

केंद्रीय विद्यालय संगठन क्षेत्रीय कार्यालय एर्णाकुलम

KENDRIYA VIDYALAYA SANGATHAN REGIONAL OFFICE, ERNAKULAM



CLASS XII

STUDY MATERIAL – TERM 1
ECONOMICS (030)

**Based on Latest CBSE Exam Pattern for the
Session 2021-22**



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2	GOVERNMENT BUDGET AND THE ECONOMY	MR.VIJAYAN KUNIYIL	CALICUT NO:1
3	BALANCE OF PAYMENT	MRS.JAISHA K.J	CALICUT NO:2
4	INDIAN ECONOMY ON THE EVE OF INDEPENDENCE	MRS.KRISHNAVENI	KANNUR
5	INDIAN ECONOMY (1950-1990)	MR.BIJU P.M	KOCHI NO:2
6	LIBERALISATION, PRIVATISATION AND GLOBALISATION : AN APPRAISAL	K.C CHANADRAKANTHAN	HEMAMBIKA NAGAR
7	POVERTY	MRS RAJALEKSHMI .S	KANJIKODE
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उपायुक्त

R. Senthil Kumar
Deputy Commissioner



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Message

I feel immense pleasure to publish the study material for class XII Economics. This support material is prepared incorporating all the recent changes in curriculum and assessment process made by CBSE. I am sure it will definitely be of great help to class XII students of all Kendriya Vidyalayas.

Getting acquainted with the latest changes will help students to prepare well for the board examination and enable students to face case based and Multiple-Choice Questions with confidence. This support material has been prepared by a team of dedicated and veteran teachers with expertise in their respective subjects.

The Support material contains all the important aspects required by the students- the design of question paper, term wise split up syllabus, summary of all the chapters, Sample question papers, problem solving and Case study questions.

I hope that this Support Material will be used by students and teachers as well and will prove to be a good tool for quick revision.

I would like to express my sincere gratitude to the In- charge principal and all the teachers who have relentlessly worked for the preparation of this study material. Their enormous contribution in making this project successful is praiseworthy.

Meticulous planning blended with hard work, effective time management and sincerity will help the students to reach the pinnacle of success.

Wish you all the best

(R Senthil Kumar)

Smt. V K Sudheena
Vice Principal
Kendriya Vidyalaya Ernakulam

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ECONOMICS (Code No. 030)
(2021-22)
CLASS XII - TERM-WISE CURRICULUM

TERM 1 - MCQ BASED QUESTION PAPER	Marks	Periods
Theory: 40 Marks Time: 90 minutes		
Part A: Introductory Macroeconomics		
▪ Money and Banking	6	8
▪ Government Budget and the Economy	6	15
▪ Balance of Payments	6	7
Sub Total	18	30
Part B: Indian Economic Development		
• Indian Economy (1950-90) • Liberalisation, Privatisation and Globalisation : An Appraisal	12	28
• Human Capital Formation • Rural development	10	17
Sub Total	22	45
Total	40	75
Project Work (Part 1): 10 Marks		

Students would prepare only ONE project in the entire academic session, which is divided into 2 terms i.e. Term I and Term II.

Term 1

Part A: Introductory Macroeconomics

Unit 2: Money and Banking

8 Periods

Money - meaning and supply of money - Currency held by the public and net demand deposits held by commercial banks.

Money creation by the commercial banking system.

Central bank and its functions (example of the Reserve Bank of India): Bank of issue, Govt. Bank, Banker's Bank, Control of Credit

Unit 4: Government Budget and the Economy

15 Periods

Government budget - meaning, objectives and components.

Classification of receipts - revenue receipts and capital receipts; classification of expenditure – revenue expenditure and capital expenditure.

Measures of government deficit - revenue deficit, fiscal deficit, primary deficit their meaning.

Unit 5: Balance of Payments

7 Periods

Balance of payments account - meaning and components;
Foreign exchange rate - meaning of fixed and flexible rates and managed floating.

Part B: Indian Economic Development

Unit 6: Development Experience (1947-90) and Economic Reforms since 1991

28 Periods

A brief introduction of the state of Indian economy on the eve of independence.
Indian economic system and common goals of Five Year Plans.
Main features, problems and policies of agriculture (institutional aspects and new agricultural strategy), industry (IPR 1956; SSI – role & importance) and foreign trade.

Economic Reforms since 1991:

Features and appraisals of liberalisation, globalisation and privatisation (LPG policy);
Concepts of demonetization and GST

Unit 7: Current challenges facing Indian Economy

17 Periods

Poverty- absolute and relative; Main programmes for poverty alleviation: A critical assessment;

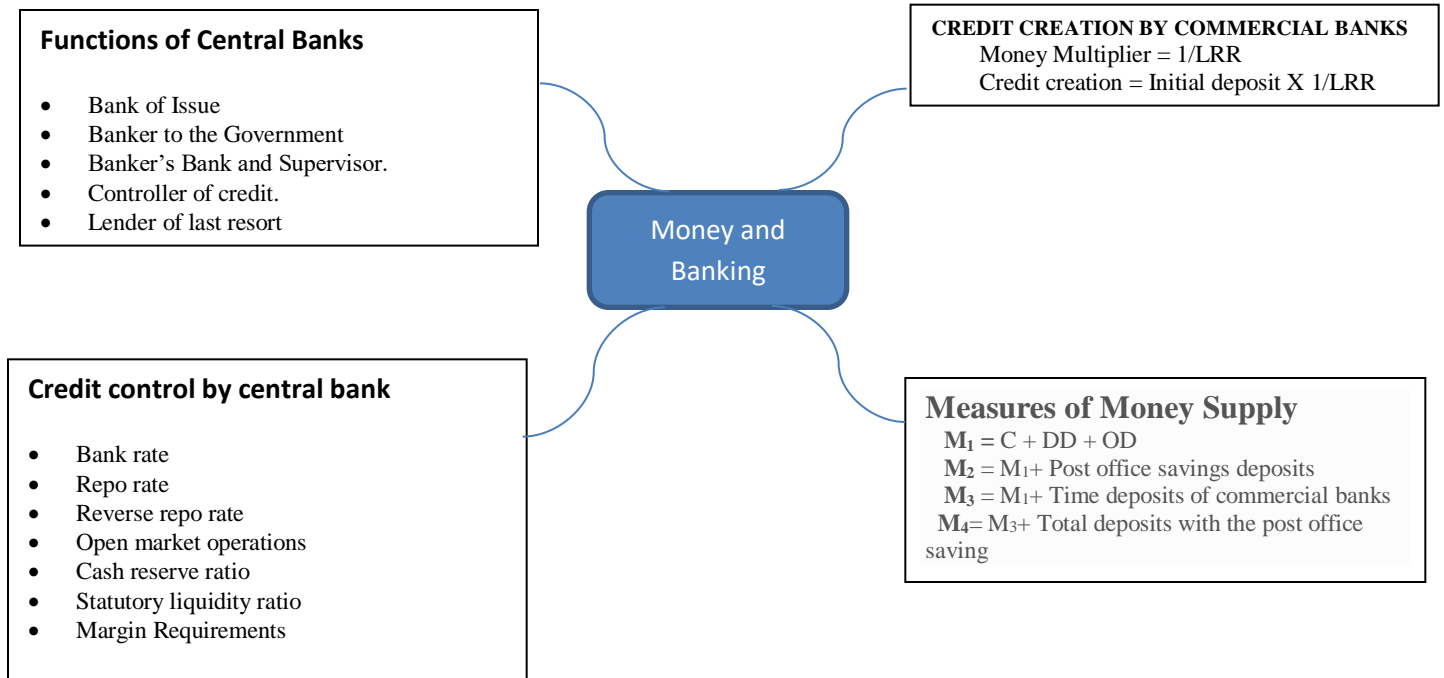
Human Capital Formation: How people become resource; Role of human capital in economic development;

Rural development: Key issues - credit and marketing - role of cooperatives; agricultural diversification;

PART-A – INTRODUCTORY MACROECONOMICS

UNIT-I

Money and Banking



Key Points

- **Money:** Money may be defined as anything which is generally acceptable as a medium of exchange and at the same time acts as a measure, store of value and standard of deferred payment.
- **Supply of Money:** -Supply of Money is a stock concept. It refers to stock of money available with the public/people at a point of time.
- **Stock of Money** with the government and the banking system of the country is not the part of money supply.
- **Components of Money Supply:** -Currency with Public + Demand Deposits with Commercial Banks

Measures of Money Supply

- $M_1 = C + DD + OD$ (Most liquid asset)
- $M_2 = M_1 + \text{Post office savings deposits}$
- $M_3 = M_1 + \text{Time deposits of commercial banks}$

- $M_4 = M_3 +$ Total deposits with the post office saving organisation excluding the deposits on NSC (Least li
- **Central Banks:** The central Bank is the apex institution of monetary and financial system of a country. It makes monetary policy of the country in public interest. It manages, supervises and facilitates the banking system of the country.

Functions of Central Banks

- ❖ Bank of Issue
- ❖ Banker to the Government
- ❖ Banker's Bank and Supervisor.
- ❖ Controller of credit.
- ❖ Lender of last resort
- ❖ Custodian of foreign exchange reserves

MONEY CREATION OR CREDIT CREATION BY COMMERCIAL BANKS

The capacity of banks to create money or credit depends on *Amount of primary deposits and Legal reserve ratio(LRR)*.

- **Legal Reserve Ratio (LRR):-** is fixed by the central bank of a country and it is the minimum ratio of deposit legally required to be kept as reserve by banks.
- **Cash Reserve Ratio (CRR):-** It is a part of LRR which is to be kept with the central bank.
- **Statutory Liquidity Ratio (SLR):-** It is a part of LRR which is to be kept with the bank themselves.
- **Money Multiplier = $1/LRR$**
- **Credit creation = Initial deposit X $1/LRR$.**

Control on Credit Creation: -through the monetary policy RBI perform this function. For this RBI uses Quantitative instruments and Qualitative instruments.

QUANTITATIVE INSTRUMENTS

- **Bank Rate Policy** - It refers to the rate at which the central bank lends money to commercial banks as a lender of the last resort.
- **Repo Rate Policy** – It is the rate at which the central bank of the country (RBI) lends money to the commercial banks to meet their short-term needs.
- **Reverse Repo Rate** – It is the rate at which RBI borrows money from the commercial banks.
- **Open Market Operations** - It refers to the buying and selling of securities by the Central Bank from/ to the public and commercial banks.
- **Legal Reserve Ratio** - R.B.I. can influence the credit creation power of commercial banks by making changes in CRR and SLR.

Cash Reserve Ratio (CRR) - It refers to the minimum percentage of net demand and time liabilities to be kept by commercial banks with central bank. Reserve Bank increases CRR

during inflation and decreases the same during deflation.

Statutory Liquidity Ratio (SLR) - It refers to minimum percentage of net demand and time liabilities which commercial banks required to maintain with themselves in the form of specified liquid assets including cash, gold and govt. securities. SLR is increased during inflation or excess demand and decreased during deflation or deficient demand.

QUALITATIVE INSTRUMENTS:

- **Margin Requirements** - It is the difference between the amount of loan and market value of the security offered by the borrower against the loan.

Multiple Choice Questions (MCQs)

1	Supply of money is a: (a)Flow variable (b)Stock variable (c)Real flow (d)None of these
2	Supply of money refers to (a) currency held by the public (b) currency held by Reserve Bank of India (c) currency held by the public and demand deposits with the commercial banks (d) currency held by Reserve Bank of India and demand deposits with commercial bank
3	Demand deposit include... (a) Saving account deposits and fixed deposits (b) Saving account deposits and current account deposits (c) Current account deposits and fixed deposits (d) All types of deposits
4	_____ is the main source of money supply in an economy. (a) Central Bank (b) Commercial Banks (c) Government (d) Both (a) and (b)
5	Which of the following is not included in money supply? (a) Currency held by public (b) Inter-bank-deposits (c) Demand deposits in Banks (d) Saving deposits with post office banks.
6	Supply of money refers to the quantity of money (a) on 31st March (b) during any specific period of time (c) on any point of time (d) during a fiscal year
7	M1 of money supply does not include. (a) Currency held by public

	(b) Other deposits in RBI (c) Demand deposits with the Commercial Banks (d) Net time deposits with banks
8	Which of the following statements is correct? (a) Supply of money refers to stock of money held by public at a point of time (b) Supply of money is a flow variable (c) Supply of money includes cash reserve of banks (d) Supply of money refers to bank money
9	Which of the following is the supplier of money? (a) Government and banking system (b) Cooperative societies (c) General public (d) Life insurance corporation
10	Deposits which can be withdraw on demand by the depositors are called_____ (a) Time deposits (b) Savings deposits (c) Term deposits (d) Demand deposits
11	Which of the following is the Central Bank in India? (a) State Bank of India (b) Punjab national bank (c) Reserve Bank of India (d) New Bank of India
12	_____ is the main function of central Bank. (a) Notes issue (b) Credit creation (c) Accepting deposits from the public (d) None of these
13	Which is the most liquid measure of the money supply? (a) M4 (b) M3 (c) M2 (d) M1
14	Which of the following is not the function of the Central Bank? (a) Banking facilities to government (b) Lending to commercial banks (c) Banking facilities to public (d) Lending to government
15	When the central act as a banker to the government, what does it do? (a) It carries out government transactions (b) It advises on monetary and financial matters (c) It keeps accounts of the government (d) It carries out government transactions, advises on monetary and financial matters and keeps accounts of the government
16	Central Bank is an apex bank of the country that: (a) Controls the entire banking system of the country

	(b) accepts and lending of deposits to public (c) store of value (d) creates credit
17	The lender of the last resort is the function of: (a) Rural Bank (b) Central Bank (c) Post office (d) Commercial bank
18	Credit Control means (a) Contraction of credit only (b) Extension and contraction of money supply (c) extension of credit only (d) supply of money remains the same
19	Quantitative instrument of monetary policy includes: (a) Margin Requirement (b) Direct Action (c) Statutory Liquidity Ratio (d) Rationing of Credit
20	Identify qualitative measure of central bank: (a) Bank rate (b) Open market operation (c) Margin Requirement (d) Cash reserve ratio
21	Through the process of _____ commercial banks are able to create credit, which is in far excess of the initial deposits. (a) Secondary deposits (b) Advancing loans (c) Accepting deposits (d) Providing overdraft facility
22	_____ is the rate of interest charged by the Central Bank on loans given to commercial banks. (a) Bank rate (b) CRR (c) Statutory liquidity Ratio (d) Reserve Repo Rate
23	Ms. Sakshi, an economics teacher, was explaining the concept of 'minimum percentage of the total deposits to be kept by any commercial bank with the Central Bank of the country, as per norms and statute prevailing in the country'. From the following, choose the correct alternative which specifies towards the concept explained by her? a) Cash Reserve Ratio

	b) Repo Rate c) Bank Rate d) Statutory Liquidity Ratio
24	Initial deposits made by the people from their own resources are called _____ (a) Time deposits (b) Secondary deposits (c) Primary deposits (d) None of these
25	_____ refers to that portion of total deposits of a commercial bank which it has to keep with itself in the form of liquid assets (a) Statutory Liquidity Ratio(SLR) (b) Cash Reserve Ratio(CRR) (c) Bank Rate (d) Reserve Repo Rate
26	Which agency is responsible for issuing Rs.1 currency notes in India? (a) Ministry of Finance (b) Ministry of Home Affairs (c) Reserve Bank of India (d) All of the above
27	Who regulates money supply? (a) Government of India (b) Reserve Bank of India (c) NITI Aayog (d) Commercial Banks
28	Who creates credit in the economy? (a) Government of India (b) Reserve Bank of India (c) NITI Aayog (d) Commercial Banks
29	If the total deposits created by commercial banks is ₹. 10,000 crores and legal reserve requirements is 40% then amount of initial deposits will be (a) ₹ 2000 (b) ₹ 2500 (c) ₹ 4000 (d) ₹ 10,000
30	What will be the value of money multiplier when initial deposits are ₹ 500 crores and LRR is 10% ? (a) 0.1 (b) 0.2 (c) 10 (d) 20
31	The amount of initial deposits is 3000cr and LRR is 25%. Calculate the amount of total deposits created by commercial banks (a) 10000 crore (b) 11000 crore (c) 12000 crore (d) 13000 crore
32	Deposit creation by bank comes to an end when (a) Fresh deposit with banks become zero (b) LRR become zero (c) Money multiplier become zero (d) Total reserve equal to initial deposit
33	What would be the total money creation in the economy, If initial fresh deposits with banks = 50,000 and LRR = 20%. (a) `2,50,000 (b) `5,00,000 (c) `10,00,000 (d) `12,00,000
34	Which one of the following is used for credit creation: (a) $K = 1/LRR$ (b) $K = 1/SLR$ (c) $K = 1/\text{Bank Rate}$ (d) $K = 1/\text{Repo Rate}$

35	<p>The value of credit multiplier will be high when</p> <p>(a) Cash reserve ratio is high (b) Cash reserve ratio is low</p> <p>(c) Cash reserve ratio is zero (d) Cash reserve ratio is infinity</p>
36	<p>In a hypothetical economy, Mr. Neeraj has deposited ₹100 in the bank. If it is assumed that there is no other currency circulation in the economy, then the total money supply in the economy will be _____</p> <p>a) zero</p> <p>b) ₹ 100</p> <p>c) not defined</p> <p>d) ₹ 120</p>
37	<p>Two friends Akash and Amit were discussing about the features of central bank.</p> <p>“This features saves the commercial banks from possible breakdown”</p> <p>The above mentioned statement was given by Akash, identify the feature was he taking about...</p> <p>(a) Banker’s bank (b) Lender of the last resort</p> <p>(c) Controller of credit (d) Financial advisor</p>
38	<p>Read the following statements carefully and choose the correct alternatives given below:</p> <p>Statement 1 – Central bank lends money to borrowers at a very low interest.</p> <p>Statement 2 – Ministry of finance circulates all mint and one rupee note in India.</p> <p>Alternatives:</p> <p>a) Both the statements are true.</p> <p>b) Both the statements are false.</p> <p>c) Statement 1 is true and Statement 2 is false</p> <p>d) Statement 2 is true and Statement 1 is false</p>

39	<p>Read the following statements carefully and choose the correct alternatives given below:</p> <p>Statement 1 – The value of money multiplier is determined by the reserve ratio prevailing in the monetary system.</p> <p>Statement 2 – The process of credit creation directly relates to the value of reserve ratio.</p> <p>Alternatives:</p> <p>a) Both the statements are true.</p> <p>b) Both the statements are false.</p> <p>c) Statement 1 is true and Statement 2 is false</p> <p>d) Statement 2 is true and Statement 1 is false</p>
40	<p>Choose the correct statement from given below</p> <p>(a) Commercial banks create credit out of primary deposits.</p> <p>(b) The money multiplier is directly related to the legal reserve ratio.</p> <p>(c) The central bank of the country is not authorized to maintain foreign exchange reserves.</p> <p>(d) All of the above</p>
41	<p>Assertion(A): Currency Held by Public is a monetary liabilities of central bank Reason(R): Central bank control credit, whereas commercial bank create credit with currency held by Public.</p> <p>(a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A)</p> <p>(b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A)</p> <p>(c) Assertion(A) is true but Reason(R) is false</p> <p>(d) Assertion(A) is false but Reason(R) is true</p>
42	<p>Assertion (A): Central Bank as a banker to the government, works as a custodian of cash reserves.</p> <p>Reason(R): The Central Bank acts as a clearinghouse for the transfer and settlement of mutual claims of commercial banks.</p>

	<p>(a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A)</p> <p>(b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A)</p> <p>(c) Assertion(A) is true but Reason(R) is false</p> <p>(d) Assertion(A) is false but Reason(R) is true</p>
43	<p>Assertion(A): Central bank as a banker to government, work as a financial advisor</p> <p>Reason(R): Government borrow internally from banks and general public.</p> <p>(a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A)</p> <p>(b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A)</p> <p>(c) Assertion(A) is true but Reason(R) is false</p> <p>(d) Assertion(A) is false but Reason(R) is true</p>
44	<p>Assertion(A): Demand deposits are also called bank money.</p> <p>Reason(R): Demand deposits are created by commercial banks.</p> <p>(a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A)</p> <p>(b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A)</p> <p>(c) Assertion(A) is true but Reason(R) is false</p> <p>(d) Assertion(A) is false but Reason(R) is true</p>
45	<p>Assertion(A): LRR represents the minimum reserve ratio essential to be maintained by banks.</p> <p>Reason(R): Banks create deposits in the process of making loans to their customers.</p> <p>(a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A)</p> <p>(b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A)</p> <p>(c) Assertion(A) is true but Reason(R) is false</p> <p>(d) Assertion(A) is false but Reason(R) is true</p>
46	<p>Assertion(A): The Central Bank is also known as the bank of issue.</p> <p>Reason(R): The Central Bank enjoys the sole monopoly of issuing currency to ensure control over volume of currency and money supply.</p> <p>(a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A)</p> <p>(b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A)</p> <p>(c) Assertion(A) is true but Reason(R) is false</p> <p>(d) Assertion(A) is false but Reason(R) is true</p>

47	<p>Assertion(A): Demand deposits are created by commercial banks. Reason(R): Demand deposits form a significant part of the total money supply in the economy.</p> <p>(a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A) (b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A) (c) Assertion(A) is true but Reason(R) is false (d) Assertion(A) is false but Reason(R) is true</p>
48	<p>Assertion(A): Only net demand deposits held by commercial banks are taken as part of money supply. Reason(R): Only deposits of the public held by the banks are included in money supply</p> <p>(a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A) (b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A) (c) Assertion(A) is true but Reason(R) is false (d) Assertion(A) is false but Reason(R) is true</p>
49	<p>Assertion(A): Credit creation is inversely related to the Legal Reserve Ratio. Reason(R): LRR is fixed by the market forces of demand and supply.</p> <p>(a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A) (b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A) (c) Assertion(A) is true but Reason(R) is false (d) Assertion(A) is false but Reason(R) is true</p>
50	<p>Assertion(A): The monetary policy is the policy formulated by central bank of a country Reason(R) : The policy measures involves measures taken by the central bank to regulate the supply of money, availability and cost of credit in the economy.</p> <p>(a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A) (b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A) (c) Assertion(A) is true but Reason(R) is false (d) Assertion(A) is false but Reason(R) is true</p>
51	<p>Assertion(A): Banks issues currencies. Reason(R) : Commercial Bank is an institution that accepts deposits and provides loans to the public.</p>

	<p>(a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A)</p> <p>(b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A)</p> <p>(c) Assertion(A) is true but Reason(R) is false</p> <p>(d) Assertion(A) is false but Reason(R) is true</p>
52	<p>Assertion(A): An increase in CRR results in decrease in the value of multiplier</p> <p>Reason(R) : Banks lend money many times more than their cash reserves.</p> <p>(a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A)</p> <p>(b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A)</p> <p>(c) Assertion(A) is true but Reason(R) is false</p> <p>(d) Assertion(A) is false but Reason(R) is true</p>
53	<p>Assertion (A)- Credit creation process increases the money supply in economy.</p> <p>Reason (R)- through the credit creation process commercial banks can distribute loans many times as compare to their primary deposits</p> <p>(a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A)</p> <p>(b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A)</p> <p>(c) Assertion(A) is true but Reason(R) is false</p> <p>(d) Assertion(A) is false but Reason(R) is true</p>
54	<p>Assertion (A)-settlement of liabilities of commercial banks is done by RBI. Reason (R)- RBI holds the accounts of all commercial banks and commercial banks keep funds in it essentially.</p> <p>(a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A)</p> <p>(b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A)</p> <p>(c) Assertion(A) is true but Reason(R) is false</p> <p>(d) Assertion(A) is false but Reason(R) is true</p>
55	<p>Assertion (A): Demand Deposits are considered as a convenient mode of payment for execution of even the high value transactions.</p> <p>Reason(R): Demand Deposits are non-withdrawable in nature and cannot be withdrawn against issue of cheques and other similar instruments of payment.</p> <p>(a) Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of the Assertion(A)</p>

	(b) Both Assertion(A) and Reason(R) are true and Reason(R) is not the correct explanation of the Assertion(A) (c) Assertion(A) is true but Reason(R) is false (d) Assertion(A) is false but Reason(R) is true
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ANSWERS

Q.NO	ANSWERS	Q.NO	ANSWERS	Q.NO	ANSWERS
1	B	21	C	41	B
2	C	22	A	42	B
3	B	23	A	43	C
4	D	24	C	44	A
5	B	25	A	45	B
6	C	26	A	46	A
7	D	27	B	47	B
8	A	28	D	48	A
9	A	29	C	49	C
10	D	30	C	50	A
11	C	31	C	51	D
12	A	32	D	52	B
13	D	33	A	53	B
14	C	34	A	54	B
15	D	35	B	55	C
16	A	36	B		
17	B	37	B		
18	B	38	D		
19	C	39	C		
20	C	40	A		

Case Study based Questions

1.Read the following case study paragraph carefully and answer the questions on the basis of the same.

The central bank of India i.e. Reserve Bank of India, is the apex institution that control the entire financial market. It's one of the major functions is to maintain the reserve of foreign exchange. Also, it intervenes in the foreign exchange market to stabilise the excessive fluctuations in the foreign exchange rate.

In other words, it is the central bank's job to control a country's economy through monetary policy; if the economy is moving slowly or going backward, there are steps that central bank can take to boost the economy. These steps, whether they are asset purchases or printing

more money, all involve injecting more cash into the economy. The simple supply and demand economic projection occurs and currency will devalue.

When the opposite occurs, and the economy is growing, the central bank will use various methods to keep that growth steady and in-line with other economic factors such as wages and prices. Whatever the central bank does or in fact doesn't do, will affect the currency of that country. Sometimes, it is within the central bank's interest to purposefully effect the value of a currency. For example, if the economy is heavily reliant on exports and their currency value becomes too high, importers of that country's commodities will seek cheaper supply; hence directly affecting the economy.

1. Which of the following tools are used by the central bank to control the flow of money in domestic economy?

- (a) Fiscal tools
- (b) Quantitative monetary tools
- (c) Qualitative monetary tools
- (d) Both (b) and (c)

2. Dear money policy of central bank, which is used to keep the growth steady and in-line with other economic factors, refers to

- a) Tighten the money supply in the economy
- b) Ease the money supply in the economy
- c) Allow commercial banks to work under less strict environment
- d) Both (b) and (c)

3. Which of the following steps should be taken by the central bank if there is an excessive rise in the foreign exchange rate?

- (a) Supply foreign exchange from its stock
- (b) Demand more of other foreign exchange
- (c) Not intervene in the market as the exchange rate is determined by the market forces
- (d) Help central government to stabilize the foreign exchange rate.

ANSWERS

- 1. (d) Both (b) and (c)
- 2. (a) Tighten the money supply in the economy
- 3. (a) Supply foreign exchange from its stock

2. Read the para given below and answer the questions that follow:

The Reserve Bank of India (RBI) on Friday kept interest rates on hold while assuring to maintain support for reflecting the economy by ensuring ample liquidity to manage the government's near-record borrowing.

The six-member Monetary Policy Committee (MPC) voted to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of Covid-19 on the economy while ensuring that inflation remains within the target, Governor Shaktikanta Das said. While the Union Budget 2021 laid down an expansive fiscal strategy over the medium term to strengthen the growth engine in the economy, the RBI affirmed its support to such a plan through appropriate monetary tools.

To absorb higher government borrowings, the Central Bank provided retail investors a direct option to invest in government securities. It also sapped some funds from banks by raising the Cash Reserve Ratio (CRR) and using the money for more targeted market operations.

