Human capital refers to the skills which a person acquires through education, training and/or experience, adding to his/her value to the production process. useful for economic development.
    c. Self help groups are microfinance groups of people which promote thrift in small proportions by a minimum contribution from each member.
    d. Green Revolution refers to the large increase in production of food grains resulting from the use of high yielding variety seeds especially for wheat and rice. by green revolution india become self reliant in food grain production.

    OR

    i. In India, farmers adopted diverse horticultural crops such as fruits, vegetables, flowers etc. It played a vital role in enhancing socioeconomic conditions of farmers. It led to creation of employment opportunities for women and underprivileged classes as well.

    Thus, horticulture has emerged as a successful sustainable livelihood option, promoting rural development in India.
    ii. Two functions of the environment are:

- Supply of Resources: The environment supplies resources both renewable and non-renewable on a continuous basis. uses in the production process of the business or production unit.
- Sustenance of Life: By providing genetic and bio-diversity the environment helps in sustenance of life.

34. Their performance in structural reforms and population control is given below:

Area	India	China	Pakistan
Structural Reforms	India introduced reforms in 1991 whereby the role of public sector was minimised and private sector was expanded In short, it was called policy of LPG i.e. liberalisation, privatisation and globalisation.	It introduced reforms in 1978 and shifted focus to industrial development and reduced dependence on agriculture and service sector.	It initiated reforms in 1988. Service sector was growing but agriculture was slow. Arms industry did well. It was heavily dependent on agriculture.
Population Control	First country to an nounce population policy. Growth rate of population remained high at 1%p.a.	First time a country introduced such a strict population policy like 'one child norm'. Growth rate came down to less than 1%p.a.	Population policy is not adequate. Population growth rate is as high as 2.5% p.a.

OR

a. **Great Leap Forward-** Great Leap Forward (GLF) campaign was initiated in China in 1958 as a strategy of economic development. Under this, the main emphasis was on the industrialisation of the country on a massive scale. People were encouraged to set up industries in their backyards. In rural areas, the commune system was followed to promote collective farming.

b. **Special Economic Zone-** Special Economic Zone scheme was started as a part of economic reforms initiated in 1978. Special economic zones have been set up to attract foreign investors. Special economic zones enjoy various privileges:
   i. Provision of infrastructural facilities at a lower cost.
   ii. Provision of customs clearance and financial assistance inside the zones.
   iii. Tax concessions.
   iv. Facilities of import of raw materials capital, goods, etc., without import license.
   v. Single window clearance of projects.

c. **Dual Pricing System-** In China, the government followed dual-track pricing until abolished in November 1989, known as “shuangguizhi” in Chinese. It was adopted in China as a part of the economic reforms initiated in 1978. Under a dual pricing system, farmers and industrial units were required to buy and sell fixed quantities of inputs and output on the basis of prices fixed by the government and the rest were to be purchased or sold at market prices. Thus, the market is subject to two prices - administered prices and free prices.