The MPC, which cut borrowing costs by 115 basis points last year, kept the repurchase or repo rate unchanged at 4 percent. Consequently, the reverse repo rate will also continue to earn 3.35 per cent for banks for their deposits kept with the RBI. Das announced the restoration of CRR - the amount of deposits lenders must set aside as reserves - to 3.5 per cent in March and 4 per cent in May. The cash returning to the central bank can be used by it for open market operations and other liquidity measures.

1. The two essential conditions for a financial institution to become a bank are:

- (a) accepting deposits and lending
- (b) printing currency notes
- (c) both (a) and (b)
- (d) neither (a) nor (b)

2. Which of the following is not a quantitative method of credit control?

- (a) open market operation
- (b) bank rate policy
- (c) legal reserve requirements
- (d) margin requirements

3. The central bank does not perform the following functions.

- (a) conducts sale and purchase of securities for foreign governments securities.
- (b) acts as a lender of the last resort.
- (c) controls money supply and credit.
- (d) manages the nation's reserves of international currency.

ANSWERS

- 1. (a) accepting deposits and lending
- 2. (d) margin requirements
- 3. (a) conducts sale and purchase of securities for foreign governments securities.

3. Read the para given below and answer the questions that follow:

Heightened uncertainty in India caused by the Coronavirus pandemic led to a surge in the currency in circulation as people hoarded cash or put money in accessible deposits to safeguard themselves against salary cuts or job losses.

According to RBI data, India's M3 money supply rose 6.7% in the first five months of 2020 compared with the same period in 2019, the highest growth in seven years. Currency in circulation, which measures money with the public and in banks has also surged.

Gross capital formation, or total investments toward fixed capital in the country, fell significantly. Savings and current account deposits fell 8% due to higher withdrawals. The growth in currency notes held by the public was much higher than the deposits made in banks.

A rise in money supply usually is seen as a leading indicator of growth in consumption and business investments, but the rise this time was unlikely to bolster either, analysts said. The

increase was a reflection of higher cash withdrawals by depositors to meet the needs during the lockdown period, until normalcy returns.

1. _____ (quantitative/qualitative) instruments of monetary policy affect the direction of credit in the economy.

2. Choose the correct pair of statements from the given statements in Column I and II:

S NO	Column I	Column II
1	LRR	A. rate of interest at which Central Bank lends to commercial banks for long term
2	Reverse Repo Rate	B. rate at which the RBI borrows money from commercial banks
3	Bank Rate	C. rate at which Central Bank advances short term loans to commercial banks
4	. Repo Rate	D. minimum reserve maintained by a commercial bank

- (a) 1-A (b) 2-B
(c) 3-C (d) 4-D

3. Which of the following statements is true?

- (a) Money Multiplier is inversely related to LRR.
(b) Loans given by Commercial banks are equal to the amount of deposits they receive.
(c) CRR is decreased to control inflation
(d) Demand deposits refer to the cash reserves of Commercial Banks.

ANSWERS

1. qualitative
2. (b) 2-B
3. (a) Money Multiplier is inversely related to LRR.

4. Read the para given below and answer the questions that follow:

The Reserve Bank of India is the Central Bank of India, which means it is at the apex of the banking structure of the economy. It is one of the main governing bodies and regulatory bodies in India and helps the government in its role as a business facilitator.

The RBI was first established on the 1st of April 1935 and nationalized in 1949. The governing of the RBI is done in accordance to the RBI Act by the government. Its day to day affairs are taken care of by the Board of Directors who are chosen by the government.

The RBI is the only authorized body that can issue currency in the country. So they print,

distribute and regulate the flow of currency in the economy. The RBI provides the central and state government with basic banking functions and facilities like depositing money, remittances etc. It can also make advances and provide loans to the government whenever necessary. It also supervises all other commercial banks in the country and provides financial assistance to these banks like short-term loans and advances. It is the function of the RBI to maintain the value of the rupee in the global economy. It does so by acting as the custodian of foreign exchange reserves in the country. It maintains enough reserves to battle against fluctuations. The RBI also maintains control of credit and money in the market. It uses qualitative and quantitative methods to either expand or contract the available credit in the economy according to circumstances.

1.If the legal reserve ratio is 20%, the value of money multiplier would be:

- (a) 2 (b) 3
- (c) 5 (d) 4

2. In order to encourage investment in the economy, the central bank may:

- (a) reduce cash reserve ratio.
- (b) increase cash reserve ratio.
- (c) sell government securities in open market.
- (d) increase the bank rate.

3.The monetary policy generally targets to ensure:

- (a) price stability in the economy.
- (b) employment generation in the country.
- (c) stable foreign relations.
- (d) greater tax collections for the government.

4. Lowering the bank rate is a measure to:

- (a) encourage foreign investment in the economy.
- (b) increase money supply in the economy.
- (c) discourage investment activity in the economy.
- (d) increase government expenditure.

ANSWERS

- 1. (c) 5
- 2. (a) reduce cash reserve ratio.
- 3. (a) price stability in the economy.
- 4. (b) increase money supply in the economy.

5.Read the following case study paragraph carefully and answer the questions on the basis of the same.

India's total Money Supply (M3) stood at Rs 18907383 crore as on April 9th 2020, recording a rise of 11.3% over the same time last year. Currency with the public stood at Rs 2787941 crore, up 16.7% over the year. Demand deposits with banks were up 17% at Rs 1867606

crore.

Time deposits with banks were also up 9.6% at Rs 14205545 crore. The bank credit to commercial sector edged up 5.1% on year to Rs 11552069 crores. However, this indicates moderation from 7.2% at the same time last year.

1. How does increase in deposits with commercial banks will affect credit creation process :-

- a) Credit creation process will increase
- b) Credit creation process will remain unaffected
- c) Credit creation process will reduce
- d) None of above

2. M3 is consist of:-

- a) C + OD + Time deposits
- b) C + DD + OD + time deposits with commercial bank
- c) M1 + deposits of post office saving bank
- d) All of above

3. What is indicated by increasing deposits:-

- a) People prefer to save more now
- b) Income level of people are increasing
- c) People prefer to keep money in the bank accounts after demonetisation
- d) All of above

ANSWERS

- 1. a) Credit creation process will increase
- 2. b) C + DD + OD + time deposits with commercial bank
- 3. d) All of above

Unit II: Government Budget and the Economy (For the session 2021-22)

Government budget - meaning, objectives and components.

Classification of receipts - revenue receipts and capital receipts; classification of expenditure –

revenue expenditure and capital expenditure.

Measures of government deficit - revenue deficit, fiscal deficit, primary deficit their meaning.

UNIT- II

Government Budget and the Economy

Govt. budget:- An annual statement of estimated receipts and estimated expenditure of the govt. during an accounting year (fiscal year). Current Fiscal year is from 1st April 2021 to 31st March 2022

Objectives of Govt. budget:

1. Re-allocation of resources:-Govt. aims to reallocate resources in accordance with the economic and social priorities of the country.

- To encourage investment, govt. gives tax concessions and subsidies etc., to the producers.
- Govt. discourages the production of the harmful goods by imposing heavy taxes and encourages the production of needful goods like 'khadi products' by providing subsidies.
- Also undertake production of those goods where pvt. Sector does not take interest.

2. Economic equality:-Reducing inequality is an inherent part of every economic system.

- By imposing taxes on the rich and through providing welfare programs to the poor people govt. is achieving this goal.
- Also known as **redistribution of income & wealth**
- Progressive taxes on the rich and through providing job opportunities and also through transfer payments govt. is achieving this goal.
- Govt. **also aims to achieve regional equality** by providing facilities to the rural areas, basically infrastructural Facilities for bringing balanced growth.

3. Economic stability:-

- Govt. budget is used to prevent the business fluctuations like booms or depressions (inflations or deflations) to achieve the goal of **balanced growth** (economic stability).
- The policy of surplus budget during the time of inflation and deficit budget during the time of deflation helps the govt. to achieve this goal.

4. Economic Growth:-

- Economic growth depends on the rate of saving and investment in the economy. **Increase in GDP**
- Govt. budget aims to mobilise sufficient resources for investment in the economy.
- Various provisions are making in the govt. budget for increasing the investment in the economy.

5. Management of public sector enterprises:- All public sector enterprises are managed through the govt. budget, functioning for social welfare

Components of Govt. budget:

- It also refers to the **structure** of the govt. budget.

There are basically TWO COMPONENTS of govt. budget. They are:

(1) Revenue Budget (2) Capital Budget.

Revenue Budget has TWO parts; they are Revenue receipts and Revenue expenditure.

Capital budget consists of Capital receipts and Capital expenditure.

Budget Receipts (BR) :- Refers to the estimated money receipts of the govt. from all sources during a given fiscal year. There are two types of budget receipts.

They are: 1. Revenue **Receipts (RR)** & 2. **Capital Receipts (CR)**:

1. **Revenue Receipts (RR)**: -

Receipts which **Neither** creates liability **Nor** reduces the assets of the govt.

Major features are:

1. It does not create liability to the govt.

2) It does not reduce the assets of the govt.

- They are regular and recurring in nature.
- Major sources are: **Tax revenue and Non- tax revenue**

Tax Revenue: - Tax is a compulsory contribution made by individuals and institutions to the govt. without any direct return.

Direct Tax: -

- Taxes that are imposed on property and income of individuals and firms and are directly paid by them to the govt.
- The burden of tax cannot be shifted.
- The Impact and incidence of tax falls on same person.
- For eg:- Income tax , property tax.etc.

Indirect Tax: -

- Taxes that are levied on goods and services.
- The burden of tax can be shifted.
- The Impact and incidence of tax falls on different persons.
- They are regressive in nature.
- For eg:- GST (Goods & Service tax).

Non tax revenue:-

- Non tax revenue refers to revenue receipts of the govt. other than the tax revenue.
- Major sources are:- Administrative revenue (Fess, Fines & penalties, Escheats, License fees, forfeitures etc.) Gift & grants, Income from govt. properties, special assessments, interest received, dividends etc.

2. **Capital Receipts (CR)**: - Receipts which **either** creates liability **or** reduces the assets of the govt.

Major features:

- 1) It creates liability for the govt.
 - 2) It reduces the assets of the govt.
- They are irregular and non-recurring in nature.

Major sources are:

1. Borrowings:-

- These are the funds raised by the govt. to meet the excess expenditures.
- Govt. borrows funds from internal sources (RBI, Open market) External sources (Foreign governments, foreign financial institutions like IMF, IBRD etc.)
- Borrowings are capital receipts as they create liability and reduce the assets of the government.

2. Disinvestment:

- It refers to the act of selling a part or the whole unit of selected public sector undertakings held by the government to the private agencies.
- It reduces the assets of the govt.
- It leads to transfer of ownership of PSU's to the private enterprises

3. Recovery of loans:-

- Govt. provides various loans to the state govts. or UT's or even to foreign countries.
- Recovery of such loan is a capital receipts as it reduces the assets of the govt.

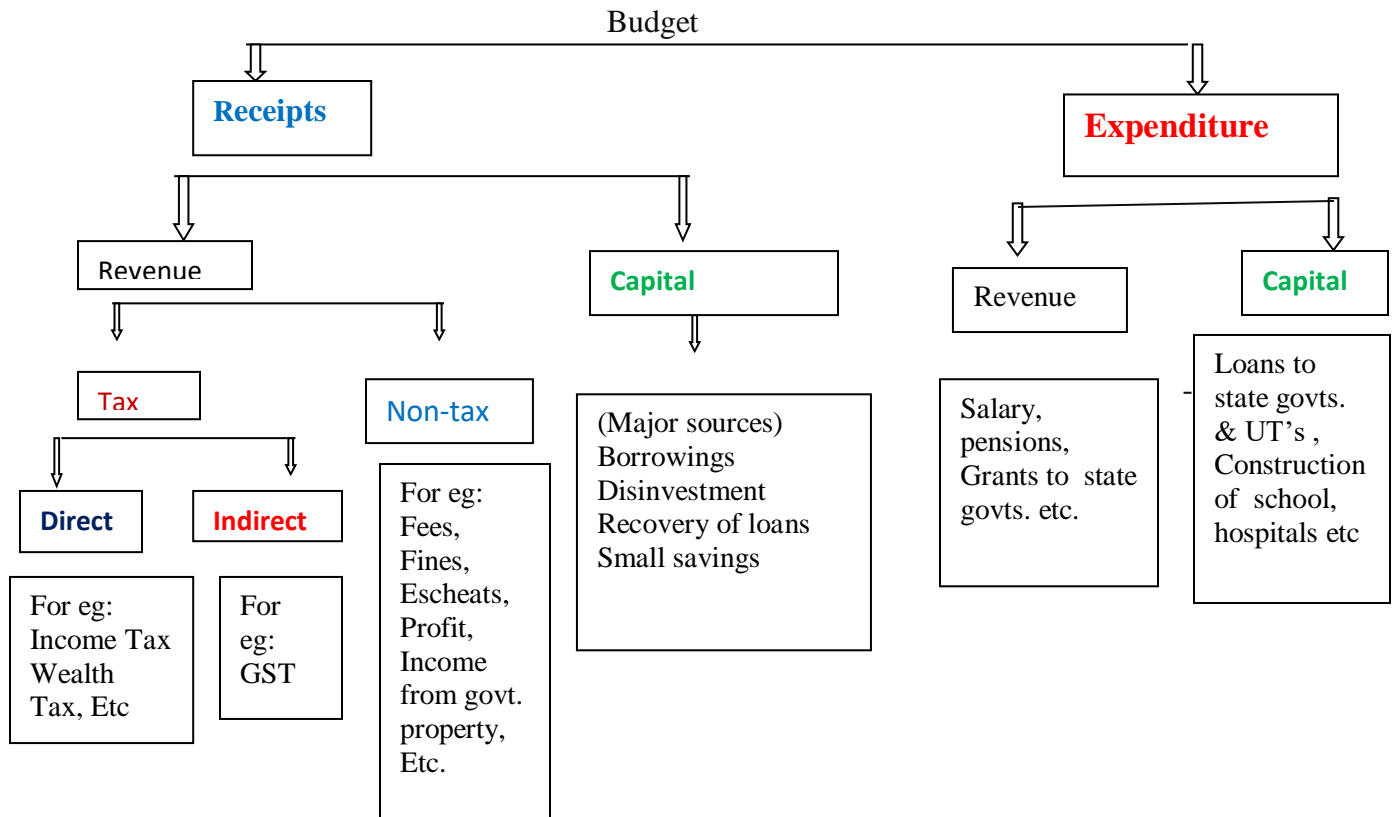
4. Small Savings: - Small savings in the form of Post office deposits, NSC are other sources of capital receipts as it leads to an increase in liability.

Budget expenditure: - It refers to the estimated expenditure of the government during a given fiscal year.

Capital expenditure and Revenue expenditure

- Any expenditure by the government that either creates an asset (for example construction of School building etc) or reduces a liability (for example repayment of loan) is categorised as **capital expenditure**.
- Any expenditure by the government that neither creates an asset nor reduces a liability is categorised as **revenue expenditure**, (for example interest payment, subsidies, grants given to the state governments etc.)

Structure of Govt. Budget



Un- balanced budget:- If Budgetary Receipts are not equal to the Budgetary Expenditure of the govt., then it is known as un balanced budget. Major TYPES of unbalanced budget are: **Surplus Budget & Deficit Budget**

Surplus Budget

If Budgetary Receipts are MORE THAN the Budgetary Expenditure of the govt., then it is known as Surplus budget.

$$BR > BE \text{ or } TR > TE$$

Deficit Budget

If Budgetary Receipts are LESS THAN the Budgetary Expenditure of the govt., then it is known as Deficit budget.

$$BR < BE \text{ or } TR < TE$$

Types of budgetary deficits:-

1. REVENUE DEFICIT (RD)
2. FISCAL DEFICIT (FD)

3. PRIMARY DEFICIT (PD)

REVENUE DEFICIT (RD)

If Revenue Expenditures are MORE THAN the Revenue Receipts of the govt. then it is known as REVENUE DEFICIT (RD) during an accounting year.

$$RD = RE - RR \text{ or } RD = RE > RR$$

Major implications:-

1. It is a warning signal to the govt. either to reduce the revenue expenditure or to increase the revenue receipts.
2. It indicates the inability of the govt. to meet its regular and recurring expenditure.
3. It also implies that the govt. has to make up this deficit from capital receipts which may lead to inflationary situation in the economy.

FISCAL DEFICIT (FD)

- FD refers to the excess of Budgetary Expenditure over Budgetary receipts, excluding borrowings, during an accounting year.

$$FD = BE - BR \text{ (Excluding borrowings)}$$

Major implications:-

- 1 Leads to Debt trap:- Borrowings not only involves repayment of borrowed amount but it also require payment of interest. Interest payments increases revenue expenditures which leads to revenue deficits, ultimately leads to debt trap.
2. Creates inflationary situation in the economy:- Borrowings leads to increase in money supply in the economy creates inflation.
3. Foreign dependence:- Govt. borrows money from the foreign countries and foreign financial institutions , which ultimately increases its dependences on these countries and institutions.
4. Financial burden on future generations :- If the country did not repay the borrowed amount in time , its burden will go to the future generations, Which will hampers the future growth of the country.

PRIMARY DEFICIT (PD)

Primary Deficit refers to the difference between Fiscal Deficit of the current year and the interest payments of the previous borrowings.

$$PD = FD - \text{Interest payment on previous borrowings}$$

A low or zero PD indicates that interest commitments on earlier loans had forced the government to borrow.

Numerical illustrations:

Estimate the value of RD, FD, & PD (For practice)

Items	Amount(
1. Capital receipts	635902
(a) Recovery of Loans	10753
(b) Other receipts	69500
(c) Borrowings & other liabilities	555649
2. Revenue Receipts	1141575
3. Total Receipts	1777477
4. Plan Expenditure	465277
(a) Own revenue a/c	330020
(b) Own capital a/c	135257
5. Non plan expenditure	1312200
(a) Own revenue a/c	1206027
(b) Own capital a/c	106173
6. Total Expenditure	1777477
7. Interest payments	456145

Answer:

RD = 394472 Crs

FD = 555649 crs

PD = 99504 Crs

QUESTIONS

1. Funds raised from Public Provident Fund are treated as

- a) Capital receipts
- b) Revenue receipts
- c) Capital returns
- d) None of these

2. Primary deficit in a government budget will be zero when

- a) Revenue deficit is zero

- b) Net interest payments are zero
- c) Fiscal deficit is zero
- d) Fiscal deficit is equal to interest payment.

3. Which objective of govt. budget is achieved by encouraging setting up production units in economically backward regions?

- a) Reallocation of resources
- b) Economic stability
- c) Reducing inequality of income and wealth
- d) Reducing regional disparities

4. Which of the following is Revenue expenditure?

- a) Construction of school
- b) Borrowings
- c) Grants given to the state govts.
- d) Loans given to the state govts.

5. Identify which of the following is not an example of tax revenue for the government. (Choose the correct alternative)

- a) Wealth Tax
- b) Special Assessments
- c) Income Tax
- d) Corporate Tax

6. Identify the correct formula to calculate Fiscal Deficit.

- a) Total expenditure - Total Receipt (other than borrowings)
- b) Revenue Expenditure- Revenue Receipt
- c) Capital Expenditure- Capital Receipt
- d) Revenue Expenditure + Capital expenditure - Revenue Receipt.

7. Find out incorrect statement from the following:

- (a) A government budget is an estimation of receipts and expenditure for current year.
- (b) A government budget is an estimation of receipts and expenditure for next financial year.
- (c) Capital receipts decreases assets of the government.
- (d) Subsidies are not treated as capital expenditure of the government.

8. is an example of an indirect tax.

- a) Wealth Tax
- b) Customs duty
- c) Income Tax
- d) Corporate Tax

9. Which of the following is a basis for comparison between direct and indirect taxes?

- a) Impact
- b) Shift of burden

- c) Coverage
- d) All of the above

10. Match the item in column A to those in column B and choose the correct option:

Column A		Column B	
A	Capital Budget	(I)	Total expenditure = Total Revenue
B	Balanced Budget	(II)	Total expenditure < Total Revenue
C	Surplus budget	(III)	Total expenditure > Total revenue
D	Deficit Budget	(IV)	Capital receipts + capital expenditure

- a) A-(iv), B-(i), C-(ii), D- (iii)
- b) A-(iv), B-(i), C-(iii), D- (ii)
- c) A-(iv), B-(iii), C-(ii), D- (i)
- d) A-(i), B-(iv), C-(ii), D- (iii)

11 Out of the given statements, which statement is true?

- (a) GST is an example of direct tax..
- (b) Indirect taxes are regressive in nature.
- (c) Burden of tax can be shifted in the case of direct tax.
- (d) Grants given to the state govts. is a capital expenditure.

12.Indicates the borrowing requirement of the govt.

- a) Revenue deficit
- b) Budgetary deficit
- c) Fiscal deficit
- d) Primary deficit

13. Identify the capital expenditure of the govt. budget

- a) Payment of pension
- b) Payment of subsidies
- c) Purchase of shares
- d) Grants

14. Direct tax is called direct because it is collected directly from: (Choose the correct alternative)

- a) The sellers on goods sold
- b) The buyers on goods
- c) The income earners
- d) The producers on goods produced.

15. Which of the following is not a non-tax revenue receipt?

- a) Interest receipt
- b) Dividends and profits
- c) External grant
- d) Proceeds of disinvestment.

16. The responsibility of fiscal policy lies with:

- a) The central govt.
- b) The govt.
- c) The Central Bank
- d) The commercial banks

17. 'Policy of surplus budget during inflation' is a part of which objective of government budget?
(Fill up the blank with correct alternative)

- a) Economic growth.
- b) Economic Stability
- c) Reducing the regional disparities.
- d) Reallocation of resources.

18. Escheat is an example of:

- a) Capital receipts
- b) Revenue receipts
- c) Capital expenditure
- d) Revenue expenditure

19. In a govt. budget, revenue deficit is Rs. 50000 crores and borrowings are Rs.75000 crores.
The fiscal deficit will be:

- a) Rs. 25000 crores
- b) Rs.125000 crores
- c) Rs.50000 crores
- d) Rs.75000 crores

20. The govt. budget has a revenue deficit. This gets financed by:

- A) Borrowings B) Disinvestment C) Tax revenue D) Non tax revenue (choose the correct alternative)
- a) Both (A) and (C)
 - b) Both (A) and (B)
 - c) Both (B) and (C)
 - d) Both (A) and (B)

Question No. 21 – 25 are to be answered on the basis of the data given below (in ₹ Crores)

Budget at a Glance
(In ₹ crores)

	2019-2020	2020-2021
	Actuals	Budget Estimates
1. Revenue Receipts	1684059	2020926

2. Tax Revenue (Net to Centre)	1356902	1635909
3. Non Tax Revenue	327157	385017
4. Capital Receipts ¹	1002271	1021304
5. Recovery of Loans	18316	14967
6. Other Receipts	50304	210000
7. Borrowings and Other Liabilities ²	933651	796337
8. Total Receipts (1+4)	2686330	3042230
9. Total Expenditure (10+13)	2686330	3042230
10. On Revenue Account of which	2350604	2630145
11. Interest Payments	612070	708203
12. Grants in Aid for creation of capital assests	185641	206500
13. On Capital Account	335726	412085

21. The percentage change in the Tax Revenue, between 2019- 20 (Actual) and 2020-21 (Budgeted Estimate), taking the 2019-20 as base, would be _____. (Fill up the blank with correct alternative)

- a) 15.02%
- b) 20.56%
- c) 17.06%
- d) 20.01%

22. The value of borrowings and other liabilities has _____ crores between 2019-20 (Actual) and 2020- 21 (Budgeted Estimate). (Fill up the blank with correct alternative)

- a) Fallen by ₹ 137314
- b) Risen by ₹ 137314
- c) Fallen by ₹ 137324
- d) Risen by ₹ 137324

23. 8. The value of borrowings for the year 2020-21, would be ₹ _____ crores. (Fill up the blank with correct alternative))

- a) 88134
- b) 796337
- c) 933651
- d) 666545

24. Read the following statements carefully and choose the correct alternatives given below:
Statement 1 – Tax Revenue and non tax revenue are increasing but recovery of loan is reducing.
Statement 2 –Revenue receipts and capital receipts are decreased from 2019 to 2021

Alternatives:

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

25. The percentage change in the Total receipts, between 2019- 20 (Actual) and 2020-21 (Budgeted Estimate), taking the 2020- 21 as base, would be _____.

(Fill up the blank with correct alternative)

- a) 11.70%
- b) 13.14%
- c) 13.24%
- d) 10.01%

Read the following statements – Assertion (A) and Reason (R). Choose one of the correct alternatives given below (Questions 26-30).

26. Assertion (A): GST is imposed on goods and services and it is an indirect tax.

Reason (R): Indirect taxes are those tax whose money burden cannot be shifted.

- a) Both Assertion (A) and Reason (R) are true, (R) is correct explanation of (A).
- b) Both Assertion (A) and Reason (R) are true but (R) is not correct explanation of (A).
- c) Assertion (A) is true and Reason (R) is false.
- d) Assertion (A) is false and Reason (R) is true.

27. Assertion (A): Recovery of loan by the government is capital receipts.

Reason (R) : Disinvestment is revenue receipts of the government.

- a) Both Assertion (A) and Reason (R) are true, (R) is correct explanation of (A).
- b) Both Assertion (A) and Reason (R) are true but (R) is not correct explanation of (A).
- c) Assertion (A) is true and Reason (R) is false.
- d) Assertion (A) is false and Reason (R) is true.

28. Assertion (A): The government budget is a statement of actual receipts and expenditure of the government during a fiscal year.

Reason (R): In India fiscal year is 1st April to 31st March.

- a) Both Assertion (A) and Reason (R) are true, (R) is correct explanation of (A).
- b) Both Assertion (A) and Reason (R) are true but (R) is not correct explanation of (A).
- c) Assertion (A) is true and Reason (R) is false.
- d) Assertion (A) is false and Reason (R) is true.

29. Assertion (A): Deficit budget is not desire during periods of inflation.

Reason (R): Surplus budget is not desire during the periods of deflation.

- a) Both Assertion (A) and Reason (R) are true, (R) is correct explanation of (A).
- b) Both Assertion (A) and Reason (R) are true but (R) is not correct explanation of (A).
- c) Assertion (A) is true and Reason (R) is false.
- d) Assertion (A) is false and Reason (R) is true.

30. Assertion (A): Expenditure on interest payment is revenue expenditure.

Reason (R): Expenditure on interest payment neither reduced liability nor increase asset of the government.

- a) Both Assertion (A) and Reason (R) are true, (R) is correct explanation of (A).
- b) Both Assertion (A) and Reason (R) are true but (R) is not correct explanation of (A).
- c) Assertion (A) is true and Reason (R) is false.
- d) Assertion (A) is false and Reason (R) is true.

Read the following paragraph carefully and answer the given questions from 31 to 33

Every govt. seeks to control and give direction to economic activities. For this purpose it may exercise a large number of instruments available to it. Among these instruments, the most important is the fiscal policy, which operates through the financial operations of the government. In modern times the responsibilities and functions of a government have been gradually increasing as the areas of the activity are expanding continuously. It requires more and more finance as the corresponding expenditures are moving northwards. The government has to perform innumerable functions for ensuring economic growth and development of the country for which it has to take care of public revenue and public expenditure.

31. Fiscal policy is the policy of the

- a) Government
- b) Central Bank
- c) Both govt. and central bank
- d) None of these.

32. During the time of inflation, govt. should go for budget.

- a) Deficit
- b) Surplus
- c) Balanced
- d) Capital

33. Govt. started spending more on providing free education and health services to the poor people. Which economic value it reflect?

- a) Economic stability
- b) Economic growth
- c) Economic Equality
- d). None.

Read the following paragraph and answer the given questions from 34 to 37

In the wake of the financial crisis due to covid-19 and subsequent lockdown, the aggregate fiscal deficit of states is expected to increase to 4.5% of GDP in year 2021, says India Rating and Research.

The agency had earlier estimated the fiscal deficit to be 3% of GDP this fiscal year. According to the agency, the fallout of the coronavirus crisis would be severe on the Indian economy. The extended lockdown would worsen the economic downturns as the agency's estimate pegs the nominal GDP growth at 0.9% for the year 2021 compared to 6.8% in year 2020.

34. Which of the following sources of receipt in govt. budget increases its liabilities?

- a) Direct taxes
- b) Borrowings
- c) Recovery of loans
- d) Dividend from public sector undertakings.

35. Which of the following is not a measure to reduce fiscal deficit?

- a) Reduction in taxes
- b) Disinvestment
- c) Reduction in subsidies
- d) Deficit financing.

36. Increased fiscal deficit may lead to in the economy.

- a) Deflation
- b) Inflation
- c) Economic Growth
- d) Reduction in foreign debt.

37. Primary deficit equals:

- a) Borrowings
- b) Borrowings less interest payments
- c) Interest payments
- d) Both borrowings and interest payments.

38. In a govt. budget primary deficit is Rs. 10000 crore and interest payment Rs. 8000 crore . How much is the fiscal deficit?

- a) Rs. 2000
- b) Rs. 18000
- c) Rs. 1500
- d) Rs. 1800

Read the following paragraph and answer the given questions from 38 to 40

In the modern world, govt. aims at maximizing the welfare of the people and the country. It requires various infrastructure and economic welfare activities. These activities require huge govt.

spending through appropriate planning and policy. Budget provides a solution to all these concerns. Budget is prepared by the government at all levels.

Estimated expenditure and receipts are planned as per the objectives of the government. In India, budget is prepared by the parliament on such a day as the president may direct. The parliament approves the budget before it can be implemented. The receipts and expenditures as shown in the budget are only the estimated values for the upcoming fiscal year, and not the actual figure.

39. Which of the following is not an objective of the govt. budget?

- a) Reallocation of resources.
- b) Re distribution of income
- c) Reducing expenditure
- d) Economic stability.

40. Govt. budget is a statement of actual receipts and payments of the govt. (True/False)

- a) True
- b) False

ANSWERS

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22
a	d	d	c	b	a	a	b	d	a	b	c	c	c	d	b	b	b	d	b	b	a

23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40
b	c	a	c	c	d	b	a	a	b	c	c	a	b	b	b	c	b

UNIT-III

Balance of Payments

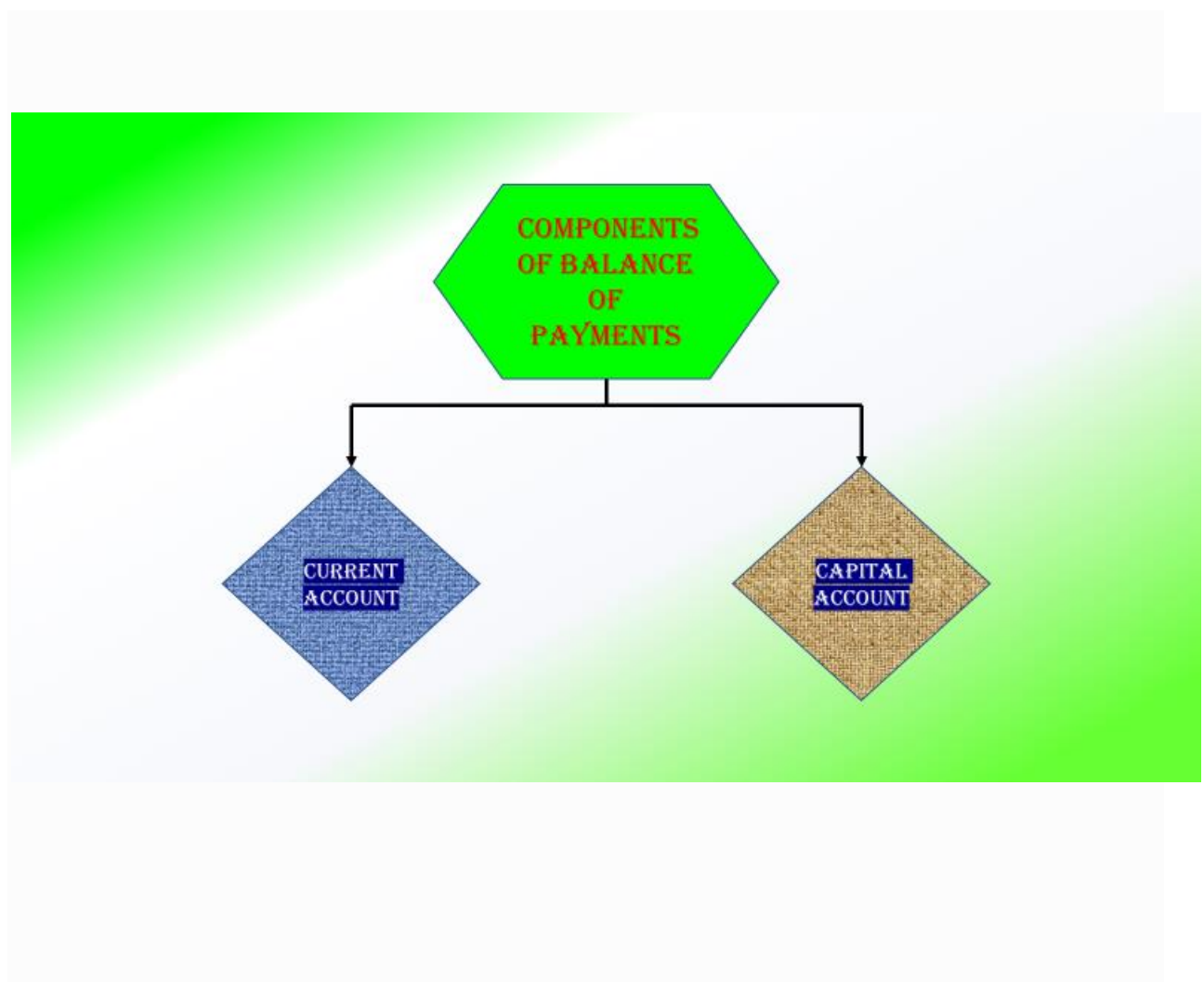
The balance of payment is a comprehensive and systematic records of all economic transaction between normal residents of a country and rest of the world during an accounting year.

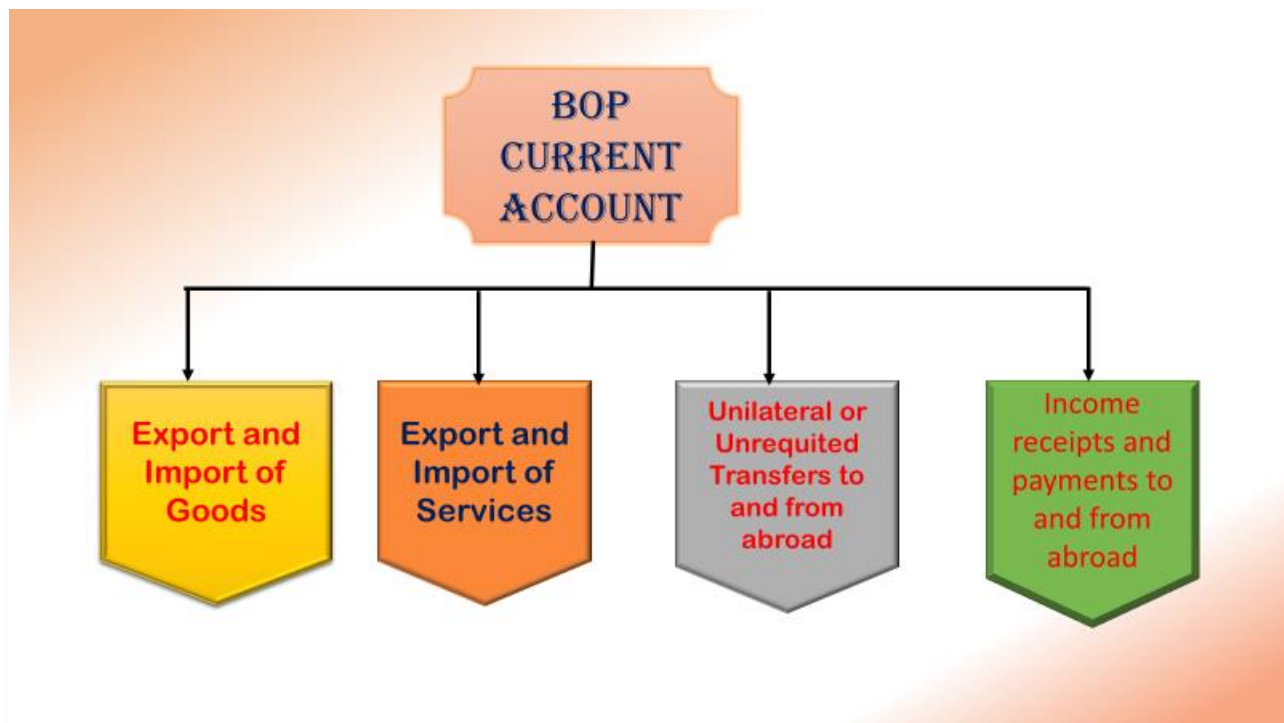
Accounts of Balance of Payments:

1. **Current Account:** The current account records export and import of goods and services and unilateral transfers.
2. **Capital Account:** It records of all such transactions between normal residents of a country and rest of the world which relates to sale and purchase of foreign assets and liabilities during an accounting year.

Components of Current Account	Components of Capital Account
1. Visible items (import and export of goods).	1. Foreign Direct investment.
2. Invisible items (import and export of services).	2. Loans.
3. Unilateral transfers.	3. Portfolio investment.
4. Income receipts and payments from and to abroad.	4. Banking capital transactions.
5. These are the transactions which do not affect the assets or liabilities position of the country.	5. These are the transactions which affect assets or liabilities position of the country.
6. It is a flow concept.	6. It is a stock concept.

- ❖ **Balance of trade** is the net difference of Import and export of all visible items between the normal residents of a country and rest of the world.
- ❖ **Autonomous items** are those items of balance of payment which is related to such transaction as are determined by the motive of profit maximization and not to maintain equilibrium in balance of payments. These items are recorded as a first items before calculating deficit or surplus in balance of payment a/c.
- ❖ These items are generally called 'Above the Line items' in balance of payment.
- ❖ **Accommodating item** refers to transactions that take place because of other activity in Balance of Payment. These transactions are meant to restore the Balance of Payment identity. These items are generally called 'Below the Line items'.
- ❖ **Deficit of Bop Account:** When total inflows of foreign exchange on account of autonomous transactions are less than total outflows on account such transaction then there is a deficit in Bop.





Foreign Exchange

Foreign exchange rate refers to the rate at which one unit of currency of a country can be exchanged for the number of units of currency of another country. In simple words, we can say that the price of one currency in terms of other currency is known as foreign exchange rate or exchange rate.

SYSTEM OF EXCHANGE RATE:

1. Fixed exchange rate
2. Flexible exchange rate.

In fixed exchange rate system, the rate of exchange is officially fixed or determined by Government or Monetary Authority of the country.

Merits of Fixed Exchange Rate

- Stability in exchange rate
- Promotes capital movement and international trade.
- No scope for speculation
- It forces the govt. to keep inflation in check.
- Attracts foreign capital.

Demerits of Fixed Exchange Rate

- Need to hold foreign exchange reserves.
- No automatic adjustment in the 'Balance of payments.'
- It may result in undervaluation or overvaluation of currency.

- It discourages the objective of having free markets.

In a system of **flexible exchange rate** (also known as floating exchange rates), the exchange rate is determined by the forces of market demand and supply of foreign exchange.

The **demand of foreign exchange** have the inverse relation with flexible exchange rate. If flexible exchange rate rise the demand of foreign exchange falls. Vice versa.

Sources of Demand for Foreign Exchange

- To purchase goods and services from the rest of world.
- To purchase financial assets (i.e., to invest in bonds and equity shares) in a foreign country.
- To invest directly in shops, factories, buildings in foreign countries.
- To send gifts and grants to abroad.
- To speculate on the value of foreign currency.
- To undertake foreign tours.

The **supply of foreign exchange** have the positive relation with foreign exchange rate. If foreign exchange rate rises the supply of foreign exchange also rises and vice versa.

Sources of Supply of Foreign Exchange

- Direct purchase by foreigners in domestic market.
- Direct investment by foreigners in domestic market.
- Remittances by non-residents living abroad.
- Flow of foreign exchange due to speculative purchases by N.R.I.
- Exports of goods and services.
- Foreign direct investment as well as portfolio investment from rest of the world.

Merits of Flexible Exchange Rate

- No need to hold foreign exchange reserves
- Leads to automatic adjustment in the 'balance of payments'.
- To enhances efficiency in resources allocation.
- To remove obstacles in the transfer of capital and trade.
- It eliminates the problem of undervaluation or overvaluation of currency.
- It promotes venture capital in the form of foreign exchange.

Demerits of Flexible Exchange Rate

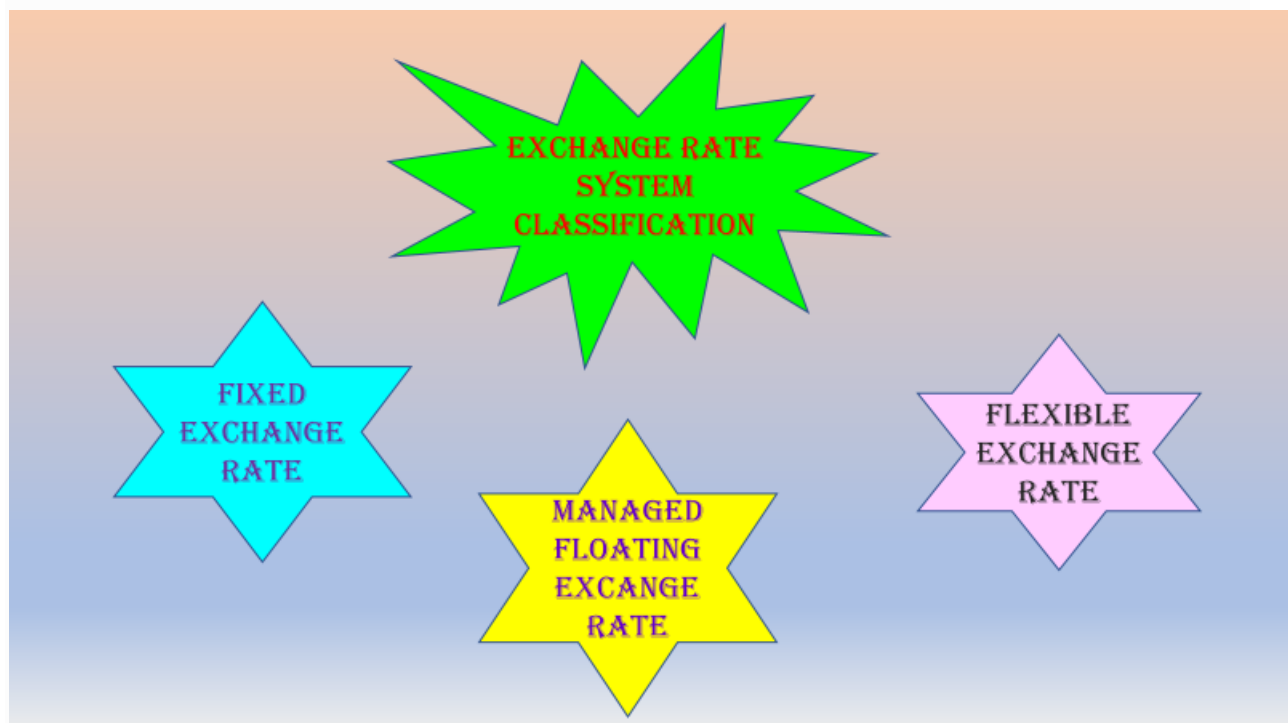
- Fluctuations in future exchange rate.
- Encourages speculation.
- Discourages international trade and investment.
- It creates a situation of market instability.

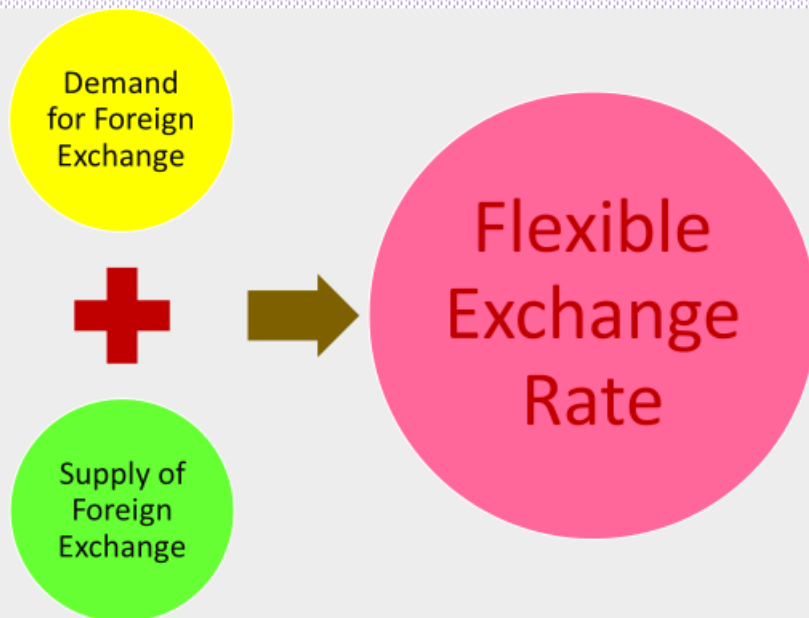
Determination of Equilibrium Foreign Exchange Rate:

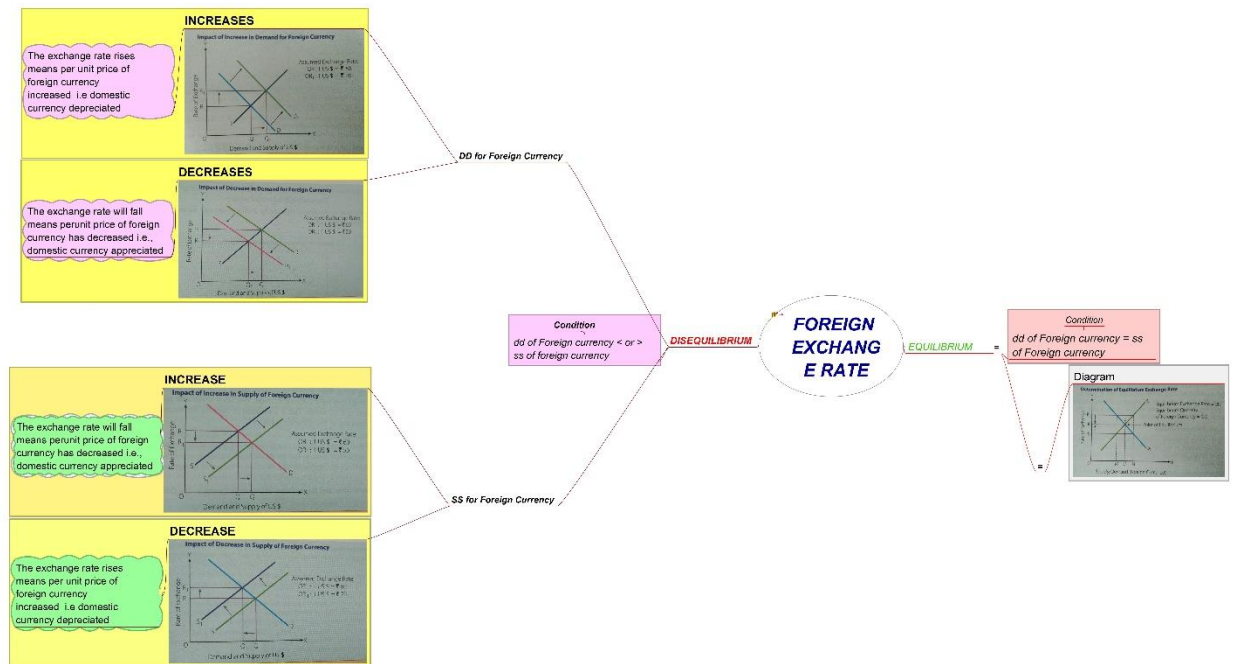
- Equilibrium FER is the rate at which demand for and supply of foreign exchange is equal.
- Under free market situation, it is determined by market forces i.e., demand for and supply of foreign exchange.
- There is inverse relation between demand for foreign exchange and exchange rate.
- There is direct relationship b/w supply of foreign exchange and exchange rate.

- Due to above reasons demand curve downward sloping and supply curve is upward sloping curve Graphically intersection of demand Curve and supply curve determines the equilibrium foreign exchange rate.

- ❖ **Devaluation of a currency:** When government or monetary authority of a country officially lowers the external value of its domestic currency (in respect of all other foreign currency) is called devaluation of a currency. It takes place by government order under fixed exchange rate system.
- ❖ **Revaluation of a currency:** When government or monetary authority of a country officially raises the external value of its domestic currency is called revaluation. It takes place by government order under fixed exchange rates system.
- ❖ **In currency depreciation** there is a fall in the value of domestic currency, in term of foreign currency due to change in demand and supply of the currency under flexible exchange rate system.
- ❖ **In currency appreciation,** there is a rise in the value of domestic currency in terms of foreign currency due to change in demand and supply of the currency under flexible exchange rate system.
- ❖ **Managed floating system** is a system in which the central bank allows the exchange rate to be determined by market forces but intervenes at times to influence the rate. When central bank finds the rate is too high, it starts selling foreign exchange from its reserve to bring down it. When it finds the rate is too low. It starts buying to raise the rate.







1. From the following which is not included in "Residents" in Balance of Payments transactions? *

- a) Firms
- b) Foreign Military Personnel
- c) Government agencies
- d) Individuals
- e) None of these

Q2. An accounting statement that provides a systematic record of all the economic transactions, between residents of a country and the rest of the world is *

- a) Balance of trade
- b) Government Budget
- c) International Budget
- d) Balance of Payments
- e) All of these

Q3. Balance of Payments is a concept. *

- a) Flow
- b) Stock
- c) Vibrant
- d) Narrow
- e) None of these

Q4. Inflow of foreign exchange is recorded on the side. *

- a) Credit
- b) Debit
- c) Either option 1 or option 2
- d) Neither option 1 nor option 2

Q5. When receipts of foreign exchange are more than payments of foreign exchange, Balance of Payments is *

- a) Balanced
- b) Surplus
- c) Deficit
- d) All of these
- e) None of these

Q6. Balance on 'Balance of Trade' can be *

- a) Surplus

- b) Balanced
- c) Deficit
- d) Either option 1 or option 2 or option 3
- e) None of these

Q7. Which of the following is a component of 'Balance of Payment' ? *

- a) Current Account
- b) Capital Account
- c) Nominal Account
- d) Real Account
- e) Both the options 1 and 2

Q8. Export and import of goods is also known as *

- a) Invisible Trade
- b) Visible Trade
- c) One-sided transactions
- d) Unrequited transfers
- e) None of these

Q9. refers to the difference between exports and imports of visible items. *

- a) points
- b) Balance of Payments
- c) Balance of Trade
- d) Both the options 1 and 2
- e) Neither option 1 nor option 2

Q10. transactions are undertaken to cover the deficit or surplus in autonomous transactions. *

- a) Current Account
- b) Capital Account
- c) Accommodating
- d) All of these
- e) None of these

Q11. is the difference between value of goods sold to the rest of the world and value of goods imported from rest of the world. *

- a) Balance of payment
- b) Balance of trade
- c) Balance of current account
- d) Balance of capital account
- e) All of these

Q12. Gifts and remittances to abroad are recorded on the *

- a) Credit side of Current Account
- b) Debit side of Current Account
- c) Credit side of Capital Account
- d) Debit side of Capital Account
- e) None of these

Q13. Export of machinery is recorded on the *

- a) Debit side of Current Account
- b) Credit side of Current Account
- c) Credit side of Capital Account
- d) Debit side of Capital Account
- e) All of these

Q14. Surplus in Balance of Payment arises when *

- a) Autonomous Payments > Autonomous Receipts
- b) Accommodating Receipts > Accommodating Payments
- c) Accommodating Payments > Accommodating Receipts
- d) Autonomous Receipts > Autonomous Payments
- e) None of these

Q15. 'Import of Machinery' is recorded in the Account and 'Borrowings from abroad' is recorded in the account. *

- a) Current , Capital
- b) Capital , Current
- c) Capital , Capital
- d) Current , Current
- e) None of these

Q16. Foreign exchange transactions dependent on other foreign exchange transactions are called *

- a) Current Account Transactions
- b) Capital Account Transactions
- c) Autonomous Transactions
- d) Accommodating Transactions
- e) All of these

Q17. Foreign exchange transactions which are independent of other transactions in the Balance of Payments Account are called *

- a) Current Transactions
- b) Capital Transactions
- c) Autonomous Transactions

- d) Accommodating Transactions
- e) None of these

Q18. Balance of Payments 'deficit' is the excess of *

- a) Current account payments over current account receipts
- b) Capital account payments over capital account receipts
- c) Autonomous payments over autonomous receipts
- d) Accommodating payments over a accommodating receipts
- e) None of these

Q19. A company located in India receives a loan from a company located abroad. How is this transaction recorded in India's balance of payments account ? *

- a) Credit side of current account
- b) Debit side of current account
- c) Credit side of capital account
- d) Debit side of capital account
- e) All of these

Q20. An Indian company located in India invests in a company located abroad. This transaction is entered in India's Balance of payments account on *

- a) Credit side of current account
- b) Debit side of current account
- c) Credit side of capital account
- d) Debit side of capital account
- e) None of these

Q21. 'Unilateral transfers made to abroad will be recorded as a debit item of Balance of Payment on current account'. Is this statement 'true' or 'false' ? *

- a) True
- b) False

Q22. How much is the value of imports when balance of trade is Rs. (-) 400 crores and the value of exports is Rs.300 crores. *

- a) Rs. 700 crores
- b) (-) Rs.100 crores
- c) (+) Rs. 100 crores
- d) (-) Rs. 700 crores
- e) None of these

Q23. Which of the followings are components of capital account in Balance of Payment account ? *

- a) Private Transactions
- b) Official Transactions
- c) Banking Capital
- d) Foreign Direct Investment
- e) Portfolio Investment
- f) All of these
- g) None of these

Q24. account of a country refers to an account which records exports and imports of goods and services and unilateral transfers during a given period of time. *

- a) Financial
- b) Reasonable
- c) Current
- d) Capital
- e) None of these

Q25. 'Foreign Investments' are recorded in the capital account of Balance of Payments. Is this statement 'true' or 'false' ? *

- a) True
- b) False

Q26. "Unilateral transfers" are also known as *

- a) Bilateral transfers
- b) One-way transfers
- c) Unrequited transfers
- d) Options 2 and 3 both

Q27. "Autonomous transactions take place on *

- a) Real account
- b) Capital account
- c) Current account
- d) Options 2 and 3 both

Q28. "Balance of trade" is also known as *

- a) Balance of visible trade
- b) Balance of payments
- c) Trade balance
- d) Both options 1 and 3

Q29. Balance of is narrow concept as compared to balance of payments. *

- a) Budget
- b) Deficit
- c) Trade
- d) All of these

Q30. In current account, when value of credit items are more than debt items, it indicates net of foreign exchange. *

- a) Asset
- b) Liability
- c) Inflow
- d) Outflow

Q31. For equilibrium in balance of payments , sum total of account and account should be zero. *

- a) Final , Intermediate
- b) Current , Capital
- c) Moderate , Flexible
- d) All of these

Q32. Withdrawal from reserve is recorded in account on side. *

- a) official , reserve
- b) capital , positive or credit
- c) introductory , debit
- d) None of these

Q33. All transactions in the BOP can be grouped into two main accounts: Account andAccount. *

- a) current , capital
- b) budget , final
- c) customary , non-customary
- d) None of these

Q34. If a country exports more goods than what it imports, then the balance of trade is said to be in *

- a) Balance
- b) Deficit
- c) Surplus
- d) None of these

Q35. Those transactions which are undertaken to cover the deficit or surplus in balance of payments are called *

- a) Accomodating items
- b) Other items
- c) Financial assets
- d) All of these

Q36. "In balance of payments, repayment of loans by Indian government to Japanese Government will be reflected as credit item." True or False *

- a) True
- b) False

Q37. "Foreign exchange received on account of export of jute will be recorded in capital account". True or False *

- a) True
- b) False

Q38. " Borrowings and lendings to and from abroad" is to recorded in of BOP. *

- a) Current account
- b) Capital account
- c) Official account
- d) None of these

Q39. "Remittances to relative staying abroad " is to be recorded in of current account of BOP. *

- a) Credit side
- b) Debit side
- c) Neutral side
- d) None of these

Q40. "Purchase of Land in England "- this transaction will be recorded in of BOP . *

- a) Capital account
- b) Current account
- c) Business account
- d) None of these

Q41. "Interest on loan received from Nepal" is recorded on the of the current account as it brings in funds to the country. *

- a) debit side
- b) credit side
- c) accomodation side
- d) none of these

Q42. Where will sale of machinery to abroad be recorded in balance of payment accounts ? *

- a) Credit side of current account
- b) Debit side of current account
- c) Credit side of capital account
- d) Debiit side of capital account

Q43. Indians lending abroad is recorded in of Balance of Payments ? *

- a) Capital account
- b) Current account
- c) Fiscal account
- d) Trade account

Q44. "Borrowing by government from World Bank to finance the BOP deficit will be recorded in the capital account." True or False *

- a) True
- b) False

Q45. "Profits received from investments abroad is recorded in capital account." True or False *

- a) True
- b) False

Q46. Other things remaining the same , when in a country the market price of foreign currency rises, national income is likely *

- a) to rise
- b) to fall
- c) to rise or to fall
- d) to remain unaffected

Q47. "Under flexible exchange rate system, each country fixes its value of currency in terms of some external standard". True or False *

- a) True
- b) False

Q48. Which exchange rate is officially declared by the government ? *

- a) Managed floating rate
- b) Floating exchange rate
- c) Fixed exchange rate
- d) None of these

Q49. Unilateral transfers are a part of *

- a) Capital account
- b) Current account
- c) Balance of trade account
- d) Balance of payment account and current account

Q50. Foreign exchange transactions dependent on other foreign exchange transactions are called *

- a) Current account transactions
- b) Capital account transactions
- c) Autonomous transactions
- d) Accommodating transactions

Q51. always balance in accounting sense. *

- a) Foreign Exchange
- b) Balance of payments
- c) Balance of trade
- d) None of these

Q52. Supply of foreign exchange is positively related to the price of foreign exchange. (True/False) *

- a) True
- b) False

Q53. If balance of trade is showing a deficit of Rs.10,000 and value of exports is Rs.15,000, then the value of imports will be Rs.25,000. (True/False) *

- a) True
- b) False

Q54. A country's balance of trade is Rs. 100 crores and value of export of goods is Rs. 175 crores. Find out value of import of goods. *

- a) Rs. 125 Crores
- b) Rs. 100 Crores
- c) Rs. 75 Crores
- d) Rs. 150 Crores

Q55. A country's balance of trade is Rs.(-)60 crores and value of import of goods is Rs. 100 crores. Find out value of export of goods. *

- a) Rs. 40 Crores
- b) Rs. 80 Crores
- c) Rs. 160 Crores
- d) Rs. 120 Crores

Q56. Ten US dollars are exchanged for five hundred Indian rupees. What is the exchange for Indian currency ? *

- a) 1 \$ = Rs. 50
- b) 1 \$ = Rs. 500
- c) 1 \$ = Rs. 100
- d) 1 \$ = Rs. 10

Q57. The transactions carried by monetary authority of a country, which cause changes in official reserves, are termed as *

- a) Government Transactions
- b) Official Reserve Transactions
- c) Adjustable Reserve Transactions
- d) None of these

Q58. includes net receipt obtain from the sale of share in public sector undertakings. *

- a) Disinvestment
- b) Foreign loan
- c) Grants
- d) All of these

Q59. Current account is a part of balance of trade. (True/False) *

- a) True
- b) False

Q60. Accommodating items of trade are undertaken in order to maintain the balance in the BOP account. (True/False) *

- a) True
- b) False

Q61. Balance of payments is a concept. *

- a) Flow

- b) Stock
- c) Systematic
- d) Balance

Q62. Excess of foreign exchange receipts over foreign exchange payments on account of accommodating transactions equals deficit in the balance of payments. (True/False) *

- a) True
- b) False

Q63. Investments by large multinational corporations (MNCs) in India will ensure greater inflow of foreign exchange , leading to an increase in the *

- a) Supply of foreign currency
- b) Supply of domestic currency
- c) Demand for foreign currency
- d) Demand for domestic currency

Q64. Depreciation of domestic currency leads to rise in exports. (True/False) *

- a) True
- b) False

Q65. Flexible exchange is determined by *

- a) Private party
- b) Government
- c) Foreign exchange market
- d) None of these

ANSWER KEY

1. b	11.b	21.a	31.b	41.b	51.b	61.a
2. d	12. b	22.a	32.b	42.a	52.a	62.b
3. a	13.b	23.f	33.a	43.a	53.a	63.a
4. a	14.d	24.c	34.c	44.a	54.c	64.a
5. b	15.a	25.a	35.a	45.b	55.a	65.c
6. d	16.d	26.d	36.b	46.b	56.a	

7. e	17.c	27.d	37.b	47.b	57.b	
8. b	18.c	28.d	38.b	48.c	58.a	
9. c	19.c	29.c	39.b	49.d	59.b	
10. c	20.d	30.c	40.a	50.d	60.a	

Assertion Reasoning Type questions

1	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <ul style="list-style-type: none"> a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A) c) Assertion (A) is True but Reason (R) is False d) Assertion (A) is False but Reason (R) is True <p>Assertion(A): increased lending abroad is recorded on the debit side of the capital account</p> <p>Reason (R): Lending effects the assets and liabilities of the economy And involves the outflow of income</p>
2	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <ul style="list-style-type: none"> a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A) c) Assertion (A) is True but Reason (R) is False d) Assertion (A) is False but Reason (R) is True <p>Assertion(A): Purchase of second hand machinery from abroad is not recorded in balance of payment</p> <p>Reason (R): Sale and purchase of secondhand goods from abroad are not included in the estimation of national income</p>
3	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <ul style="list-style-type: none"> a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A) c) Assertion (A) is True but Reason (R) is False d) Assertion (A) is False but Reason (R) is True

	<p>Assertion(A): All transactions recorded in balance of payment are autonomous transactions</p> <p>Reason (R): autonomous transactions are recorded in both current and capital account of BOP</p>
4	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <ul style="list-style-type: none"> a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A) c) Assertion (A) is True but Reason (R) is False d) Assertion (A) is False but Reason (R) is True <p>Assertion (A): Accommodating transactions are undertaken to make equilibrium in BOP account</p> <p>Reason (R): accommodating items are also called above the line items</p>
5	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <ul style="list-style-type: none"> a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A) c) Assertion (A) is True but Reason (R) is False d) Assertion (A) is False but Reason (R) is True <p>Assertion(A): Balance of payments is the accounting record of all economic transactions only</p> <p>Reason (R): surplus of balance of payments is an indicator of outflows over inflows of foreign trade</p>
6	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <ul style="list-style-type: none"> a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A) c) Assertion (A) is True but Reason (R) is False d) Assertion (A) is False but Reason (R) is True

	<p>Assertion(A): Purchase of machinery from rest of the world is an economic transaction of capital account of BOP</p> <p>Reason (R): any transaction that impacts the assets or liabilities of a country are recorded on current account of BOP</p>
7	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <ol style="list-style-type: none"> Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A) Assertion (A) is True but Reason (R) is False Assertion (A) is False but Reason (R) is True <p>Assertion(A): A country always tries to balance the BOP i.e; balance in the current account equals to balance in capital account</p> <p>Reason (R): Balanced BOP indicates stable economic relation with the rest of the world</p>
8	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <ol style="list-style-type: none"> Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A) Assertion (A) is True but Reason (R) is False Assertion (A) is False but Reason (R) is True <p>Assertion(A): Capital of balance of payment is non recurring in nature</p> <p>Reason (R): capital transfers affects the assets and liabilities of a country</p>
9	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <ol style="list-style-type: none"> Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A) Assertion (A) is True but Reason (R) is False Assertion (A) is False but Reason (R) is True

	<p>Assertion(A):import of machinery is reflected in the current account of the balance of payments</p> <p>Reason (R): export and import of goods and invisibles are recorded in the current account of balance of payments</p>
10	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <ul style="list-style-type: none"> a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A) c) Assertion (A) is True but Reason (R) is False d) Assertion (A) is False but Reason (R) is True <p>Assertion(A):The level of aggregated demand tends to rise</p> <p>Reason (R): exports are more than imports</p>
11	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <ul style="list-style-type: none"> a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A) c) Assertion (A) is True but Reason (R) is False d) Assertion (A) is False but Reason (R) is True <p>Assertion(A): Autonomous items cost movements of goods and services across the borders</p> <p>Reason (R): Accommodating items costs to clear the deficit or surplus in the balance of payments</p>
12	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <ul style="list-style-type: none"> a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A) c) Assertion (A) is True but Reason (R) is False

	<p>d) Assertion (A) is False but Reason (R) is True</p> <p>Assertion(A): Current account is a part of balance of trade</p> <p>Reason (R): Current account records exports and imports of goods and services and transfer payments</p>
13	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <p>a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A)</p> <p>b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A)</p> <p>c) Assertion (A) is True but Reason (R) is False</p> <p>d) Assertion (A) is False but Reason (R) is True</p> <p>Assertion(A): Balance of trade includes only merchandise transactions</p> <p>Reason (R): Unfavorable balance of payments can be met out of favorable balance of trade</p>
14	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <p>a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A)</p> <p>b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A)</p> <p>c) Assertion (A) is True but Reason (R) is False</p> <p>d) Assertion (A) is False but Reason (R) is True</p> <p>Assertion(A): Current account surplus indicates net outflow of foreign exchange</p> <p>Reason (R): Current account surplus arises when the value of exports of goods and services is more than the value of imports of goods and services</p>
15	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <p>a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A)</p> <p>b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A)</p>

	<p>c) Assertion (A) is True but Reason (R) is False d) Assertion (A) is False but Reason (R) is True</p> <p>Assertion(A): Autonomous transactions are independent of the state of BOP account</p> <p>Reason (R): Autonomous items are also known as above the line items</p>
16	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <p>a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A) c) Assertion (A) is True but Reason (R) is False d) Assertion (A) is False but Reason (R) is True</p> <p>Assertion(A): Current account transactions bring a change in the current level of a country's income</p> <p>Reason (R): Current account includes all items expressing changes in stock</p>
17	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <p>a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A) c) Assertion (A) is True but Reason (R) is False d) Assertion (A) is False but Reason (R) is True</p> <p>Assertion(A): A country always tries to balance the BOP i.e; balance in current account equals to balance in the capital account</p> <p>Reason (R): Balanced BOP indicates stable economic relations with rest of the world</p>
18	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <p>a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A)</p>

	<p>b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A)</p> <p>c) Assertion (A) is True but Reason (R) is False</p> <p>d) Assertion (A) is False but Reason (R) is True</p> <p>Assertion(A): Rent received by an Indian real estate company from Google in New York would be recorded on credit side of capital account</p> <p>Reason (R) : Capital account of BOP records all those transactions between residents of a country and the rest of the world which causes a change in the assets or liabilities of the residents of the country or its government</p>
19	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <p>a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A)</p> <p>b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A)</p> <p>c) Assertion (A) is True but Reason (R) is False</p> <p>d) Assertion (A) is False but Reason (R) is True</p> <p>Assertion(A): If an Indian buys a UK car company, it enters in capital account as a debit item</p> <p>Reason (R) : Sales of assets like sale of shares of an Indian company to a Chinese customer is a credit item in the capital account</p>
20	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <p>a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A)</p> <p>b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A)</p> <p>c) Assertion (A) is True but Reason (R) is False</p> <p>d) Assertion (A) is False but Reason (R) is True</p> <p>Assertion(A): Computer hardware will be included in visible exports</p> <p>Reason (R) : Services are included in invisible exports</p>
21	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <p>a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A)</p>

	<p>b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A)</p> <p>c) Assertion (A) is True but Reason (R) is False</p> <p>d) Assertion (A) is False but Reason (R) is True</p> <p>Assertion(A): Balance of payment account is always balance</p> <p>Reason (R): Autonomous transactions restore balance in balance of payments account</p>
22	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <p>a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A)</p> <p>b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A)</p> <p>c) Assertion (A) is True but Reason (R) is False</p> <p>d) Assertion (A) is False but Reason (R) is True</p> <p>Assertion(A): Purchase of machinery from Germany will be recorded on the debit Side of balance of payment</p> <p>Reason (R): Any transaction that causes a country to lose foreign exchange is recorded on the debit side and thus given a negative sign</p>
23	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <p>a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A)</p> <p>b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A)</p> <p>c) Assertion (A) is True but Reason (R) is False</p> <p>d) Assertion (A) is False but Reason (R) is True</p> <p>Assertion(A): Current account transactions bring a change in the capital stock of country</p> <p>Reason (R): Make in India will increase the inflow of foreign exchange</p>
24	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p>

	<p>a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A)</p> <p>b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A)</p> <p>c) Assertion (A) is True but Reason (R) is False</p> <p>d) Assertion (A) is False but Reason (R) is True</p> <p>Assertion(A): The export of sugar is recorded in the capital account</p> <p>Reason (R): “Atmanirbhar Bharat” will decrease the inflow of foreign exchange</p>
25	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <p>a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A)</p> <p>b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A)</p> <p>c) Assertion (A) is True but Reason (R) is False</p> <p>d) Assertion (A) is False but Reason (R) is True</p> <p>Assertion(A): India's current account balance recorded a surplus of 19.8 billion U.S. dollars (3.9% of GDP) in Q1 of 2021</p> <p>Reason (R): Third has been a steeper decline in merchandise imports relative to exports in the past few years</p>
26	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <p>a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A)</p> <p>b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A)</p> <p>c) Assertion (A) is True but Reason (R) is False</p> <p>d) Assertion (A) is False but Reason (R) is True</p> <p>Assertion(A): Appreciation of domestic currency means a rise in the price of the domestic currency</p> <p>Reason (R): Appreciation leads to an increase in exports</p>
27	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <p>a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A)</p>

	<p>b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A)</p> <p>c) Assertion (A) is True but Reason (R) is False</p> <p>d) Assertion (A) is False but Reason (R) is True</p> <p>Assertion(A): In case of the floating exchange rate system the currency price of a nation is set by the forex market based on supply and demand relative to other currencies</p> <p>Reason (R) : Government intervenes in the foreign exchange market under Floating Exchange Rate System to restrict the fluctuations in the exchange rate with certain limits</p>
28	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <p>a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A)</p> <p>b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A)</p> <p>c) Assertion (A) is True but Reason (R) is False</p> <p>d) Assertion (A) is False but Reason (R) is True</p> <p>Assertion(A): Make in India, The campaign initiated by the government leads to a rise in the foreign exchange rate</p> <p>Reason (R) : Inflow of foreign exchange improves the trade deficits of the country</p>
29	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <p>a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A)</p> <p>b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A)</p> <p>c) Assertion (A) is True but Reason (R) is False</p> <p>d) Assertion (A) is False but Reason (R) is True</p> <p>Assertion(A): Other things being equal , an increase in demand for foreign exchange leads to up valuation of foreign currency</p> <p>Reason (R) : increase in demand for foreign exchange shows a shortage of foreign currency in the Indian reserve</p>
30	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p>

	<p>a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A)</p> <p>b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A)</p> <p>c) Assertion (A) is True but Reason (R) is False</p> <p>d) Assertion (A) is False but Reason (R) is True</p> <p>Assertion(A): Managed the floating rate system is a hybrid of a fixed exchange rate and a flexible exchange rate system</p> <p>Reason (R): Central bank maintains reserves of foreign exchange under managed floating rate system to ensure that the exchange rate stays within the targeted value</p>
31	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <p>a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A)</p> <p>b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A)</p> <p>c) Assertion (A) is True but Reason (R) is False</p> <p>d) Assertion (A) is False but Reason (R) is True</p> <p>Assertion(A): Fixed exchange rate system is more stable as compared to floating exchange rate</p> <p>Reason (R): free play of demand and supply of foreign exchange brings ambiguity in the system</p>
32	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <p>a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A)</p> <p>b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A)</p> <p>c) Assertion (A) is True but Reason (R) is False</p> <p>d) Assertion (A) is False but Reason (R) is True</p> <p>Assertion(A): buying foreign goods is an expenditure from our country and it becomes the income of that foreign country</p> <p>Reason (R): the parties are foreign goods or import decreases the domestic demand for goods and services in our country</p>

33	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <ul style="list-style-type: none"> a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A) c) Assertion (A) is True but Reason (R) is False d) Assertion (A) is False but Reason (R) is True <p>Assertion(A):both devaluation and depreciation of currency encourages the exports of a country</p> <p>Reason (R): depreciation of currency takes place due to government, while devaluation takes place due to market forces of demand and supply</p>
34	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <ul style="list-style-type: none"> a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A) c) Assertion (A) is True but Reason (R) is False d) Assertion (A) is False but Reason (R) is True <p>Assertion(A): managed a floating exchange rate system is a hybrid system the exchange rate used by most of the countries in recent times</p> <p>Reason (R): excessive fluctuation in the exchange rate system is checked by the central authority under dirty floating exchange rate</p>
35	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <ul style="list-style-type: none"> a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A) c) Assertion (A) is True but Reason (R) is False d) Assertion (A) is False but Reason (R) is True <p>Assertion(A): forward market refers to a market in which transactions are settled on a future date at a rate agreed upon today</p> <p>Reason (R): such transactions are entered into gained by the changes in the foreign exchange rate</p>

36	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <ul style="list-style-type: none"> a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A) c) Assertion (A) is True but Reason (R) is False d) Assertion (A) is False but Reason (R) is True <p>Assertion(A): Import of goods and services reflects demand of foreign currency</p> <p>Reason (R): import of goods and services shows inflow of foreign exchange</p>
37	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <ul style="list-style-type: none"> a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A) c) Assertion (A) is True but Reason (R) is False d) Assertion (A) is False but Reason (R) is True <p>Assertion(A): the demand curve of foreign currency is negatively sloped</p> <p>Reason (R): if the price of foreign currency increases , it becomes costlier for the home country</p>
38	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <ul style="list-style-type: none"> a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A) c) Assertion (A) is True but Reason (R) is False d) Assertion (A) is False but Reason (R) is True <p>Assertion(A): fixed exchange rate system is also known as floating exchange rate system</p> <p>Reason (R): In fixed exchange rate system, currency of home country is tied with some external standard like gold etc</p>

39	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <ul style="list-style-type: none"> a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A) c) Assertion (A) is True but Reason (R) is False d) Assertion (A) is False but Reason (R) is True <p>Assertion(A): Depreciation of domestic currency leads to a rise in exports to foreign currencies</p> <p>Reason (R): due to the depreciation of the domestic currency, more goods can be purchased from India with the same amount of foreign currency</p>
40	<p>Read the following statements Assertion (A) and the Reason (R). Choose one of the correct alternatives given below :</p> <ul style="list-style-type: none"> a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) b) Both Assertion (A) and Reason(R) are True and the Reason(R) is Not the correct explanation of Assertion (A) c) Assertion (A) is True but Reason (R) is False d) Assertion (A) is False but Reason (R) is True <p>Assertion(A): Demand for foreign exchange and exchange rate moves in the same direction</p> <p>Reason (R): when the exchange rate rises, domestic goods become cheaper in the international market</p>

CASE STUDY QUESTIONS

1. a	11. b	21.c	31. a
2. d	12. d	22. a	32. a
3. d	13. c	23. d	33. c
4. c	14. d	24. d	34. a
5. d	15. b	25. a	35. a
6. a	16. c	26. c	36. c
7. a	17. a	27. c	37. a
8. b	18. d	28. c	38. d
9. a	19. b	29. d	39. a
10. a	20. b	30. b	40. a

Q1. Read the following paragraph and answer the questions given below on the basis of the same :

Venezuelan President Nicolas Maduro carried out one of the greatest currency devaluations in history over the weekend – a 95% plunge that will rest the capacity of an already beleaguered Population to stomach even more pain.

The official rate for the currency we'll go from about 285 , 000 per dollar to 6 million, a shock that officials tried to partly offset by raising the minimum wage 3, 500 per cent to the equivalent just \$30 a month. While my Maduro boasted in Friday night's announcement that the International Monetary Fund wasn't involved in the policies , aspects of the moves bore a resemblance to a Classic orthodox economic adjustment albeit with Some confusing twists.

----- The Economic Times , August 20, 2018

1	As a result of devaluation : (a) exports from Venezuela will be increase (b) imports in Venezuela will be increase (c) exports from Venezuela will decrease (d) both (b) and (c)
2	Devaluation leads to : (a) increasing supply of foreign currency in the international money market (b) increase in supply of domestic currency in the international market (c) increase in demand of foreign currency in the international market (d) both (b) & (c)
3	Devaluation of currency is possible in : (a) managed to floating (b) fixed exchange rate regime (c) flexible exchange rate regime (d) both (a) and (b)
4	A substantial decrease in foreign reserves often leads to : (a) appreciation of foreign currency (b) depreciation of foreign currency (c) devaluation of domestic currency (d) devaluation of foreign currency
5	Which of the systems are covered under fixed exchange rate system ? (a) gold standard system (b) adjustable peg system (c) managed system (d) both (a) and (b)

Q2. Read the following paragraph and answer the questions given below on the basis of the same :

It is well known that the choice between fixed and flexible exchange rates often involves the question of exchange restrictions because countries are limited in their ability to maintain free international transactions, fixed exchange rates and monetary independence at the same time. in

recent history, the fixed exchange rate system has often been accompanied by exchange rate restrictions of one type or another, indicating the desire of many countries to maintain monetary independence or possibly to maintain in appropriate levels of exchange rates, given some policy objectives . until recently, for example , some countries participating in the European monetary system maintained controls on capital transactions . in addition to restrictions on capital transactions, many countries under fixed exchange rates have used, and some continue to use, exchange restrictions on current transactions .

----- IMF working paper , 1997

1	<p>An old variant of fixed exchange rate :</p> <ul style="list-style-type: none"> a) Bretton Woods system b) Gold standard system of exchange rate c) Mint System of exchange rate d) Adjustable peg system of exchange rate
2	<p>Gold value of a currency is called :</p> <ul style="list-style-type: none"> a) Mint parity b) Gold value rate c) exchange rate d) reserve value
3	<p>Under fixed exchange rate system , common unit of parity between currencies of different countries was :</p> <ul style="list-style-type: none"> a) gold b) silver c) dollar d) Pond
4	<p>Adjustment of parity value was possible only if allowed by :</p> <ul style="list-style-type: none"> a) World Bank b) International Monetary Fund c) World Trade Organization d) European central

Q3.

India's balance of payments position improved dramatically in 2013-14 particularly in the last three quarters . this moved in large part to measure taken by the government and the Reserve Bank of India (RBI) and eat some part to the overall macro economic slowdown that fed into the external sector . current account deficit (CAD) declined sharply from a record high of U.S. dollar 88.2 billion (4.7% of GDP) in 2012 -1/3 to U.S. dollars 32.4 billion (1.7% of GDP) in 2013 -14. after staying at perilously unsustainable levels off well over 4.0 percentage of GDP in 2011 -12 and 2012 -13, the improvement in BOP position is a welcome relief , and there is need to sustain the position going forward . This is because even as CAD came down , net capital flows moderated sharply from U.S. dollars 92.0 billion in 2012 -13 do U.S. dollar 47.9 billion In 2013-14, that two after a special swap window of The RBI under the non resident Indian (NRI) scheme / overseas borrowings of banks alone yielded U.S. dollar 3 4.0 billion . This led to some increase in the level of external debt, but it has remained at the manageable levels . the large depreciation of the rupee during the course of the year, note with standing sizable accretion to reserve in 2013 – 14, could partly be attributed to frictional forces and partly to the role of expectations in the forex market . the rupiah has stabilized the recently, reflecting an overall sense of confidence in the forex market as in the other financial markets of a change for better economic prospects there is a need to nurture and build upon this optimism through creation of an enabling environment for investment inflows so as to sustain the external position in an as yet uncertain global milieu .

----- The Hindu , archives

1	External debt is recorded at : a) credit, capital account b) debit, capital account c) credit, current account d) debit, current account
2	Money sent by NRI to their families in India included in : a) credit, capital account b) debit, capital account c) credit, current account d) debit, current account
3	Which of the following is not a component of BOP ? a) current account b) revenue account c) capital account d) official reserves

4	<p>Positive balance of net capital flow shows :</p> <ul style="list-style-type: none"> a) outward flow of foreign exchange b) inward flow of foreign exchange c) decrease in the level of external debt d) decrease in future claims
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ANSWER KEY

Q1	1.a	2.d	3.b	4.a	5.d
Q 2	1. b	2. b	3. c	4. c	
Q 3	1. b	2. c	3. b	4. b	

PART B INDIAN ECONOMIC DEVELOPMENT

CHAPTER 1: INDIAN ECONOMY ON THE EVE OF INDEPENDENCE

Key points

INTRODUCTION

- An understanding of the economy before independence is necessary to know and appreciate the level of development achieved during the post-independence period
- India had an independent economy before the advent of the British rule.
- Agriculture was the main source of livelihood.
- India was well-known for its handicraft industries.
- Economic policies of the colonial government brought about a fundamental change in the structure of the Indian economy.
- Transformed the country into supplier of raw materials and consumer of finished industrial products from Britain.
- Dadabhai Naoroji was the first to discuss the concept of poverty line in pre-independent India.
- V.K.R.V. Rao's estimates during the colonial period was considered very significant.
- Aggregate real output during the first half of the twentieth century was less than two per cent.
- Growth in per capita output per year was half per cent.

AGRICULTURAL SECTOR

- India's economy under the British colonial rule remained fundamentally agrarian.
- 85 per cent of the country's population depended on agriculture.
- Agricultural sector experience stagnation and deterioration.
- Agricultural productivity became low mainly because of the various systems of land settlement.
- Low levels of technology, lack of irrigation facilities and negligible use of fertilisers contributed to the dismal level of agricultural productivity.
- Investment made in agricultural sector was very low.

INDUSTRIAL SECTOR

- India could not develop a sound industrial base under the colonial rule.
- De-industrialisation or decline of handicraft industries.
- Lack of capital goods industry
- Limited operation by public sector.
- The establishment of a few manufacturing units was no substitute to displacement of the country's traditional handicraft industries.
- The growth rate of the new industrial sector and its contribution to the Gross Domestic Product (GDP) remained very small.

FOREIGN TRADE

- India has been an important trading nation since ancient times.
- Restrictive policies of commodity production, trade and tariff pursued by the colonial government adversely affected the structure, composition and volume of India's foreign trade.
- India became an exporter of primary products and importer of finished consumer goods.
- Britain maintained a monopoly control over India's exports and imports.
- The opening of the Suez Canal further intensified British control over India's foreign trade.
- India's foreign trade generated a large export surplus, which was used to make payments for the expenses incurred by an office set up by the colonial government in Britain, expenses on war, and the import of invisible items.

DEMOGRAPHIC CONDITION

- In India, the first official census was conducted in 1881.
- The second stage of demographic transition began after 1921.
- The overall literacy level was less than 16 per cent.
- Female literacy level was at a negligible low of about 7 percent.
- The overall mortality rate was very high (about 218/1000) and in that the infant mortality rate was quite alarming about (40/1000)
- Life expectancy was also very low—44 years in contrast to the present 68 years.

OCCUPATIONAL STRUCTURE

- The agricultural sector accounted for the largest share of workforce (70-75 percent, followed by service sector (15-20 percent) and manufacturing sector (10 percent).
- Another striking aspect was the growing regional variation.
- Present-day states of Tamil Nadu, Andhra Pradesh, Kerala and Karnataka, Bombay and Bengal witnessed a decline in the dependence of the workforce on the agricultural sector.
- States such as Orissa, Rajasthan and Punjab showed increase in the share of workforce in agriculture.

INFRASTRUCTURE

- Basic infrastructure such as railways, ports, water transport, posts and telegraphs developed during British regime to sub serve various colonial interests.
- The British introduced the railways in India in 1850.
- The introduction of the expensive system of electric telegraph in India, similarly, served the purpose of maintaining law and order.

CONCLUSION

The impact of the two-century long British colonial rule can be summarized as follows.

- The agricultural sector was already saddled with surplus labour and extremely low productivity.

- The industrial sector lacked modernisation, diversification, capacity building and needed levels of public investment.
- Foreign trade was oriented to feed the Industrial Revolution in Britain.
- Infrastructure facilities needed upgradation, expansion and public orientation.
- Prevalence of rampant poverty and unemployment.

MULTIPLE CHOICE QUESTIONS

1. The first census in India was conducted in
 - a) **1881**
 - b) 1882
 - c) 1883
 - d) 1884
2. _____ was the first to discuss the concept of poverty line in pre-independent India
 - a) **Dadabhai Naoroji**
 - b) VKRV Rao
 - c) R C Desai
 - d) All of them
3. During the British period, Indian Economy was:
 - a) semi-feudal Economy
 - b) Disintegrated Economy
 - c) Colonial Economy
 - d) **All the above**
4. Find out the correctly matched pair from the following

COLUMN I	COLUMN II
a) Introduction of Railways	
b) Introduction of Post & Telegraph	
c) Setting up of TISCO	
d) Second stage of Demographic Transition	

- a) a-1
 - b) b-ii
 - c) **c-iii**
 - d) d-iv
5. During colonial period, India had a _____ balance of trade
 - a) **Surplus**
 - b) Deficit

- c) Balanced
 - d) Zero
6. Which of the following is not a reason for India's agricultural stagnation during the colonial period?
- a) Introduction of Land Revenue system
 - b) Lack of Investment
 - c) Lack of manpower resources**
 - d) No technological upgradation
7. Find out the incorrect statement from the following
- a) During the second half of the nineteenth century, modern industry began to take root in India
 - b) Under the colonial regime, there was no development in basic infrastructure.**
 - c) Indian economy grew at even less than two percent during 1900-50
 - d) The commercialisation of Indian agriculture led to shortage of food grains in India)
8. There had been an increase in the share of workforce in agriculture in _____ whereas it showed a decline in _____.
- a) Punjab & Rajasthan
 - b) Kerala and Karnataka
 - c) Orissa & Tamil Nādu**
 - d) None of the above
9. What was the motive behind the de-industrialization by the colonial Govt. in India?
- a) To get raw material from India at cheap rate
 - b) To sell British manufactured goods in Indian market at high-rate prices
 - c) Both of above**
 - d) None of above
10. Which of the following industry is capable of further promoting industrialization in an economy?
- a) Consumer goods industry
 - b) Chemical industry
 - c) Agro-based industries
 - d) Capital goods industry**
11. During colonial period India's demographic profile showed:
- a) High birth rate**
 - b) Low infant mortality rate
 - c) Low death rate
 - d) High literacy rate
12. On the eve of independence, the growth rate of per capita income was less than _____ and that of real output was less than _____.
- a) 2% & 0.5%
 - b) 0.5% & 1%
 - c) 0.5% & 2%**

- d) 1% & 0.5%
13. The higher yield of cash crops in certain areas of the country during the British Rule was due to _____.
- a) **Commercialisation of agriculture**
 - b) Use of modern technology in production
 - c) Fertile soil and favourable climatic condition
 - d) All the above
14. _____ began to take root in India during the second half of the nineteenth century, but its progress remained very slow.
- a) Colonial rule
 - b) Deindustrialization
 - c) **Modern industry**
 - d) Green Revolution
15. A significant drawback of the new industrial sector in British India was the negligible presence of _____.
- a) Modernisation
 - b) Consumer goods industry
 - c) **Public sector**
 - d) Private sector
16. In British India _____ was confined to railways, ports, power generation and communications.
- a) Production
 - b) Industrialisation
 - c) **Public sector**
 - d) Tariffs
17. _____ pursued by colonial Government adversely affected the structure, composition and volume of India's foreign trade.
- a) Restrictive trade policy
 - b) De-industrialization
 - c) Policy of tariffs
 - d) **Both a & c**
18. Identify the incorrect statement from the following
- a) Indian economy under the British colonial rule remained fundamentally agrarian.
 - b) A small section of the farmers in India during the British Rule changed their crop pattern from food crops to commercial crops.
 - c) **Opening of the Suez Canal reduced the British control over India's foreign trade.**
 - d) The export surplus generated by Colonial India did not result in any flow of gold or silver into India.

19. According to the 1881 census, the overall literacy level was _____ percent and female illiteracy was _____ percent.
- a) **16 & 7**
 - b) 10 & 2
 - c) 15 & 3
 - d) None of the above
20. India became a/an _____ economy to the British.
- a) agrarian
 - b) Independent
 - c) **Feeder**
 - d) Market
21. Which of the following was not a feature of foreign trade in India under the colonial rule.
- a) India's foreign trade generated a large export surplus.
 - b) India became a major exporter of primary products like raw silk, cotton, wool and indigo.
 - c) **The export surplus resulted in the flow of gold and silver into India.**
 - d) More than half of India's foreign trade was restricted to Britain.
22. Which of the following is incorrect with respect to industrial sector in India under the colonial rule.
- a) India could not develop a sound industrial base under the colonial rule.
 - b) During the second half of the nineteenth century, modern industry began to take root in India.
 - c) There was hardly any capital goods industry to help promote further industrialisation.
 - d) **New industrial sector and its contribution to the Gross Domestic Product (GDP) showed a significant increase during colonial rule.**
23. Which of the following was not a feature of agriculture sector in India under the colonial rule.
- a) There was a relatively higher yield of cash crops in certain areas of the country due to commercialisation of agriculture.
 - b) India's economy under the British colonial rule remained fundamentally agrarian.
 - c) **British government provided incentives in the form of higher prices for cash crops to undertake commercialisation of agriculture.**
 - d) Neither the Zamindars nor the colonial government did anything to improve the condition of agriculture.

24. Which of the following is incorrect with respect to foreign trade in India under the colonial rule.

- a) Britain maintained a monopoly control over India's exports and imports.
- b) Britain was the only trading partner of India.**
- c) India imported capital good like light machinery produced in the factories of Britain.
- d) India became an exporter of primary products.

25 Prior to the establishment of British rule in India which of the following was/were true for the Indian economy

- a) India had an independent economy and flourishing markets
- b) the livelihood of Indian people was mainly based on agriculture
- c) Indian handicrafts textile industries and metallic work enjoyed a worldwide market
- d) all of the above.**

26. The year 1853 was an important year in the history of India. This was due to which of the following reasons?

- a) The introduction of Road Transport
- b) The introduction of Railways**
- c) The introduction of Inland water transport
- d) The introduction of Post & Telegraph.

27. Which of the following books was written by Dadabhai Naoroji?

- a) Poverty and British rule in India
- b) Poverty and the Un-British rule in India**
- c) Drain of wealth and poverty in India
- d) None of the above

28. Identify the industry which was under the public sector during British rule

- a) Cotton textiles
- b) Jute
- c) Power generation**
- d) Iron & Steel

29. Which of the following statement(s) is/are true regarding infrastructural development during

British rule in India

- a) The British government constructed all-weather roads to reach out the rural areas.
- b) The roads that were built primarily served the purposes of mobilising the army.
- c) The introduction of the railways in India by the British is considered as one of their most important contributions.
- d) Both b & c are correct**

30. Find out the correctly matched pair from the following

COLUMN I	COLUMN II
a) Cotton	i) Telangana
b) Muslin	ii) Bengal
c) Jute	iii) Jamshedpur
d) TISCO	iv) Gujarat

a) a – i

b) b- ii

c) c- iii

d) d-iv

31. Occupational structure refers to_____

a) size of labour force in a country

b) number of people living in a country

c) distribution of workforce among different sectors of an economy

d) nature of different occupations

32. Who among the following made significant contribution in estimating National Income during the colonial period?

a) Dadabhai Naoroji

b) William Digby

c) V.K.R.V.Rao

d) R.C.Desai

33. The economic policies followed by the colonial government in India transformed India as a supplier of _____

a) Finished goods

b) Raw materials

c) Capital good

d) Both a & c

34. Suez Canal was opened for transport in the year____

a) 1805

b) 1853

c) 1850

d) 1869

35. What was the life expectancy at birth in India on the eve of Independence?

- a) **44 years**
- b) 50 years
- c) 60 years
- d) None of these

ASSERTION & REASONING TYPE

Read the following statements - Assertion (A) and Reason (R) and choose the correct one from the given alternatives.

1. **ASSERTION (A):** Agricultural productivity became low during British rule in India.

REASON (R): The productivity was low due to various systems of land settlement introduced by the colonial government.

Alternatives:

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

Correct answer option (a)

2. **ASSERTION (A):** The British undertook significant infrastructure development in India.

REASON (R): Development of infrastructure served various colonial purposes.

Alternatives:

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

Correct answer option (a)

3. **ASSERTION (A):** The colonial government never made any sincere attempt to estimate India's national and per capita income.

REASON (R): growth of aggregate real output during the first half of the twentieth century was less than two per cent.

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

Correct answer option (b)

4. ASSERTION (A): A significant drawback of the new industrial sector was the very limited area of operation of the public sector.

REASON (R): There was hardly any capital goods industry to help promote further industrialization in India.

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

Correct answer option (b)

5. ASSERTION (A): Britain maintained a monopoly control over India's exports and imports.

REASON (R): India had no other trading partners during British rule.

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

Correct answer option (c)

6. ASSERTION (A): The year 1921 is described as the year of Great Divide.

REASON (R): It was in 1921 that India entered first stage of Demographic transition

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

Correct answer option (c)

7. ASSERTION (A): The British introduced the railways in India in 1850 and it is considered as one of their important contributions

REASON (R): Commercialisation of Indian agriculture adversely affected the self-sufficiency of the village economies in India.

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

Correct answer option (b)

8. **ASSERTION (A):** The economic conditions of farmers improved a lot during British rule.

REASON (R): A large section of the farmers in India during the British Rule changed the

crop pattern from food crops to commercial crops.

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

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

c) Assertion (A) is true but Reason (R) is false.

d) Assertion (A) is false but Reason (R) is true.

Correct answer option (d)

9. **ASSERTION (A):** India was an export deficit country during British rule.

REASON(R): More than half of India's foreign trade was restricted to Britain.

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

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

c) Assertion (A) is true but Reason (R) is false.

d) Assertion (A) is false but Reason (R) is true.

Correct answer option (d)

10. **ASSERTION (A):** Under British rule, rural areas became inaccessible at times of natural calamities and famines

REASON (R): There always remained an acute shortage of all-weather roads to reach out to the rural areas

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

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

c) Assertion (A) is true but Reason (R) is false.

d) Assertion (A) is false but Reason (R) is true.

Correct answer option (a)

11. **ASSERTION (A):** The main purpose of British Rule in India was for the development of British economy

REASON (R): Indian economy was its feeder economy.

- a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
 - b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
 - c) Assertion (A) is true but Reason (R) is false.
 - d) Assertion (A) is false but Reason (R) is true.
- Correct answer option (a)

12. **ASSERTION (A):** The year 1921 is described as the year of Great Divide.

REASON (R): It was in 1921 that India entered second stage of Demographic transition.

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

Correct answer option (a)

13. **ASSERTION (A):** Export surplus generated by India resulted in inflow of gold & silver

REASON (R): Export surplus came at a huge cost to the country's economy.

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

Correct answer option (d)

14. **ASSERTION (A):** Opening of the Palk Strait strengthened the British stranglehold on

India's foreign trade.

REASON (R): The British trade route after 1869 was much shorter and transport cost much lesser which was in favor for the British.

- a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

- b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).**
- c) Assertion (A) is true but Reason (R) is false.**
- d) Assertion (A) is false but Reason (R) is true.**

Correct answer option (d)

15. ASSERTION (A): Water and air-borne diseases were rampant and took a huge toll on life.

REASON (R): Public health facilities were either unavailable or were highly inadequate.

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

Correct answer option (a)

CASE STUDY

I. Read the below given passage and answer the questions that follows

During the colonial period, the occupational structure of India showed little sign of change. The agricultural sector accounted for the largest share of workforce, which usually remained at a high of 70-75 per cent while the manufacturing and the services sectors accounted for only 10 and 15-20 per cent respectively. Another striking aspect was the growing regional variation. Parts of the then Madras Presidency (comprising areas of the present-day states of Tamil Nadu, Andhra Pradesh, Kerala and Karnataka), Bombay and Bengal witnessed a decline in the dependence of the workforce on the agricultural sector with a commensurate increase in the manufacturing and the services sectors. However, there had been an increase in the share of workforce in agriculture during the same time in states such as Orissa, Rajasthan and Punjab.

1. What is meant by occupational structure?

- a) Distribution of working persons across different industries.
- b) Distribution of working persons across different sectors
- c) Both**
- d) None

2. _____ sector contributes major share of workforce in India during the colonial period.

- a) Primary**
- b) Secondary
- c) Tertiary

- d) None
- 3. Which of the following state(s) recorded a/an increased dependence towards agricultural sector?
 - a) **Orissa**
 - b) Kerala
 - c) Bombay & Bengal presidency
 - d) All the above
- 4. In the state of Tamil Nadu share of workforce in _____ sector declined and that of _____ increased
 - a) Industry & Agriculture
 - b) Industry & Service
 - c) Service & Agriculture
 - d) **Agriculture & Industry**

II. Read the below given passage and answer the questions that follow.

There was hardly any capital goods industry to help promote further industrialisation in India. Capital goods industry means industries which can produce machine tools which are, in turn, used for producing articles for current consumption. The establishment of a few manufacturing units here and there was no substitute to the near wholesale displacement of the country's traditional handicraft industries. Furthermore, the growth rate of the new industrial sector and its contribution to the Gross Domestic Product (GDP) remained very small. Another significant drawback of the new industrial sector was the very limited area of operation of the public sector. This sector remained confined only to the railways, power generation, communications, ports and some other departmental undertakings.

- 1. Which of the following industries is capable of further promoting industrialization in an economy?
 - a) Consumer goods industry
 - b) Chemical industry
 - c) Agro-based industries
 - d) **Capital goods industry**
- 2. Which of the following industries is most affected by the deindustrialization policy of British?
 - a) Capital goods industry
 - b) **Traditional handicraft industry**
 - c) Consumer goods industry
 - d) public sector industry

3. Which of the following is incorrect regarding industrial sector during colonial period?

- a) A few manufacturing units were established
- b) The contribution of industrial sector to GDP was very small
- c) Growth rate of the new industrial sector was low
- d) The operation of public sector was on an extensive scale.**

4. Which of the following was not confined to public sector.

- a) Railways
- b) Iron & Steel industry**
- c) Power generation
- d) Communications & ports

Chapter 2

INDIAN ECONOMIC DEVELOPMENT 1950-1990

IMPORTANT POINTS: -

- Economic Planning: -It is a process under which a central authority defines a set of targets to be achieved within a specified period of time.
- Plan: a plan lays down how the limited resources of an economy should be put to use to achieve precise objectives within a specified period of time.
- In 1950, the Planning Commission was set up with the Prime Minister as its Chairperson.
- Economy: - a system which provides means to work and livelihood is called economy.

Types of economy

- Capitalist Economy: It is an economic system in which major economic decisions are taken through market forces.

- Socialist economy is an economy in which all the decision are taken by the government.
- Mixed economy is an economic system in which the decisions are taken by government and as well as private sector.

The goals of five-year plans are

- **Economic growth** implies a consistent increase in GDP or a consistent increase in the level of output or a consistent increase in the flow of goods and services in the economy over a long period of time.
- **Modernisation** to increase the production of goods and services with the adoption of new technology.
- **Self-reliance:** It means avoiding imports of those goods which could be produced in India itself. This policy was considered a necessity to reduce our dependence on foreign countries, especially for food.
- **Equity** It implies equitable distribution of income so that the benefits of growth are shared by all sections of the society.

Importance of Agriculture in the Indian Economy

- Contribution to GDP
- Supply of wage goods
- Employment
- Industrial raw material
- Contribution to international trade
- Contribution to domestic trade
- Wealth of the nation

Problems of Indian Agriculture

- Lack of permanent means of irrigation
- Deficiency of finance
- Conventional outlook
- Small and scattered holding
- Lack of organised marketing system.

Reforms in Indian Agriculture

- **Technical Reforms:** It refers to a spurt in farm output during mid 60's . Measures introduced as part of green revolution are :-

- Use of HYV seeds
- Use of chemical fertilisers
- Scientific farm management practices
- Mechanised means of cultivation
- Land Reforms
 - Abolition of intermediaries
 - Regulation of rent
 - Consolidation of holding
 - Ceiling on land holding
 - Co-operative farming

Green Revolution

This refers to the large increase in production of food grains resulting from the use of high yielding variety (HYV) seeds especially for wheat and rice along with the use of fertilizer and pesticide in the correct quantities as well as regular supply of water.

Gains of Green Revolution

- Spurt in crop productivity
- Substantial rise in acreage (area under cultivation)
- Shift from subsistence farming to commercial farming
- Change in farmer's outlook
- Self-Sufficiency in food grain production and buffer stocks.

limitations of Green Revolution

- increase in income disparities
- increase in regional disparities
- effective only on wheat and rice
- over utilisation of chemical in agriculture

Marketable Surplus: -It refers to surplus of farmer's output over and above his own farm consumption.

Importance of Industrial Sector

- Structural transformation
- Source of employment
- Source of mechanised means of farming
- Imparts dynamism to growth process
- Growth of civilisation
- Infrastructural growth

Features of Industrial policy Resolution of 1956

It was an official declaration on the leading role of the government in the process of industrialization. Private sector was assigned only a secondary role in the process of industrialization. Industries in the private sector could be established only through a licence from the government.

- New classification of Industries: Industries were classified into three schedule depending upon role of state.

- (a) Schedule-A- 17 industries listed in schedule-A whose future development would be the responsibility of state.

- (b) Schedule-B- 12 industries were included in Schedule-B, Private sector could supplement the efforts of the Public Sector, with the state taking sole responsibility for starting new units.

- (c) Schedule-C - other residual industries were left open to private sector.

- SMALL SCALE INDUSTRY (SSI): -A small-scale industry is presently defined as the one whose investment does not exceed Rs. 5 crores.

- CHARACTERISTICS OF SSI OR ROLE OF SMALL-SCALE INDUSTRIES

- Labour intensive-employment oriented
 - Self-employment.
 - Less capital intensive
 - Export promotion
 - Seed beds for large scale industries
 - Shows locational flexibility.

- PROBLEMS OF SMALL-SCALE INDUSTRIES

- Difficulty of finance
 - Shortage of raw material
 - Difficulty of marketing
 - Outdated machines & equipment
 - Competition from large scale industries.

Trade Policy: - It refers to the policy of “import substitution” and protection to the domestic industry through import restrictions and important duties. Contrary to it, outward looking trade strategy refers to the policy of “Export promotion” through competitive production environment in the domestic economy.

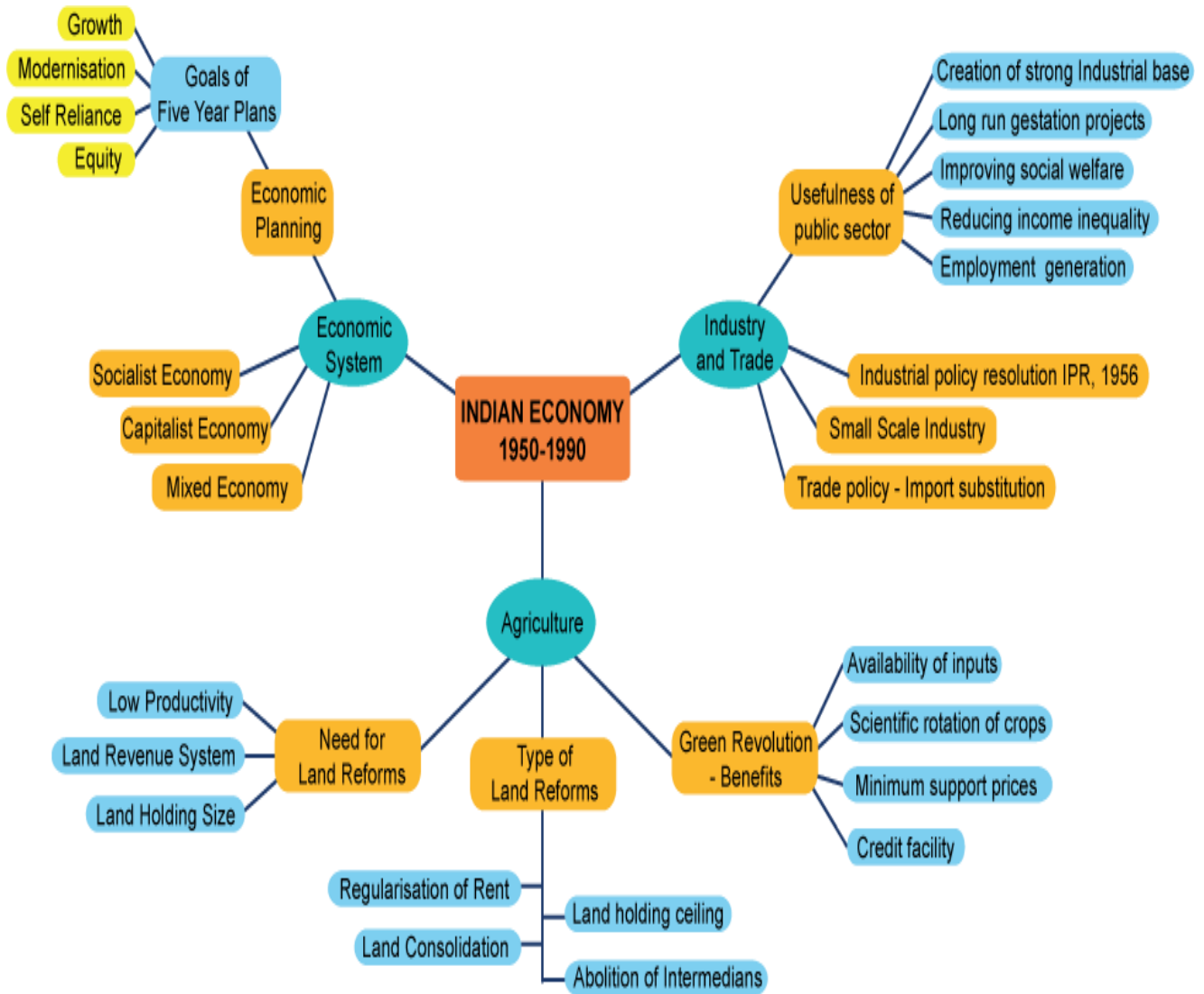
- Criticism of import substituting strategy

- It did not lead to growth.
- Lack of competition implied lack of modernisation.
- Growth of inefficient public monopolies.
- It did not lead to efficiency.

Salient Features of the Reforms during 1950-1990

- Public sector was to play a central role in the process of industrialisation.
- Private sector was to play a secondary role.
- Policy of import substitution
- Domestic industries were to be protected from foreign competition.
- SSI was to be developed to promote the objectives of employment and equity.

MIND MAP



CASE – BASED QUESTIONS

1. Read the following Case Study carefully and answer the questions

Subsidies are a created, administered device intended for use only until such a time the basic set-up of the programme of activity can take up its own protection through its required competitiveness. If it fails to happen there is no reason to protect it. The trend that the beneficiaries of subsidies expect them for every new programme and hope continuance of subsidies is noteworthy. Economists advocate that subsidies should be selective, limited and specially targeted for weaker sections only. Subsidies alter relative

prices and budget constraints and thereby affect decisions concerning production, consumption and allocation of resources. Like many other countries, subsidies in Indian economy are pervasive. These are explicit or hidden and include the areas such as education, health, environment and variety of economic activities including agriculture and transport.

-Study Agro-economic Research Centre ,MP,JUNE 2004

1. Agricultural subsidy is important because new technology is seen as..... (risky/favorable) by the farmers.
2. Which of the following is the limitation of subsidy?
 - a) It provides financial cushion to the farmers.
 - b) It leads to burden on government finances.
 - c) It increases the gulf between rich and poor farmers.
 - d) Both (a) and (c)
3. Green revolution was a success due to agricultural subsidies provided to farmers (True/False)
4. The benefits of subsidy are mostly reaped by.....farmers (prosperous/marginal)

Answers:

- 1. Risky**
- 2. b)**
- 3. True**
- 4. prosperous**

2. Read the following Case Study carefully and answer the questions

The green revolution for the third agricultural revolution is the set of research technology e-transfer initiatives earring between GNE E and the late 1960 that increased agricultural production worldwide beginning most markedly in the late 1960 the initiative resulted in the the adoption of of new technologies including high yield varieties of CSR rules of cells especially does wheat and rice it was associated with chemical fertilizers agrochemicals and controlled water supply and newer methods of cultivation including machine isolation

National bank for agriculture and rural development is and apex development finance institution fully owned by government of India the bank has been entrusted with Martyrs concerning policy planning and operations in the field of credit for agriculture and other economic activities in rural areas in India.

1. Who among the following is known as the father of green revolution
 - (a) MS swaminathan
 - (b) Dadabhai naoroji
 - (c) Vikram Sarabhai
 - (d) all of these
2. Green revolution is also known as
 - (a) Golden revolution
 - (b) milk revolution
 - (c) Wheat revolution
 - (d) None of this
3. Which of the following institutions were set up as the apex body in rural areas to support the small farmers in the adoption of modern farming methods?
 - (a) RRB
 - (b) SIDBI
 - (c) RBI
 - (d) NABARD
4. Green revolution was the set of agricultural reforms brought in India
 - (a) First
 - (b) Second
 - (c) Third
 - (d) fourth

Answers:

1. (a)
2. (c)
3. (d)
4. (c)

ASSERTION AND REASON BASED QUESTIONS

1. ASSERTION (A): This new Green Revolution is leading to foreign ownership over most of India's farmland, undermining farmers' interests.

REASON (R): New Green Revolution is driven by private (and foreign) interest, notably MNCs like Monsanto.

Alternatives:

- a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- c) Assertion (A) is true but Reason (R) is false.

d) Assertion (A) is false but Reason (R) is true.

Ans: (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

2. ASSERTION (A):

Growth and social justice are the central objective of Indian plans.

REASON (R):

India opted for planning to utilize available resources efficiently and to establish social justice.

Alternatives:

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

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

c) Assertion (A) is true but Reason (R) is false.

d) Assertion (A) is false but Reason (R) is true.

Ans: (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

3. ASSERTION (A):

Subsidies were, needed to encourage farmers.

REASON (R):

Any new technology is looked upon as being risky by farmers

Alternatives:

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

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

c) Assertion (A) is true but Reason (R) is false.

d) Assertion (A) is false but Reason (R) is true.

Ans: (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

4. ASSERTION (A): The industries became diversified compared to the situation at independence.

REASON (R): Excessive government regulation prevented their growth.

Alternatives:

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

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

c) Assertion (A) is true but Reason (R) is false.

d) Assertion (A) is false but Reason (R) is true.

Ans: (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

5. ASSERTION (A): The excessive regulation of what came to be called the permit license raj prevented certain firms from becoming more efficient.

REASON (R): More time was spent by industrialists in trying to obtain a license or lobby with the concerned ministries rather than on thinking about how to improve their products.

Alternatives:

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

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

c) Assertion (A) is true but Reason (R) is false.

d) Assertion (A) is false but Reason (R) is true.

Ans: (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

6. ASSERTION (A): Industries provide employment which is more stable than the employment in agriculture. It promotes modernisation and overall prosperity.

REASON (R): Economists have found that poor nations can progress only if they have a good industrial sector.

Alternatives:

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

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

c) Assertion (A) is true but Reason (R) is false.

d) Assertion (A) is false but Reason (R) is true.

Ans: (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

7. ASSERTION (A): The term modernisation indicates a variety of structural and institutional changes in the framework of economic activity.

REASON (R): Modernisation involve advancement of technology and institutional innovations as well as shift in sectoral composition of production and diversification of activities.

Alternatives:

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

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

c) Assertion (A) is true but Reason (R) is false.

d) Assertion (A) is false but Reason (R) is true.

Ans: (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

8. ASSERTION (A): Modernization includes adaptation of Technology and change in Social Outlook.

REASON (R): Modernization raises the standard of living of People.

Alternatives:

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

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

c) Assertion (A) is true but Reason (R) is false.

d) Assertion (A) is false but Reason (R) is true.

Ans: (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

ASSERTION (A): Economic planning rules out the free play of market forces.

REASON (R): It does not rule out free play of market forces rather it is dependent on model of economic planning.

Alternatives:

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

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

c) Assertion (A) is true but Reason (R) is false.

d) Assertion (A) is false but Reason (R) is true.

Ans: (d) Assertion (A) is false but Reason (R) is true.

Choose the correct alternative.

1. In which year was India's First Five Year Plan launched?

- (a) 1951
- (b) 1947
- (c) 1940
- (d) 1955

2. Which of the following bodies/institutions was engaged in the formulation of Five Year Plans in India?

- a) Planning commission

- b) National Development Council
- c) Finance Ministry
- d) Home Ministry

3. Which of the following is the main objective of carrying out various economic activities?

- a) Profit
- b) Public welfare**
- c) Competition
- d) Equality

4. What is needed to provide protection against natural calamities like floods, drought, locusts, thunderstorms, etc.?

- (a) Multiple cropping
- (b) Green revolution
- (c) Crop insurance**
- (d) HYV

5. Which of the following promoted the growth of the economy as a whole by stimulating the development of industrial and tertiary sectors?

- (a) Independence
- (b) Economic Planning**
- (c) Colonial rule
- (d) Green revolution

6. How many industries have been reserved for the public sector under Industrial Policy Resolution, 1956?

- (a) 17**
- (b) 21
- (c) 15
- (d) 2

7. In which of the following type of economy are resources owned privately and the main objective behind economic activities is profit-making?

- (a) Capitalist**
- (b) Socialist
- (c) Mixed
- (d) Global

8. When was NITI Aayog established?

- (a) 1991
- (b) 2001
- (c) 2011
- (d) 2015**

9. Who was the Chairperson of the Planning Commission of India?

- (a) President of India
- (b) Finance Minister of India
- (c) Prime minister of India**
- (d) Governor of RBI

10. In which year, Industrial Policy Resolution was adopted?

- (a) 1956**
- (b) 1950
- (c) 1965
- (d) 1953

11. Self-reliance means avoiding:

- (a) Exports
- (b) imports**
- (c) Both (a) and (b)
- (d) None of the above.

12. Which of the following factor led to the breaking up of stagnation in the agriculture sector?

- (a) Land reforms**
- (b) Green Revolution
- (c) Buffer stocks
- (d) Land ceiling.

13. When was the first five-year plan introduced?

- (a) 1st April, 1950
- (b) 1st April, 1951**
- (c) 1st April, 1952
- (d) 31st March, 1950

14. The common goals of the five year plans are

- (a) Modernisation
- (b) Growth
- (c) Self-reliance
- (d) All of the above.**

15 The share of agricultural sector in India's GDP has been:

- (a) **Declining**
- (b) Rising
- (c) Remain constant
- (d) None of the above

16. Which of the following is not a goal of perspective plans in India?

- (a) GDP Growth
- (b) Equity
- (c) **Land reforms**
- (d) Self-reliance

17.In which economy means of production are owned, controlled and operated by the Government?

- (a) Mixed Economy
- (b) **Socialist Economy**
- (c) Capitalist Economy
- (d) None of these

Answers:

1 (a)	2(a)	3(b)	4(c)	5(b)	6(a)	7(a)	8(d)	9(c)	10(a)
11(b)	12(a)	13(b)	14(d)	15(a)	16(c)	17(b)			

Chapter 3

ECONOMIC REFORMS SINCE 1991

IMPORTANT POINTS: -

Meaning: Economic reforms refer to a set of economic policies directed to accelerate the pace of 'growth and development' of Indian Economy

Economic reforms or structural adjustment is a long term multi-dimensional package of various policies (Liberalisation, privatisation, and globalisation) and programme for the speedy growth, efficiency in production and make a competitive environment. Economic reforms are adopted by Indian Govt. in 1991.

Factors responsible for Economic reforms.

- Fall in foreign exchange reserve.
- Adverse balance of payments
- Mounting fiscal deficit.
- Rise in prices
- Failure of public enterprises.
- Gulf crisis.

Stabilization measures: These are short run measures introduced by Govt. to control price rise, adverse balance of payment and fall in foreign exchange reserve.

Structural reform measures: These are long-run policies, the goal is to abolish controls, eliminate bureaucratic hurdles, and red tapism and make the decision-making process efficient and transparent. In the new economic policy 1991, Structural reforms can be seen with respect to:

1. Liberalisation. 2. Privatisation 3. Globalisation.

Liberalization: Liberalization means removing all unnecessary control and restriction like permits, licenses, quotas etc.

Liberalization measures:

- Industrial sector reforms
- Financial sector reforms.
- Fiscal reforms.
- Foreign exchange reforms
- Trade and Investment policy reforms

Privatisation: Privatisation is the general process of involving the private sector in the ownership or operation of state-owned enterprises.

Policies adopted for privatisation:

- Contraction of public sector.
- Abolish the ownership of Govt. in the management of public enterprises.
- Sale of shares of public enterprises. (disinvestment)

Globalization: Globalization may be defined as a process associated with increasing openness growing economic interdependence and deepening economic integration in the world economy.

Policy promoting globalization:

- Increase in equity limit of foreign investment.
- Partial convertibility.
- Long term trade policy.
- Reduction in tariff.

An Appraisal of LPG Policies: -

Positive Impact:

- Increase in foreign investment
- Increase in foreign exchange reserves
- A check of inflation.
- Increase in domestic product.
- Increase in exports.
- Consumer sovereignty.

Negative Impact.

- Neglect of agriculture
- Increase in competition for domestic industry.
- Increase in urbanisation.
- Disaffect of disinvestment policy.
- Spread of consumerism.

Foreign Direct Investment (FDI): Refers to investment by the foreigners by way of their business establishments in India. It implies ownership and control of business. Examples: Coke, Pepsi, Domino's, McDonald.

Foreign Institutional Investment (FII): Refers to investment in Indian companies (by way of purchasing their equity or shares) by the foreign banking and non-banking institutions. It does not involve any kind of direct control on the management of the Indian companies where investment is made. FII, unlike FDI, is simply an investment in the stock market in India by the foreign banking and non-banking institutions.

Tariff barriers mainly refer to barriers on imports through high import duty.

Non-tariff barriers generally refer to quota-barriers, implying quantitative restrictions on imports (or restrictions on the quantum of imports).

Bilateral trade agreements refer to trade agreements of one country with the other. Or, these are trade agreements between any two countries of the world.

Multilateral trade agreements refer to trade agreements of one country with many countries of the world. Or, these are trade agreements among many countries of the world.

Devaluation: - Devaluation implies lowering the value of our currency in relation to other currencies of the world.

Disinvestment: - Disinvestment is a policy instrument to promote privatisation.

It occurs when the government sells off its share capital of PSUs (public sector Undertakings) to the private investors.

GST (Goods and Services Tax) has been introduced in India with a view to providing a uniform tax structure across all parts of the country. It is a one tax in place of all taxes on goods and services, and it is a uniform tax across all states of the country. Thus, GST carries the slogan of 'one tax, one nation, one market'.

DEMONETISATION: -Demonetisation, introduced in 2016, is closely related to financial sector reforms. Let us understand its concept and consequences in the context of the Indian economy. Concept Demonetisation is a policy action of the government that withdraws the status of 'legal tender' from the existing currency. Once the status of 'legal tender' is withdrawn, the existing currency (or the currency notes) are reduced merely to pieces of paper. The demonetised notes were replaced by new currency notes of Rs.500 and Rs.2,000. Basic

Purpose: Demonetisation aims at curbing illegal transactions and anti-social activities (funded through illegal transactions).

Principal Merits:

- It helps unearth (find out) black money.
- Reduction of black money leads to shrinkage of shadow economy (an economy with unrecorded production activity and tax evasion)

Multiple Choice Questions

1. Economic reforms in India were initiated in the year:

- | | |
|---------|---------|
| A. 1990 | C. 1992 |
| B. 1991 | D. 1993 |

Ans: B

2. Which of the following is an element of financial sector of the economy?

- A. Banking and non-banking financial institutions
- B. Stock exchange market
- C. Foreign exchange market
- D. All of these

Ans: D

3. World Trade Organisation (WTO) has been established in _____

- | | |
|---------|---------|
| A. 1960 | C. 1963 |
| B. 1992 | D. 1995 |

Ans: D

4. _____ implies free interaction among all the countries in various fields like trade, technology, outsourcing etc.

- | | |
|------------------|------------------|
| A. Monopoly | C. Disinvestment |
| B. Privatisation | D. Globalisation |

Ans: D

5. Selling off part of the equity of PSU's is called _____.

- | | |
|------------------|------------------|
| A. Globalisation | C. Disinvestment |
| B. Privatisation | D. None of these |

Ans: C

6. _____ and _____ Currency notes of old Mahatma Gandhi series were banned as legal tender money on 8th Nov. 2016.

- A. Rs.50/ and Rs. 100/
- B. Rs.500/ and Rs. 1000/
- C. Rs.500/ and Rs. 2000/

D. Rs.500/ and Rs. 200/

Ans. B

7. Demonetisation does not target:

- A. Tax administration
- B. Cash less Economy
- C. Credit creation
- D. Encouragement to black money

Ans. D

8. Objectives of privatization policy are:

- A. To improve the government's financial position
- B. To improve the performance of an enterprise
- C. To reduce the burden on public administration.
- D. All the above.

Ans. D

9. Arrange the following tax structures adopted in India in the correct chronological order; (choose the correct arrangements)

- i. Goods and Services Tax
- ii. Sales Tax
- iii. Value Added Tax
- iv. Mod. Value Added Tax

Alternatives:

- A. I, ii, iii, iv
- B. ii, iii, iv, i
- C. iii, iv, ii, i
- D. iv, iii, ii, I,

Ans. B

10. Liberalisation of the economy under the New Economic Policy changed the role of RBI in the economy: (choose the correct alternative)

- A. From a 'regulator' to 'facilitator' of the financial sector
- B. From a 'controller' to 'manager' of the government debt
- C. Both (a) and (b)
- D. None of these

Ans. C

11. Read the following statements carefully and choose the correct alternative from the following:

Statement 1: Globalisation is an outcome of the set of various policies that are aimed at transforming the world towards greater interdependence and Integration.

Statement 2: Globalisation has benefitted the agriculture sector by increasing food grain production

Alternatives:

- A. Both the statements are true.
- B. Both the statements are false.

- C. Statement 1 is true and Statement 2 is false
- D. Statement 2 is true and Statement 1 is false

Ans. C

12. Which of the following committee recommended the introduction of GST in India:

- A. Kelkar Task Force
- B. C. Rangrajan Committee
- C. Both
- D. None of them

Ans. A

13. was the Indian Finance Minister in 1991, acknowledged for his capabilities to steer away the economic crisis looming large on the erstwhile Indian Economy. (Fill up the blanks with correct alternative)

- A. Dr. Subramanian Swamy
- B. Pranab Mukherjee .
- C. Dr. Manmohan Singh .
- D. Dr. Urjit Patel

Ans. C

14. In the context of Indian experience, controls were imposed by the government with a view to:

- A. Checking the growth of private monopolies
- B. Minimising the hold of large industrial houses on the financial resources of the country
- C. Both (a) and (b)
- D. None of these

Ans. C

15. The parameters of economic reforms undertaken in an economy are:

- A. Macroeconomic stabilisation
- B. Macroeconomic structural adjustments
- C. Both (a) and (b)
- D. None of these

Ans: C

16. The programme of economic reforms in India was started on

- A. 26 th July 1990
- B. 23th July 1992
- C. 21th July 1991
- D. 24th July 1991

Ans. D

17. General Agreement on Trade and Tariff (GATT) was the forum for International trade agreement between:

- A. 1980-1990
- B. 1943-1953
- C. 1947-1994
- D. 1948-1990

Ans. C

18. Which of the following refers to removing unnecessary controls and restrictions imposed by the Government?

- A. Liberalisation
- B. Privatisation
- C. Globalisation
- D. Modernisation

Ans: A

ASSERTION AND REASON BASED QUESTIONS

Read the following statements – Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

1. Assertion (A): India has become a best destination for global outsourcing in the post reform period.

Reason(R): Favorable Government policies such as various efforts like tax holidays, tax concessions, availability of cheap labour etc helped MNCs

Alternatives:

- A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- B. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
- C. Assertion (A) is true but Reason (R) is false.
- D. Assertion (A) is false but Reason (R) is true

Ans. A

2. Assertion (A): In 1991, India met with an economic crisis relating to its internal debt.

Reason (R): The origin of the financial crisis can be traced from the inefficient management of the Indian economy in the 1980s

Alternatives:

- A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- B. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- C. Assertion (A) is true but Reason (R) is false.
- D. Assertion (A) is false but Reason (R) is true

Ans. D

3.Assertion (A): The reform policies introduced in and after 1991 removed many industrial and licensing restrictions

Reason(R): Rules and laws which were aimed at regulating the economic activities became major hindrances in growth and development.

Alternatives:

- A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- B. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
- C. Assertion (A) is true but Reason (R) is false.
- D. Assertion (A) is false but Reason (R) is true
- E.

Ans A

4.Assertion (A): Devaluation as a foreign exchange reform set the tone to free the determination of rupee value in the foreign exchange market from government control.

Reason(R): Devaluation caused an increase in the outflow of foreign exchange

Alternatives:

- A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- B. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
- C. Assertion (A) is true but Reason (R) is false.
- D. Assertion (A) is false but Reason (R) is true

Ans. C

5.Assertion (A): Globalisation is an outcome of the set of various policies that are aimed at transforming the world towards greater independence and integration. It involves creation of network and activities transcending economic, social and geographical boundaries.

Reason (R): Globalisation is a strategy of the developed countries to expand their market in other countries.

- A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- B. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- C. Assertion (A) is true but Reason (R) is false.
- D. Assertion (A) is false but Reason (R) is true

Ans. B

6.Assertion (A): The government borrows only from banks to finance the deficit caused.

Reason (R): Deficit is caused when expenditure is more than income

- A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- B. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
- C. Assertion (A) is true but Reason (R) is false.
- D. Assertion (A) is false but Reason (R) is true

Ans D.

7.Assertion (A): Liberlisation of trade and investment regime was initiated to increase International competitiveness of industrial production.

Reason(R): The aim was to promote the efficiency of the local industries and the adoption of modern technologies.

Alternatives:

- A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- B. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
- C. Assertion (A) is true but Reason (R) is false.
- D. Assertion (A) is false but Reason (R) is true

Ans. A

CASE STUDY BASED QUESTIONS

1. Read the following article and answer the question given below:

We now look at some trends in the post-reform period. Data from Sri Lanka which started on a programme of economic reform in 1977 indicates that an increasing awareness on health issues is coupled with the growing incidence of diseases associated

with stress, particularly those of the cardio-respiratory kind (Gunawardena 1995). A similar pattern is emerging in India with the advent of tropical diseases like falciparum malaria and Japanese B encephalitis, stress-and environment related cardiovascular complaints, respiratory and endemic intestinal problems as well as nervous disorders (Ghosh 1996). It is likely that with continued rural-urban migration, the mushrooming of unhealthy towns and cities and the degradation of the natural environment combined with jobs which increasingly concentrate workers in industries, Export Promotion Zones (EPZ) and sweat shops, the range of diseases and illnesses will increase. Women and their health will be adversely affected as they form the basis of the pool of cheap labour, essential for the growth of EPZs.

1. Sri Lanka which started on a programme of economic reform in.....(Choose the correct option)

- A. 1978
- B. 1977

- C. 1990
- D. 1992

Ans: B

2. A similar pattern is emerging in India with the growing incidence of diseases with stress, particularly those of the kind.(Choose the correct option) (cardio respiratory/ heart diseases)

Ans: cardio-respiratory

3. State whether the given statement is true or false

It is likely that with continued rural-urban migration, the mushrooming of unhealthy towns and cities and the degradation of the natural environment combined with jobs which increasingly concentrate workers in industries. (Choose the correct option)

True / False

Ans: True

4. Read the following statements – Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

Assertion (A) Women and their health will be adversely affected

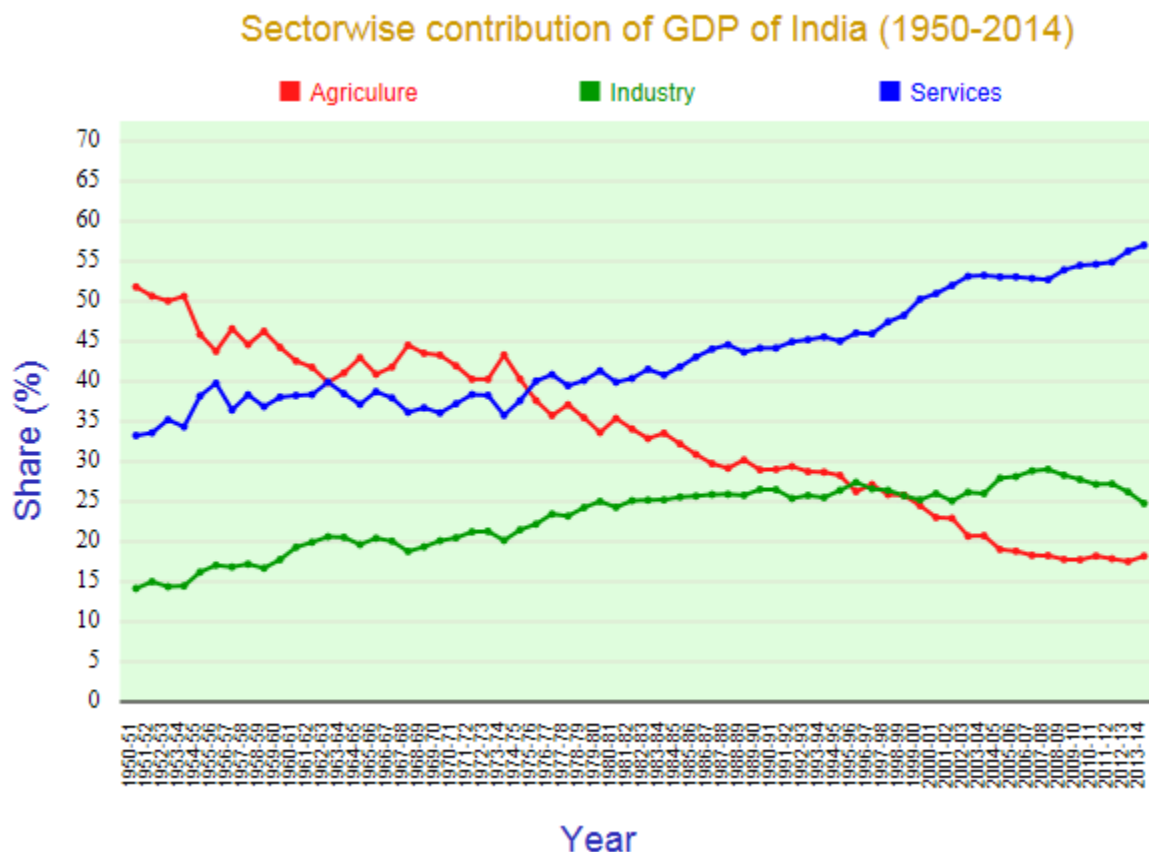
Reason (R): As they form the basis of the pool of cheap labour, essential for the growth of Export Promotion Zones.

Alternatives:

- A. Both Assertion (A) and Reason(R) are true and Reason (R) is the correct explanation of Assertion (A).
- B. Both Assertion (A) and Reason(R) are true and Reason(R) is not the correct explanation of Assertion (A).
- C. Assertion (A) is true but Reason (R) is false.
- D. Assertion (A) is false but Reason(R) are is true.

Ans. A

2. Read the following graph and answer the question given below:



1. What do you observe from the above graph?

- A. Contribution of agriculture constantly decreased, service sector increased whereas industrial sector initially increased and later decreased
- B. Industrial sector constantly increased, services remain the same and tertiary increased
- C. No change in agriculture, industry and service sector increased
- D. Agriculture decreased, service remains the same and industrial increased.

Ans. A

2. Which among the following can be the probable reason of decline of agriculture sector?

- A. Migration of work force from agriculture to Industrial and service sector
- B. Migration of work force from service sector to Industrial and agriculture sector
- C. Both (a) and (b)
- D. None of these

Ans. A

3.What was the reason behind the instant development of service sector after 1991?

- A. Globalisation
- B. Privatisation
- C. Liberlisation
- D. All of the above

Ans, D

4.what was the share of three sectors in 2013-14?

- A. Agriculture 18%, industry 24% and service 52%
- B. Agriculture 24%, industry 18% and service 52%
- C. Agriculture 52%, industry 24% and service 18%
- D. Agriculture 24%, industry 52% and service 18%

Ans. A

3.Read the following passage and answer the questions given below:

New Economic Policy of India was launched in the year 1991 under the leadership of P. V. Narasimha Rao. This policy opened the door of the India Economy for the global exposure for the first time. In this New Economic Policy P. V. Narasimha Rao government reduced the import duties, opened reserved sector for the private players, devalued the Indian currency to increase the export. This is also known as the LPG Model of growth. New Economic Policy refers to economic liberalisation or relaxation in the import tariffs, deregulation of markets or opening the markets for private and foreign players, and reduction of taxes to expand the economic wings of the country. Former Prime Minister Manmohan Singh is considered to be the father of New Economic Policy (NEP) of India. Manmohan Singh introduced the NEP on July 24,1991.

Main Objectives of New Economic Policy – 1991, July 24 The main objectives behind the launching of the New Economic policy (NEP) in 1991 by the union Finance Minister Dr. Manmohan Singh are stated as follows:

The main objective was to plunge Indian Economy in to the arena of ‘Globalization and to give it a new thrust on market orientation.

The NEP intended to bring down the rate of inflation

1.New Economic Policy of India was launched in the year 1991 under the leadership of(choose the correct alternative)

- A. P. V. Narasimha Rao
- B. Atal Bihari Bajpayi
- C. Sharad Pawar
- D. None of these

Ans: A

2..... is also known as the LPG Model of growth. ((choose the correct alternative))

(New Economic Policy / New Education Policy)

Ans: New Economic Policy

3.State whether the given statement is true or false:

Former Prime Minister Manmohan Singh is considered to be the father of New Economic Policy (NEP) of India. ((choose the correct alternative)

(True / False)

Ans: True

4. Read the following statements – Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

Assertion (A). New Economic Policy is to expand the economic wings of the country.

Reason (R): Due to economic liberalisation or relaxation in the import tariffs, deregulation of markets or opening the markets for private and foreign players, and reduction of taxes

Alternatives:

- A. Both Assertion (A) and Reason(R) are true and Reason (R) is the correct explanation of Assertion (A).
- B. Both Assertion (A) and Reason(R) are true and Reason(R) is not the correct explanation of Assertion (A).
- C. Assertion (A) is true but Reason (R) is false.
- D. Assertion (A) is false but Reason(R) are is true.

Ans: A

4.Read the following passage and answer the questions given below:

The growth rate of agriculture production which was only 3% in 1990-91, rose to 9.3% in 1996-97, during the eight plan the agriculture production increased by 7.5%. No doubt there has been ups and downs. The reforms have not been able to benefit agriculture, where growth rate has been decelerating. Despite mounting stock of food grains there are more than 250 million people below poverty line. There has been appreciable rise in the price of food grains due to curtailing food grain subsidy and increasing the prices at which food grains were supplied to ration shops. Purchasing power. There are poor transportation facilities. Investment in agriculture research and irrigation has been reduced. Shift to the production of cash crops for export has further worsened the position.

Questions:

1.What was the growth rate of as agriculture production in 1990-91?

- A. 1%
- B. 2%
- C. 3%
- D. 5%

Ans: C

2.During the _____plan period the agriculture production increased by 7.5 %.(fill in the blanks)

- A. Seventh
- B. Eight
- C. Ninth
- D. Tenth

Ans: B

3.Which of the following statement is not correct with regard to the given passage?

- A. The economic reforms have not been able to benefit agriculture
- B. There are more than 250 million people below the poverty line
- C. Shift to the production of cash crops for exports further improved the position.
- D. None of these

Ans: C

4.What is the reason for the price rise of food grains in India?

- A. Curtailing food grain subsidy
- B. Increasing the prices at which food grains were supplied to shops.
- C. Both a and b
- D. None of the above

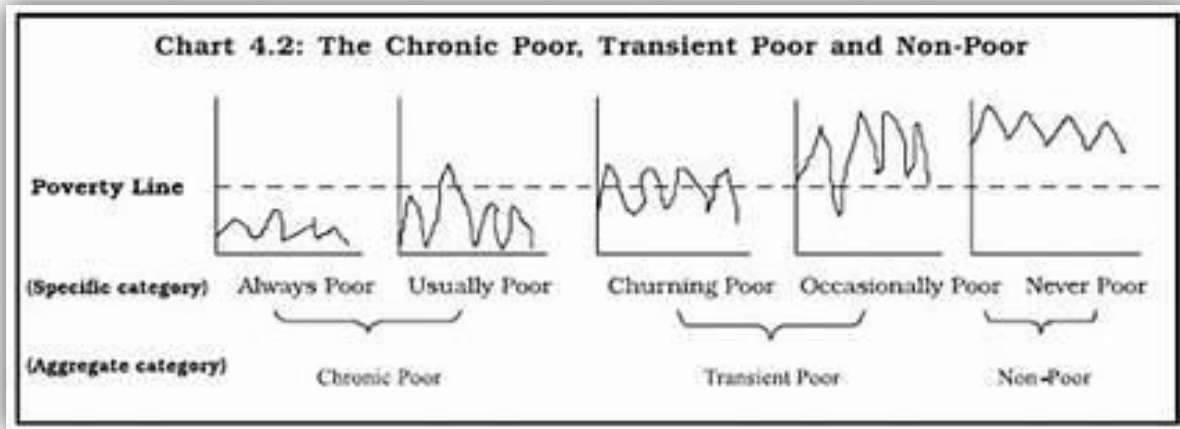
Ans: c

Chapter 4

Poverty

Summary

Poverty: Poverty is the inability to fulfill the minimum requirements/basic necessities of life. Basic necessities of life include food, clothing, housing, education and health facilities.



CATEGORISING POVERTY

There are many ways to categorise poverty.

- (i) **Chronic poor:-** It includes people who are *always poor* and those who are *usually poor* but may sometimes have a little more money (eg. Casual workers) are grouped together as the chronic poor.
- (ii) **Transient poor:-** *Churning poor* who regularly move in and out of poverty (small farmers and seasonal workers) and *occasionally poor* who are rich most of the time but may sometimes have a patch of bad luck. They are called Transient poor.
- (iii) **Non-poor:-** These are those who never poor.

MEASURES OF POVERTY

There are two measures to determine the extent of poverty:

- **Relative poverty:-** It refers to poverty of people, in relation to other people, religion or nations. It is the income position of the one group of people in comparison with the other classes.
- **Absolute poverty:-** Absolute poverty refers to the total number of people living below poverty line. In India, nearly 20 percent of the country's population is absolutely poor.

POVERTY LINE

- Poverty line separates the people into two categories: the poor and the non-poor.

- Poverty line is determined by the monetary value of minimum calorie intake that was estimated at 2400 calories for a rural person and 2100 calories for a person in the urban area.
- Based on calorie consumption, in 2011-12, the poverty line was defined for rural areas as consumption worth of Rs.816 per person a month and for urban areas it was Rs. 1000.

LIMITATION OF POVERTY LINE

1. Major problem is that it groups all the poor together and does not differentiate between the very poor and other poor.
2. To construct poverty line things such as access to basic education, healthcare, drinking water and sanitation are needed to be considered.
3. Poverty line doesn't take consideration of social factors that trigger poverty such as illiteracy, ill health, lack of access to resources, discrimination, etc.
4. Economists raise the point that the way data are collected, items included in the consumption basket, methodology followed to estimate the poverty line and no. of poor are manipulated to arrive at the reduced figures.

Due to the various limitation, scholars have attempted to find alternative method like

- Amartya Sen – Nobel Laureate – has developed an index known as *Sen Index*
- There are tools such as *Poverty Gap index* and *Squared Poverty Gap*.

Number of poor in India

When the number of poor is estimated as the proportion of people below the poverty line is known as 'Head Count Ratio'. It is estimated on the basis of consumption expenditure data collected by NSSO.

CAUSES OF POVERTY:- (1) High growth rate of population, (2) Backwardness of agricultural sector/Underdeveloped economy, (3) Widespread unemployment, (4) Inequalities of income and wealth, (5) Low level of capital formation (low demand), (6) Social and Political factors, (7) Lower level of education (8) Improper utilization of resources.

POLICIES AND PROGRAMMES TOWARDS POVERTY ALLEVIATION

The govt. approach to poverty to poverty reduction was of three dimensions.

1. Growth oriented approach. It is based on the effects of economic growth - rapid increase in GDP and per capita income

2. Specific Poverty Alleviation Programme:-

- **Rural Employment Generation Programme (REGP):-** self-employment opportunities in urban area
- **Prime ministers Rozgar Yojana (PMRY) :-** The educated unemployed from low income families in rural and urban areas can get financial help to set up any kind of enterprise that generates employment.
- **Swarna Jayanthi Shahri Rozgar Yojana (SJSRY):-** SJSRY mainly aims at creating employment opportunities for both self-employment & wage-employment in urban areas.
- **Swarna Jayanthi Gram Swarozgar Yojana (SGSY):-** launched with effect from April 1, 1999. It aims at encouraging micro enterprises and to bring the assisted poor families above the poverty line, by organizing them into Self Help Groups (SHGs).

- **Sampoorna Grameen Rozgar Yojana (SGRY):-** The scheme was launched with effect from September 2001. The schemes aims at providing wage employment to poor unskilled workers in rural areas.
- **Food for work programme:-** National food for Work Programme (NFWP) was launched in Feb 2001. This programme aims at increasing food security through wage employment in the draught affected rural areas.
- **Mahatma Gandhi National Rural Employment Guarantee Act 2005:-** The act was passed in 2005 & the scheme ,was launched in February 2006. The aim of the act is to provide guaranteed wages employment to every rural households in 600 selected districts.

3.Meeting the Minimum Need of the poor:- to provide minimum basic amenities to the people. Under this government try to improve the living standard of people through public expenditures on social consumption needs like providing Food grains at subsidized rates, education, health, water supply& sanitation.

Other Social Security Programmes

The government also has variety of other social security programmes to help a few specific groups.

1. **National Social Assistant Programme:-** under this programme, elderly people who do not have anyone to take care of them are given pension to sustain themselves. Poor women who are destitute and widows are also covered under this scheme.
2. National old age pension scheme (NOAPS)
3. National Family benefit scheme (NFBS)

Pradhan Mantri Jan Dhan Yojana:- Started in 2014, which encourage people to open a bank account to integrate them into financial economy.

Critical Evaluation of Poverty Alleviation Programmes

POSITIVE/Achievements:

1. These programmes brought down percentage of persons below poverty line from 37.2% in 2004-05 to about 28% in 2011-12.

NEGATIVE/drawback:

1. Due to unequal distribution of land and other assets, benefits from direct poverty alleviation programmes have been appropriated by the non-poor.
2. the amount of resources allocated for these programmes is not sufficient.
3. resources are inefficiently used and wasted.
4. failed to address the vast majority of people who living on or just above the poverty line.

MCQ

1	Poverty is a state in which a person is <ol style="list-style-type: none"> a. Poor b. Does not have proper home c. Inability to fulfill basic requirements
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	<p>d. None of these</p> <p>Ans: c</p>
2	<p>Urban poor include</p> <p>a. Street cobblers</p> <p>b. Road side vendors</p> <p>c. Pushcart vendors</p> <p>d. All the above</p> <p>Ans: d</p>
3	<p>People who are always below poverty line is treated as:</p> <p>a. Chronic poor</p> <p>b. Seasonal poor</p> <p>c. always poor</p> <p>d. none of these</p> <p>ans: c</p>
4	<p>Which category of poor people keep moving up and down the poverty line</p> <p>a. Occasionally poor</p> <p>b. Churning poor</p> <p>c. Always poor</p> <p>d. Transient poor</p> <p>Ans: b</p>
5	<p>Poverty across other region, people or country is known as</p> <p>a. Urban poor</p> <p>b. Rural poor</p> <p>c. Relative poor</p> <p>d. Absolute poor</p> <p>Ans: c</p>
6	<p>Prime Minister's Rozgar Yojana was started in the year</p> <p>a. 1995</p> <p>b. 1993</p> <p>c. 1991</p> <p>d. 1998</p> <p>Ans: b</p>
7	<p>Percentage of people below poverty line is known as</p> <p>a. Head count ratio</p> <p>b. Poverty incident ratio</p> <p>c. Both a and b</p> <p>d. None of these</p> <p>Ans: a</p>
8	<p>Which of the following is the poverty determination measure?</p> <p>a. Head Count Ratio</p> <p>b. Sen Index</p> <p>c. Poverty Gap Index</p> <p>d. All of these</p> <p>Ans: d</p>

9	<p>When was the Task Force on Projections of Minimum Needs and Effective Consumption Demand was formed?</p> <ul style="list-style-type: none"> a. 1969 b. 1979 c. 1989 d. 1999 <p>Ans: a</p>
11	<p>MNREGA offered employment for a minimum period of</p> <ul style="list-style-type: none"> a. 150 days b. 200 days c. 100 days d. 120 days <p>Ans: c</p>
12	<p>Under Pradhan Mantri Jan Dhan Yojana account holder were entitled to</p> <ul style="list-style-type: none"> a. Rs. 1 lakh accident insurance b. Rs. 30000 life insurance cover c. Rs. 40000 medical insurance d. Both 'a' and 'b' <p>Ans: d</p>
13	<p>Which of the following is an indicator of poverty in India?</p> <ul style="list-style-type: none"> a. Production level b. Illiteracy level c. Income level d. Employment level <p>Ans: c</p>
14	<p>Which of the following is an action adopted under the provision of minimum basic amenities to the people?</p> <p>(A) Prime Minister's RozgarYojna (B) Swarna Jayanti Shahari RozgarYojna (C) Pradhan Mantri Gramodaya Yojna (D) National Rural Livelihood Mission</p> <p>Ans: c</p>
15	<p>In 2011-12, which state had the highest poverty rate in India?</p> <ul style="list-style-type: none"> a. Odisha b. Bihar c. Madhya Pradesh d. West Bengal <p>Ans: a</p>
16	<p>Which approach is used by the government to overcome the issue of poverty</p> <ul style="list-style-type: none"> a. Growth oriented approach b. Poverty alleviation programme c. Meeting the minimum need of the poor a. All of the above <p>Ans: d</p>
17	The minimum calorie intake for rural area

	<ul style="list-style-type: none"> a. 2400 b. 2100 c. 2200 d. None of these <p>Ans: a</p>
18	<p>What proportion of world's poor lives in India</p> <ul style="list-style-type: none"> a. One forth b. One fifth c. One third d. Half <p>Ans: C</p>
19.	<p>Minimum requirement of a person includes</p> <ul style="list-style-type: none"> a. Health b. Clothing c. Foreign travel d. Both a and b <p>Ans: d</p>
20.	<p>Which of the following are the characteristics of rural poor?</p> <ul style="list-style-type: none"> a. Street cobblers in town b. Landless agricultural labourers c. Small landholding cultivators d. Both b and c <p>Ans: d</p>
21.	<p>Which of the following are the characteristics of urban poor?</p> <ul style="list-style-type: none"> a. No or very few assets b. Kutchra hutments as dwelling c. Both a and b d. None of the above <p>Ans: c</p>
22	<p>Which of the following is major reason for the lack of effectiveness of targeted antipoverty programmes?</p> <ul style="list-style-type: none"> a. Lack of proper implementation b. Lack of right targeting c. Overlapping of schemes d. All the above. <p>Ans: d</p>
23	<p>Read the following statement given below and choose the correct answer</p> <p>Statement 1: To define poverty we divide the people into two categories; poor and non-poor</p> <p>Statement 2: poverty line separate poor from non-poor</p> <ul style="list-style-type: none"> a. Both are correct b. Both are incorrect c. Statement 1 is correct and statement 2 is incorrect d. Statement 1 is incorrect and statement 2 is correct <p>Ans: a</p>
24	<p>Read the following statement given below and choose the correct answer</p>

Statement 1: causes of poverty lie in the institutional and social factors
Statement 2: the main victims of caste, religion and other discriminative practices are rich people.

- Both are correct
- Both are incorrect
- Statement 1 is correct and statement 2 is incorrect
- Statement 1 is incorrect and statement 2 is correct

Ans: c

- 25 Read the following statement given below and choose the correct answer
Statement 1: Mahatma Gandhi National Rural Employment Guarantee act was passed in October 2005.
Statement 2: Mahatma Gandhi National Rural Employment Guarantee act was launched in 2007.
- Both are correct
 - Both are incorrect
 - Statement 1 is correct and statement 2 is incorrect
 - Statement 1 is incorrect and statement 2 is correct

Ans: b

- 26 Choose correctly matched pair from the following

Column A	Column B
A. Consumption expenditure of rural area	1. Integrated Child development scheme
B. Consumption expenditure of urban area	2. Public distribution system
C. PDS	3. Rs. 1000/-
D. ICDS	4. Rs. 860/-

- A-2
- B-3
- C-1
- D-4

Ans: b

- 27 Choose correctly matched pair from the following

Column A	Column B
A Task force	1.1979
B. Planning commission	2.1989
C.Expert group	3.2005
D.MGNREGA	4.1962

- A-1
- B-2
- C-3
- D-4

Ans: a

Case study based questions

Case 1	<p>Poverty line refers to a cut of line that divides people of a region as poor and non-poor. Poverty line cutoff may be determined in terms of income or in terms of consumption. The percentage of population below the poverty line is called 'head count ratio'. Poverty incident ratio is same as the 'head count ratio'. Head count ratio refers to the measurement of poverty in terms of number of person below the poverty line where poverty line means some cutoff points with reference to the individual consumption expenditure per month. The poverty line usually measured in terms of per capita expenditure. Consumption reflects the actual use of goods and services by an individual as well as the type of goods actually used while income only shows the capacity to purchase.</p>
1.	<p>A cut off point dividing people as poor and non poor indicate the number of those who are</p> <ol style="list-style-type: none">Absolute povertyBelow poverty lineBoth a and bNone of the above <p>Ans: a</p>
2.	<p>The absolute poverty in India measured with reference to</p> <ol style="list-style-type: none">Absolute povertyRelative povertyPoverty lineNone of these <p>Ans: c</p>
3.	<p>Poverty line cut off can be determined in terms of ----- (investment/ consumption)</p> <p>Ans: consumption</p>
4.	<p>Poverty line is measured normally in terms of ----- (per capita expenditure/per capita income)</p> <p>Ans: per capita expenditure</p>
Case2	<p>This paragraph talks about economic inequalities in India that have been driven by the employment pattern and changes in labour market, which in turn have been affected by the macroeconomic policies and process as well as forms of social discrimination and exclusion. While many Asian economies have shown indications of rising inequalities in recent decades, the Indian experience is particularly remarkable in the way inequalities have intertwined with economic growth process. Structural change and the persistence of the low productivity employment in India are strongly related to following wage shares of national income and growing wage inequality and the close relationship between formal and informal sectors is the sharpest exemplar of this. Patterns of social discrimination along with gender and caste line have reinforced tendency to create segmented labour market that offer little incentives for the employers to focus on productivity improvement.</p>
1.	<p>Why did the government shift its strategy from long term to short term programs to remove unemployment?</p> <ol style="list-style-type: none">Short term policies are more effectiveLong term policy do not give appropriate responseIt is easy to check the progressAll the above <p>Ans: d</p>

2	<p>Increase in the proportion of casual worker as the proportion of the total work force is known as _____ (informalization/casualization)</p> <p>Ans: casualized</p>
3	<p>_____ is used to measure the concept of relative poverty.</p> <p>Ans: Gini coefficient</p>
4	<p>Women participation in rural areas is found to be higher as compared with urban areas in India due to which the following reason.</p> <p>A. Widespread poverty B. Male member do not earn sufficient income C. Wages level are low in rural areas D. all the above.</p> <p>Ans: d</p>
Case 3	<p>The most heated and debated topic not only in India but in entire world is to eradicate extreme poverty by 2030. Poverty is a socio-economic incident and it is closely related with disparity. Due to poverty, it becomes close to impossible to fulfill even the bare requirements of life viz; food, clothing, shelter, education and health in deprive section of society. From 1993-94 to 2011-12, national poverty estimates is reduced from 50.1% to 25.7% in rural areas on the contrary in urban areas, its rate of reduction is from 31.8% to 13.7% . In India, poverty rate is declined by 17.89% from 1993 to 2004 and further declined by 41.13% in a period of 2004-2011 (as per Tendulkar Committee estimates). As per SDG India Index Baseline report 2018, 21.92% of India's population was below poverty line in 2011. With an above backdrop, we focuses on the poverty alleviation programmes in India with special regard to Sustainable Development Goals</p>
1	<p>When the number of poor is estimated as the proportion of people below the poverty line, it is known as _____ (Worker Population Ratio/ Head Count Ratio).</p> <p>(Ans : Head Count Ratio)</p>
2	<p>The government's approach to poverty reduction was of _____ (three/Four) dimensions.</p> <p>(Ans: three)</p>
3	<p>In August 2005, the Parliament of India passed the _____ (MNGREGA / Competition) Act to provide guaranteed wage employment to every household whose adult volunteer is to do unskilled manual for a minimum of 100 days in a year.</p> <p>(Ans: MNGREGA)</p>
4	<p>24. 'Jail Cost of Living' was a criteria formulated by _____ (Amartya Sen / Dadabhai Naoroji) to determine the minimum daily food requirements of an adult in India.</p> <p>(Ans: Dadabhai Naoroji)</p>
Case 4	<p>The reduction in poverty hasn't been impressive has also been pointed out by an assessment released in January 2020 by government think-tank NITI Aayog. Going by the states ' progress on poverty reduction ,India is far behind the 'zero poverty by 2030" States rather slipped in their efforts to reduce poverty in 2019 in comparison in 2018. The lapsing back of people climbing above the poverty line is the most important reason of chronic poverty. Poverty line is a cut -off point on the line of distribution, which usually divides the population of the country as poor and non -poor.</p>
1.	<p>THE above paragraph relates to.</p> <p>(a) Chronic poor</p>

	(b) churning poor (c) occasionally poor (d) transient poor Ans: (a)
2.	The ratio measures the number of poor below poverty line is known as (a) Head count ratio (b) Population count ratio (c) Poverty count ratio (d) None of these Ans: (a)
3.	POVERTY line separates (Choose the correct option) (a) Poor and non -poor (b) Rich and non-rich (c) Poor and weak (d) None of the above Ans: (a)
4.	Which amongst the following are the causes of poverty in India ? (a) Unemployment (b) Inequalities of Income (c) Low levels of economic development (d) All of these Ans: (d)

Assertion- Reason questions

1	Read the following statements - Assertion (A) and Reason (R): Assertion (A) : though there is a steady decline in poverty over last two decades, but the total number of poor people has remained constant. Reason (R):- There has been a considerable growth in population. From the given alternatives choose the correct one: Alternatives: <ul style="list-style-type: none"> a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A). b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of the Assertion (A). c) Assertion (A) is true but Reason (R) is false. d) Assertion (A) is false but Reason (R) is true. Ans: a
2	Read the following statements - Assertion (A) and Reason (R): Assertion (A) : While determining poverty line, higher calorie intake is fixed for rural area. Reason (R):- People in rural area have to do greater physical work as compared to urban area. From the given alternatives choose the correct one: Alternatives:

	<p>a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A).</p> <p>b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of the Assertion (A).</p> <p>c) Assertion (A) is true but Reason (R) is false.</p> <p>d) Assertion (A) is false but Reason (R) is true.</p> <p>Ans: a</p>
3	<p>Read the following statements - Assertion (A) and Reason (R): Assertion (A) : Most of the small farmers are in debt trap Reason (R):- They borrow from money lender who charges high rate of interest which push them into chronic indebtedness.. From the given alternatives choose the correct one: Alternatives:</p> <p>a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A).</p> <p>b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of the Assertion (A).</p> <p>c) Assertion (A) is true but Reason (R) is false.</p> <p>d) Assertion (A) is false but Reason (R) is true.</p> <p>Ans: a</p>
4	<p>Read the following statements - Assertion (A) and Reason (R): Assertion (A) : Absolute poverty is prevalent in developed countries Reason (R):- Most developed countries are industrialized economy. From the given alternatives choose the correct one: Alternatives:</p> <p>a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A).</p> <p>b. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of the Assertion (A).</p> <p>c. Assertion (A) is true but Reason (R) is false.</p> <p>d. Assertion (A) is false but Reason (R) is true.</p> <p>Ans:d</p>
5	<p>Read the following statements - Assertion (A) and Reason (R): Assertion (A) : National food for work programme was launched in 2004 with the objectives of creating self employment opportunities in the rural area. Reason (R):- Mahatma Gandhi National Rural Employment Guarantee Act 2005 (MGNREGA) in 2005. From the given alternatives choose the correct one: Alternatives:</p> <p>a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A).</p> <p>b. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of the Assertion (A).</p> <p>c. Assertion (A) is true but Reason (R) is false.</p> <p>d. Assertion (A) is false but Reason (R) is true.</p>

	Ans: d
6	<p>Read the following statements - Assertion (A) and Reason (R): Assertion (A) : Transient poor category includes 'churning poor' and 'occasionally poor' Reason (R):- Chronically poor category includes both 'always poor and 'usually poor'. From the given alternatives choose the correct one: Alternatives:</p> <ol style="list-style-type: none"> Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A). Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of the Assertion (A). Assertion (A) is true but Reason (R) is false. Assertion (A) is false but Reason (R) is true. <p>Ans:b</p>
7	<p>Read the following statements - Assertion (A) and Reason (R): Assertion (A) : Poverty alleviation programme have been found unsatisfactory Reason (R):- Huge amount of resources have been allocated for poverty alleviation programme. From the given alternatives choose the correct one: Alternatives:</p> <ol style="list-style-type: none"> Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A). Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of the Assertion (A). Assertion (A) is true but Reason (R) is false. Assertion (A) is false but Reason (R) is true. <p>Ans: c</p>
8	<p>Read the following statements - Assertion (A) and Reason (R): Assertion (A) : Pradhan Mantri Jan Dhan Yojana started in 2014, which encourage people to open a bank account to integrate them into financial economy. Reason (R):- Beside promoting saving habit, this scheme intends to transfer benefits of government schemes and subsidies directly to the account holder From the given alternatives choose the correct one: Alternatives:</p> <ol style="list-style-type: none"> Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A). Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of the Assertion (A). Assertion (A) is true but Reason (R) is false Assertion (A) is false but Reason (R) is true. <p>Ans: a</p>
9	<p>Read the following statements - Assertion (A) and Reason (R): Assertion (A) : Government policies have failed to address the vast majority of vulnerable people who are living on or just above the poverty line. Reason (R):- High growth alone is not sufficient to reduce poverty. Without the active participation of the poor, successful implementation of any programme is not possible.</p>

	<p>From the given alternatives choose the correct one:</p> <p>Alternatives:</p> <ol style="list-style-type: none"> Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A). Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of the Assertion (A). Assertion (A) is true but Reason (R) is false. Assertion (A) is false but Reason (R) is true. <p>Ans: b</p>
10	<p>Read the following statements - Assertion (A) and Reason (R):</p> <p>Assertion (A) : Casual laborers are the most vulnerable in the society.</p> <p>Reason (R):- Casual labourers does not have a permanent earning facility and their earning is very low. They can even lose their job with a slight slip in economic growth.</p> <p>From the given alternatives choose the correct one:</p> <p>Alternatives:</p> <ol style="list-style-type: none"> Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A). Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of the Assertion (A). Assertion (A) is true but Reason (R) is false. Assertion (A) is false but Reason (R) is true. <p>Ans: a</p>
11	<p>Read the following statements - Assertion (A) and Reason (R):</p> <p>Assertion (A) : Regional disparities in India are high and have been rising in recent years</p> <p>Reason (R):-Because of that, some areas have been facing continuous political instability.</p> <p>From the given alternatives choose the correct one:</p> <p>Alternatives:</p> <ol style="list-style-type: none"> Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A). Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of the Assertion (A). Assertion (A) is true but Reason (R) is false. Assertion (A) is false but Reason (R) is true. <p>Ans: c</p>
12	<p>Read the following statements - Assertion (A) and Reason (R):</p> <p>Assertion (A) : In the determination of poverty line cut-off, consumption is a preferred parameter than income.</p> <p>Reason (R):- Consumption reflects actual use of the goods and services by an individual, as well as the type of goods actually used.</p> <p>From the given alternatives choose the correct one:</p> <p>Alternatives:</p> <ol style="list-style-type: none"> Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A). Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of the Assertion (A).

	<p>c. Assertion (A) is true but Reason (R) is false. d. Assertion (A) is false but Reason (R) is true. Ans: a</p>
13	<p>Read the following statements - Assertion (A) and Reason (R): Assertion (A) : Growth oriented approach to remove poverty proved to be effective. Reason (R):- Population growth resulted in very low growth of per capita income. From the given alternatives choose the correct one: Alternatives:</p> <p>a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A). b. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of the Assertion (A). c. Assertion (A) is true but Reason (R) is false. d. Assertion (A) is false but Reason (R) is true. Ans: d</p>
14	<p>Read the following statements - Assertion (A) and Reason (R): Assertion (A) : Poverty and unemployment are related to each other. Reason (R):- unemployment leads to poverty. From the given alternatives choose the correct one: Alternatives:</p> <p>a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A). b. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of the Assertion (A). c. Assertion (A) is true but Reason (R) is false. d. Assertion (A) is false but Reason (R) is true. Ans: a</p>
15	<p>Read the following statements - Assertion (A) and Reason (R): Assertion (A) : poverty line is cut off point on the line of distribution, which usually divide the population of a country as poor and non poor. Reason (R):- In poverty line a standard is fixed in terms of maximum level of consumption. From the given alternatives choose the correct one: Alternatives:</p> <p>a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A). b. Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of the Assertion (A). c. Assertion (A) is true but Reason (R) is false. d. Assertion (A) is false but Reason (R) is true. Ans: b</p>
16	<p>Read the following statements - Assertion (A) and Reason (R): Assertion (A) : calorie based norm is not adequate to determine the poor Reason (R):- It groups all the poor together and does not differentiate between the very poor and the other poor.</p>

	<p>From the given alternatives choose the correct one:</p> <p>Alternatives:</p> <ol style="list-style-type: none"> Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A). Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of the Assertion (A). Assertion (A) is true but Reason (R) is false. Assertion (A) is false but Reason (R) is true. <p>Ans: b</p>
17	<p>Read the following statements - Assertion (A) and Reason (R):</p> <p>Assertion (A) :Under Mid-day Meal Scheme, free lunch is supplied to children in all classes in government, government aided, local body and other school.</p> <p>Reason (R):- Under MGNREGA, employment is offered for a minimum period of 100 days.</p> <p>From the given alternatives choose the correct one:</p> <p>Alternatives:</p> <ol style="list-style-type: none"> Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A). Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of the Assertion (A). Assertion (A) is true but Reason (R) is false. Assertion (A) is false but Reason (R) is true. <p>Ans: b</p>
18	<p>Read the following statements - Assertion (A) and Reason (R):</p> <p>Assertion (A): According to National sample Survey, the proportion of poor is higher in rural India than in urban.</p> <p>Reason (R):After independence, the growth rate of the industry has been lower than that of agriculture.</p> <p>Alternatives:</p> <ol style="list-style-type: none"> Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A). Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of the Assertion (A). Assertion (A) is true but Reason (R) is false. Assertion (A) is false but Reason (R) is true. <p>Ans: b</p>
19	<p>Read the following statements - Assertion (A) and Reason (R):</p> <p>Assertion (A):Meeting minimum needs of the poor helps to alleviate poverty through trickle-down effect.</p> <p>Reason (R): Meeting minimum needs of the poor as an approach to combat poverty focuses on meeting the basic requirements of the poor.</p> <p>Alternatives:</p> <ol style="list-style-type: none"> Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A). Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of the Assertion (A).

- c. Assertion (A) is true but Reason (R) is false.
- d. Assertion (A) is false but Reason (R) is true.

Ans: d

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Read the following statements - Assertion (A) and Reason (R):

Assertion (A): Urban poverty is a spillover of rural poverty.

Reason (R): People tend to migrate from rural areas to urban areas in search of jobs.

Alternatives:

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

Ans: a

CHAPTER 5.

HUMAN CAPITAL FORMATION IN INDIA

- **Human capital** refers to the stock of skill, ability, expertise, education and knowledge in a nation at a point of time.
- **Physical capital** refers to assets which themselves have been manufactured and are used for production of other goods and services.
- **Human capital formation** is the process of adding to the stock of human capital over a period of time.

Sources of human capital formation.

- (i) Expenditure on education.
- (ii) Expenditure on health.
- (iii) On the job training.
- (iv) Migration and expenditure on information

Role of human capital formation in economic growth.

- (i) Labour skill increases and more production
- (ii) Change in emotional and physical environment of growth.
- (iii) Improves quality of life.
- (iv) Increase income generating capacity
- (v) Innovative skills.
- (vi) Raises social justice and equality

Problems facing human capital formation.

- (i) Rising population
- (ii) High regional and gender inequality.
- (iii) Brain drain
- (iv) Insufficient man power planning.
- (v) Insufficient on the job training in agriculture
- (vi) High poverty levels
- (vii) Low academic standards

Human capital formation in India

- (i) The seventh five year plan stressed upon the importance of human capital.
- (ii) In India, ministry of education at the Centre and state level, NCERT (National Council of Educational Research and Training), UGC (University Grant commission), and AICTE (All India Council of Technical Education) regulate the education sector.
- (iii) In India, Ministry of Health at the Union and the State level and ICMR (Indian Council of Medical Research) regulate the health sector.
- (iv) India- transfer in to the knowledge economy.

Education sector in India

Elementary education

Secondary and senior secondary education

Higher education

Interrelationship between human capital formation and economic growth

Human capital formation raises the process of Economic Growth

Economic growth raises the process of human capital formation.

(i) Rise in human capital raise economic growth

Rise in Human Capital



Modern attitude and outlook, better quality of life, Higher life expectancy



More Efficiency



More Production



More economic growth

(ii) Rise in economic growth raises human capital formation

Rise in Economic Growth



Rise in per capita income



More investment in education and health



Rise in human capital

- Growth in government expenditure on education
- Education achievements in India
- Education for all
- Gender equity-----better than before
- Higher education --- a few takers

MULTIPLE CHOICE QUESTIONS

1. Individuals invest in education for (choose the correct alternative)
 - a. Increasing their future income
 - b. Having a healthy life

- c. Improving their social status
- d. Future generation to have a better life

Answer: Increasing their future income

2. Expenditure on on-the job training is a source of capital formation because
- a. Money is spent on it
 - b. It cannot be avoided
 - c. It is part of CSR
 - d. Labour productivity increases

Answer: Labour productivity increases

3. The cost of migration for a person includes (choose the correct alternative)
- a. Cost of transport
 - b. Higher cost of living in the migrated place
 - c. Pain of having to live in a new place
 - d. All of the above

Answer: All of the above

4. Expenditures on health and education are to be carried on by
- a. Central government
 - b. State government
 - c. Local government
 - d. All of the above

Answer: All of the above

5. The Government expenditure on education is expressed as (choose the correct alternative)
- a. As a % of total Government expenditure
 - b. As a % of GDP
 - c. As a proportion of human development
 - d. a & b

Answer: a & b

6. Generally education achievements in a country are indicated in terms of
- a. Adult literacy level
 - b. Youth literacy level
 - c. Primary education completion rate
 - d. All of the above

Answer: All of the above

7. When was Right to Education Act enacted? (**Choose the correct alternative**)

- a. 2008
- b. 2009
- c. 2010
- d. 2012

Answer: 2009

8. Which of the following is not the role of on-the-job training?

- a. Eradicates inequality
- b. Encourages innovation
- c. Promotes modern methods
- d. Enhances productivity

Answer: Enhances productivity

9. How much educational cess has been imposed by the government on all Union taxes?

- a. 1 %
- b. 2%
- c. 4%
- d. 5%

Answer: 2%

10. Which of the following institutes comes under the health sector? (choose the correct alternative)

- a. NCERT
- b. UGC
- c. AICTE
- d. ICMR

Answer: ICMR

11. Which one of the following is a major source of human capital formation in the country?

- a. Expenditure on education
- b. Expenditure on infrastructure
- c. Expenditure on defence
- d. Expenditure on energy

Answer: Expenditure on education

12. The objective of midday meal scheme is (choose the correct alternative)
- a. To boost universalization of primary education
 - b. to boost the nutritional status of children in schools
 - c. to increase enrolment attendance and retention, and also improving the nutritional status of children in schools
 - d. to boost universalisation of upper primary level of education

Answer: to increase enrolment attendance and retention, and also improving the nutritional status of children in schools

13. What percent of GDP was invested in education in the year 1952? (choose the correct alternative)

- a) 7.92 percent
- b) 11.7 percent
- c) 0.64 percent
- d) 3.31 percent

Answer: 0.64 percent

14. Which of the following is not an example of physical capital? (choose the correct Alternative)

- a. Machinery
- b. Raw material
- c. Building
- d. Education and knowledge in people

Answer: Education and knowledge in people

- 15 To make a favorable impact on fertility rate (choose the correct alternative)
- a. Marriage age of girls must be raised
 - b. Women education must be promoted
 - c. Maternal mortality rate must be improved
 - d. All of the above

Answer: Women education must be promoted

II. Fill in the blanks with the correct answer.

16. Human capital formation is a _____ process.

Answer: social

17. Individuals invest in education with the objective of increasing their future _____

Answer: income

18. _____ is the reason for the rural-urban migration in India.

Answer: Unemployment

19. _____ capital is completely mobile between countries.

Answer: Physical

20. India has the potential to become a leading _____ economy.

Answer: knowledge-based

21. _____ is the prime funding authority for university education.

Answer: UGC

III. State whether the following statements are true or false.

22 Education and health are the two major sources of human capital in a country.

Answer: True

23. Physical capital is inseparable from its owner.

Answer: False

24. Human capital treats humans as ends in themselves.

Answer: False

25. Higher-income leads to the development of the high level of human capital and vice-versa.

Answer: True

26.. Improper planning for human capital formation has resulted in a shortage of manpower in the health and education sectors.

Answer: True

27. Elementary education takes a major share of total education expenditure in India.

Answer: True

28. The level of unemployment among educated youth is the highest.

Answer: True

IV. Assertion and reason based questions.

1.Read the following statements-Assertion (A) and Reason (R).choose one of the correct alternative given below

Assertion: A Nation's true wealth is neither in its land and water, nor in forests or mines, nor in dollars

Reason: Human resources and its development is the most important for nation building and strong economic development

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option a)

2.Read the following Statements-Assertion (A) and Reason (R). choose one of the correct alternative given below

Assertion: Mobility of human capital does not impact the brain power available in an economy

Reason: Brain drain of one economy is brain gain for another

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A

- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option d)

3. Read the following statements-Assertion (A) and Reason (R). Choose one of the correct alternative given below

Assertion: Human capital also undergoes depreciation

Reason: Like physical capital, human capital also depreciates because of technological obsolescence

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option C) (human capital depreciation is because of wear and tear due to ageing; it can be checked through investment in health, in-service training)

4. Read the following statements-Assertion (A) and Reason (R). Choose one of the correct alternative given below

Assertion: Human capital like physical capital benefits the owner

Reason: A professional can have a better standard of living without the society benefitting

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option c) (human capital benefits the society as much as the individual, when the individual is healthy, whether the person wishes or not, it makes the society healthy by default)

5. Read the following statements-Assertion (A) and Reason (R). Choose one of the correct alternative given below

Assertion: Social medicine is a source of human capital

Reason: Easy availability of medicine makes cure easy

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option c) (Social medicine is investing in spread of health literacy)

6. Read the following statements-Assertion (A) and Reason (R). Choose one of the correct alternative given below

Assertion: Human capital formation and human development are one and the same

Reason: When there is human capital formation there will be human development

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option d)

7. Read the following statements-Assertion (A) and Reason (R). Choose one of the correct alternative given below

Assertion: Human beings need not be literate if they are not going to be human capital

Reason: Human welfare must be increased through investments in education and health even if it does not contribute to human capital

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false

d) Assertion A is false but reason R is true

Answer: Option d)

8. Read the following statements-Assertion (A) and Reason (R). Choose one of the correct alternative given below

Assertion: There is need for Government intervention in health and education

Reason: Investment in health and education are easily reversible

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option c) (Once made, investment in health and education are not reversible easily, they have an immediate and long term impact)

9. Read the following statements-Assertion (A) and Reason (R). Choose one of the correct alternative given below

Assertion: The rise in average education levels reduces the inequalities of income worldwide

Reason: The higher income earning capacity raises the standard and quality of living

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option a)

10. Read the following statements-Assertion (A) and Reason (R). Choose one of the correct alternative given below

Assertion: The education pyramid of India is one of a steep pyramid

Reason: Our tertiary education is too well developed whereas the primary education is lagging

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A

- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option c)

11. Read the following statements-Assertion (A) and Reason (R).choose one of the correct alternative given below

Assertion: components of human capital and human developments are Complementary to Each other

Reason: expenditure on components human capital leads to human development.

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option a)

12.Read the following statements-Assertion (A) and Reason (R).choose one of the correct alternative given below

Assertion: Human Capital formation gives birth to innovation, invention and technological improvements.

Reason: Investment in education creates the ability to adopt new technologies, facilitate invention and innovations since an educated work force generally adopts to modern technologies and innovations.

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option a)

13.Read the following statements-Assertion (A) and Reason (R).choose one of the correct alternative given below

Assertion: expenditure on education and health are key determinants of human capital formation.

Reason: Human capital formation is ongoing and a continuous process.

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option b)

14. Read the following statements-Assertion (A) and Reason (R). Choose one of the correct alternative given below

Assertion: On the job training is a source of human capital formation.

Reason: After on the job training of employees, firm insists that workers should work for a specific period of time.

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option c)

15. Read the following statements-Assertion (A) and Reason (R). Choose one of the correct alternative given below

Assertion: Education contributes to economic growth.

Reason: Education confers higher earning capacity on people.

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option a)

16. Read the following statements-Assertion (A) and Reason (R). Choose one of the correct alternative given below

Assertion: The spread of education is necessary to control the population growth rate.

Reason: Human Capital formation decreases the quality of life.

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option c)

17. Read the following statements-Assertion (A) and Reason (R). Choose one of the correct alternative given below

Assertion: The facilities for the formation of human capital have remained adequate.

Reason: The resources allocated to human capital formation have been much less than the resources required.

- a) Both assertion A and reason R are true and Reason R is the correct explanation of assertion A
- b) Both assertion A and reason R are true and Reason R is NOT the correct explanation of assertion A
- c) Assertion A is true but reason R is false
- d) Assertion A is false but reason R is true

Answer: Option d)

Chapter 6: Rural Development

Rural development is a comprehensive term. It essentially focuses on action for the development of areas that are lagging behind in the overall development of the economy

Areas of Rural development

- **Land reforms**-It includes various rules and regulation of land ownership, abolition of intermediaries, regulation of rent, land ceiling etc
- **Development of infrastructure**- It involves development of transportation system, electricity, irrigation facilities, credit and marketing facilities for rural people

- **Development of human resources-** literacy, more specifically, female literacy, education and skill development
- **Poverty alleviation** -Special measures for alleviation of poverty and bringing about significant improvement in the living conditions of weaker sections of the population emphasising access to productive employment opportunities
- **Development of productive resources-** it means development of productive resources of each locality

Rural Credit

Need of Rural credit- 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 time gestation between crop sowing and realisation of income after production is quite long, farmers borrow from various sources to meet their initial investment on seeds, fertilisers, implements and other family expenses of marriage death, religious ceremonies etc

Sources of Rural Credit

The sources of rural credit are classified into
i. Non-institutional sources ii. Institutional sources

Non-institutional sources

- **Moneylenders-**They are the person whose business is lending money to farmers and charges high rate of interest
- **Relatives-** Farmers generally borrow money from their relatives
- **Traders and commission Agents-** Traders and commission agents are also advancing loan to the farmers for productive purposes before the maturity of the crop
- **Landlords-** small as well as marginal farmers and tenants take loan from land lords for meeting their financial requirements

Institutional Sources

At the time of independence, moneylenders and traders exploited small and marginal farmers and landless labourers by lending to them on high interest rates and by manipulating the accounts to keep them in a debt-trap. . A major change occurred after 1969 when India adopted social banking and multiagency approach to adequately meet the needs of rural credit. As a result number of agencies approved by the government entered into the area of rural credit, they are called institutional sources. The different sources of institutional credit is given below

- **National Bank for Agriculture and Rural Development (NABARD).** -It was set up in 1982 as an apex body to coordinate the activities of all institutions involved in the rural financing system
- **Commercial Banks-** In the initial period, the commercial banks of our country have played a major role in advancing rural credit in 1950-51 only 1% of agriculture credit was advanced by the banks but after the nationalisation of

commercial banks in **1969**, the commercial bank started to extend financial support to farmers

- **Co-operative credit societies-** Source of rural credit at reasonable interest rate
- **Land development banks-** Provide long term loans for 15-20 years
- **Regional rural banks-** These banks are operated in rural area where no banking facilities are available
- **Self help groups-** Recently, Self-Help Groups (henceforth SHGs) have emerged to fill the gap in the formal credit system because the formal credit delivery mechanism has not only proven inadequate but has also not been fully integrated into the overall rural social and community development. The SHGs promote thrift in small proportions by a minimum contribution from each member. From the pooled money, credit is given to the needy members to be repayable in small instalments at reasonable interest. Such credit provisions are generally referred to as **micro-credit programmes**

'Kudumbashree' is a women-oriented community-based poverty reduction programme being implemented in Kerala. In 1995, a thrift and credit society was started as a small savings bank for poor women with the objective to encourage savings. The thrift and credit society mobilised Rs 1 crore as thrift savings. These societies have been acclaimed as the largest informal banks in Asia in terms of participation and savings mobilised.

Problems in rural credit

- Formal institutions other than commercial banks have failed to develop a culture of deposit mobilisation — lending to worthwhile borrowers and effective loan recovery
- Agriculture loan default rates have been chronically high. It is alleged that farmers are deliberately refusing to pay back

Jan Dhan Yojana

- Started in 2014
- All adults are encouraged to open bank accounts
- Accidental insurance coverage of 1 to 2 lakhs
- Overdraft facility of Rs10000
- No need to keep minimum bank balance

Agricultural market system- Agricultural marketing is a process that involves the assembling, storage, processing, transportation, packaging, grading and distribution of different agricultural commodities across the country

Problems faced by farmers in marketing

- faulty weighing
- Manipulation of accounts
- Lack of required information prices prevailing in the markets
- Lack of storage facilities

Measures to improve Agricultural marketing

Regulated markets- in regulated markets sale and purchase of produce is checked by market committee consisting the representatives of government to create orderly and transparent marketing

Provision of physical infrastructure- roads, railways, warehouses, godowns, cold storages and processing units

Co-operative marketing- This is the measure taken by government in realising fair prices for farmers' product. (Milk co-operatives in Gujarat is the best example of success of co-operative marketing)

Different policy instruments- It includes

- Minimum support prices
- Maintenance of buffer stocks
- Public distribution system

Emerging Alternate Marketing channels

An alternate way for agriculture marketing that has emerged are channels where farmers can directly sell their produce to consumers. Some examples are

- *Apni Mandi* (Punjab, Haryana and Rajasthan);
- *Hadaspar Mandi* (Pune)
- *Rythu Bazars* (vegetable and fruit markets in Andhra Pradesh and Telangana)
- *Uzhavar Sandies* (farmers markets in Tamil Nadu)

Diversification of Agricultural Activities

Agricultural diversification has two aspects

- Change in cropping pattern
- Shift of work force from agriculture to other allied activities

Need for agricultural diversification

- greater risk in depending exclusively on farming for livelihood
- To provide productive sustainable livelihood options to rural people
- To provide supplementary employment and in realising higher levels of income for rural people to overcome poverty and other tribulations
- Since agriculture sector is over crowded in India; therefore it makes provision for additional employment
- Crop diversification increases soil fertility and control pest incidences

Non- Farms Areas of Employment

Animal Husbandry

- Livestock production provides increased stability in income, food security, transport, fuel and nutrition for the family without disrupting other food-producing activities.
- Today, livestock sector alone provides alternate livelihood options to over 70 million small and marginal farmers including landless labourers
- Poultry accounts for the largest share with 61 per cent in the live stock distribution of India

Fisheries

- Presently, fish production from inland sources contributes about 65 per cent to the total value of fish production and the balance 35 per cent comes from the marine sector (sea and oceans)
- Total fish production accounts for 0.9 per cent of the total GDP in India
- In India, West Bengal, Andhra Pradesh, Kerala, Gujarat, Maharashtra and Tamil Nadu are major fish producing states.

Horticulture

- Growing vegetables, flowers and fruits for commercial use is known as horticulture
- Blessed with a varying climate and soil conditions, India has adopted growing of diverse horticultural crops such as fruits, vegetables, tuber crops, flowers, medicinal and aromatic plants, spices and plantation crops
- Horticulture sector contributes nearly one-third of the value of agriculture output and six per cent of Gross Domestic Product of India
- India has emerged as a **world leader** in producing a variety of fruits like mangoes, bananas, coconuts, cashew nuts and a number of spices and is the **second largest** producer of fruits and vegetables.

Information Technology

- IT can play a critical role in achieving sustainable development and food security in the twenty-first century
- Governments can predict areas of food insecurity and vulnerability using appropriate information and software tools so that action can be taken to prevent or reduce the likelihood of an emergency
- It also has a positive impact on the agriculture sector as it can disseminate information regarding emerging technologies and its applications, prices, weather and soil conditions for growing different crops etc

Organic Farming- Organic agriculture is a whole system of farming that restores, maintains and enhances the ecological balance

Benefits of organic farming

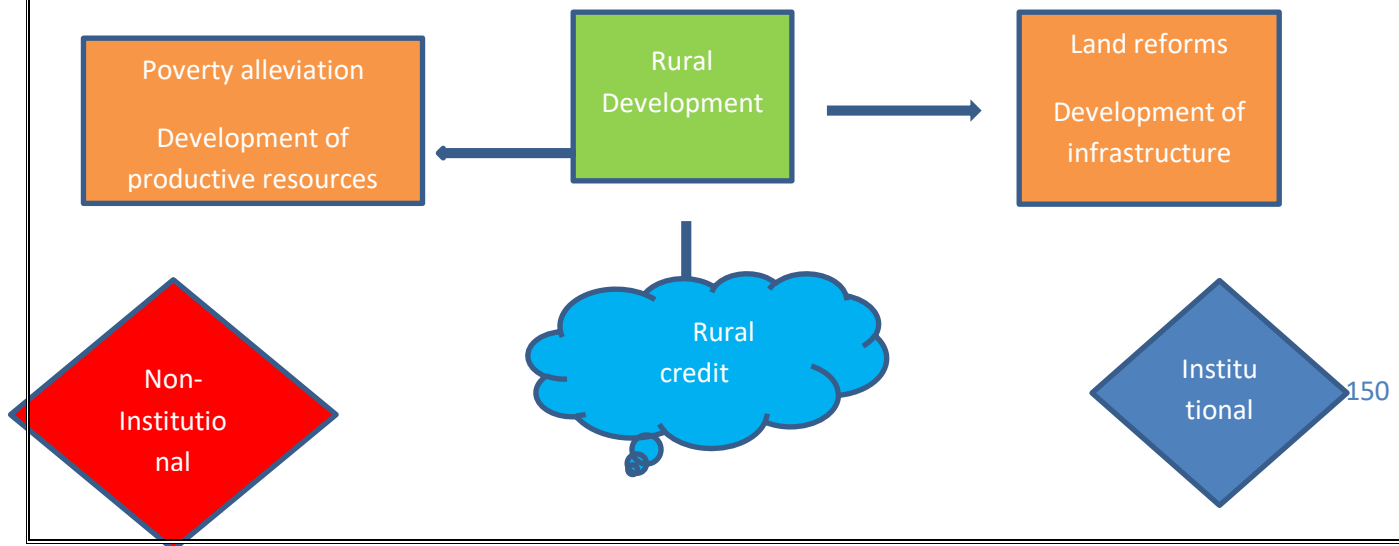
- Generate good return on investment by using locally produced input instead of costly inputs
- Organic agriculture also generates income through exports as the demand for organically grown crops is on a rise
- organically grown food has more nutritional value than chemical farming thus providing us with healthy foods
- Since organic farming requires more labour input than conventional farming, India will find organic farming an attractive proposition
- The produce is pesticide-free and produced in an environmentally sustainable way

Saansad Adarsh Gram Yojana (SAGY).

- **Started in October 2014**

- Members of India's Parliament need to identify and develop one village from their constituencies
- MPs can develop one village as a model village by 2016 and two more by 2019
- It covers over 2500 villages in India

Mind map





Multiple Choice Questions

1	Rural development means----- (a) Providing education to rural people (b) Providing health facilities to rural people (c) Development of agriculture (d) Which raises quality of life of rural people
2	During 1991-2012 the growth rate in agriculture was----- (a) 5% (b) 6% (c) 3% (d) 4%
3	----- was the major reason for decline in agriculture after the initiation of reforms (a) Failure of monsoon (b) Failure of marketing (c) Decline in public investment (d) All of the above
4	The harbinger of major changes in the rural credit system was ----- (a) NABARD (b) Green revolution (c) Operation Flood (d) Land Development banks
5	Growth of rural economy depends primarily on infusion of -----from time to time (a) capital (b) labour (c) credit (d) demand
6	That which have emerged to fill gap in the rural credit system in rural development is (a) NABARD (b) Regional rural banks (c) Money lenders (d) Self Help Groups
7	The concept of social banking was introduced in India with the----- (a) regulation of money lenders (b) Introduction of cooperative agricultural marketing societies (c) introduction of minimum support price policy (d) nationalisation of commercial banks
8	10% of goods produced in farms are wasted due to lack of ----- (a) processing (b) storage (c) transportation (d) market
9	MSP refers to (a) Minimum Support Price (b) Maximum Support Price (c) Manageable support price (d) Manipulated Support Price
10	Farmers get an assured of procurement of their produce at pre determined price through ----- (a) MNCs (b) private contractors (c) Government intervention (d) None of the above
11	Which among the following is an advantage of agricultural diversification ? (a) Reduces the risk from agriculture (b) Combats seasonal unemployment (c) Provides gainful employment (d) All of the above
12	Blessed with varying climate and soil conditions, India leads in ---

	(a) apiculture (b) horticulture (c) sericulture (d) aquaculture
13	<p>Agriculture marketing does not comprise of -----</p> <p>(a) Transportation of produce to the market place for sale</p> <p>(b) Grading of produce according to the quality</p> <p>© Storage of produce for sale in the future</p> <p>(d) Credit taken to meet expenditure on agriculture</p>
14	<p>Institutional sources of credit consist of :</p> <p>(a) Money lenders, traders, relatives and land owners</p> <p>(b) Rural co-operative societies, commercial banks and regional rural banks</p> <p>(c) Central Bank</p> <p>(d) Primary agricultural credit societies</p>
15	<p>which of the following is an advantage of institutional source of credit ?</p> <p>(a) easy procedure (b) Available even for unproductive purposes</p> <p>© Lower rate of interest (d) Timely flow of credit</p>
16	<p>Which of the following is a process that involves assembling, storage, processing, transportation, packaging, grading, and distribution of different agricultural commodities across the country</p> <p>(a) Agricultural marketing (b) Agricultural management</p> <p>© Agricultural Banking (d) Agricultural diversification</p>
17	<p>----- is a form of market intervention by the government of India to insure agricultural producers against any sharp fall in prices</p> <p>(a) Minimum support prices (b) Adequate prices</p> <p>(a) Quality assured prices (d) Structural adjustment prices</p>
18	<p>TANWA, a programme initiated in Tamil Nadu aimed at</p> <p>(a) Providing loans to farmers at lower interest rate</p> <p>(b) Training women in latest agricultural technique</p> <p>© Providing seeds fertilizers at subsidised rate</p> <p>(d) All of the above</p>
19	<p>Operation Flood is related with</p> <p>(a) control on flood (b) Production of milk</p> <p>© production of fish (d) Irrigation</p>
20	<p>The main objective of the Saansad Adarsh Gram Yojana as introduced by the government of India in 2014 is</p> <p>(a) Opening up of schools and hospitals across the state</p> <p>(b) Provision of loan at lower interest rate</p> <p>(c) MPs have to identify and develop one village from their constituencies</p> <p>(d) None of the above</p>
21	<p>Which among the following statement is not true about Jan Dhan Yojana</p> <p>(a) It was started in 2014</p> <p>(b) All adults are encouraged to open bank accounts</p>

	(c) All account holders have to keep minimum balance (d) Accidental insurance coverage of 1 to 2 lakhs				
22	Which among the following statement is not true about “kudumbasree” (a) It is a women oriented programme (b) It is a community based poverty reduction programme (c) It is an example of self help group (d) It is being implemented in Tamil Nadu				
23	Which of the following accounts for the largest share in the live stock sector in India? (a)Poultry (b) Cattle (c) Goats (d) Ponies and Mules				
24	The alternate marketing channels in Punjab ,Haryana and Rajasthan are known as---- (a) Navi Mandi (b) Apni Mandi (c) Sabki Mandi (d) None of these				
25	Identify the incorrect statement from the following. (a) Organic farming uses locally produced organic inputs (b) Organic farming generates income through exports (c) Organic farming provides healthy food (d) Organic farming requires less labour input than conventional farming				
26	Identify the incorrect statement from the following (a) There was a progressive increase in budgetary allocation for fisheries in India (b) Fish production contributes to 0.9 percentage of GDP (c) Marine sector (sea and oceans) contribute more to total fish production than inland sources (d) A large share of fish workers face rampant underemployment				
27	NABARD was set up in 1982 as a/the ----- body to coordinate the activities of all institutions involved in the rural financial system (a) Co operative (b) apex (c) micro credit (d) private credit				
28	The sector providing alternate livelihood options to 70 millions small and marginal farmers is---- (a) Livestock (b) Agro processing (c) Fisheries (d) Apni Mandi				
29	The Golden Revolution was a period of high productivity in (a) Food grain (b) Horticulture (c) Organic farming (d) Pisciculture				
30	Diversification of agricultural activities means (a) Change in cropping pattern (b) Shift of workforce from agriculture to allied activities (c) Both (a) and (b) (d) None of the above				
31	Match the correct combination between the following columns <table border="1"> <thead> <tr> <th>Column A</th><th>Column B</th></tr> </thead> <tbody> <tr> <td>A. Micro credit</td><td>i. Assured prices to farmers by government</td></tr> </tbody> </table>	Column A	Column B	A. Micro credit	i. Assured prices to farmers by government
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33	<p>Read the following statements- Assertion (A) and Reason (R). Choose one of the alternative given below</p> <p>Assertion (A) The IT has a positive impact on the agriculture sector</p> <p>Reason (R) It can disseminate information regarding emerging technologies and applications, prices, weather and soil conditions for growing different crops etc</p> <p>(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)</p> <p>(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)</p> <p>(c) Assertion (A) is true but Reason (R) is false</p> <p>(d) Assertion (A) is false but Reason (R) is true</p>																																								
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35	<p>Read the following statements- Assertion (A) and Reason (R). Choose one of the alternative given below</p> <p>Assertion (A) Alternate marketing channels are a ray of hope for small and marginal farmers</p> <p>Reason (R) Current market channels have not been able to defend the interest small and marginal farmers from the middlemen</p> <p>(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)</p> <p>(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)</p> <p>(c) Assertion (A) is true but Reason (R) is false</p> <p>(d) Assertion (A) is false but Reason (R) is true</p>
36	<p>Read the following statements- Assertion (A) and Reason (R). Choose one of the alternative given below</p> <p>Assertion (A) The yields from organic farming are more than modern agricultural farming</p> <p>Reason (R) The yields from organic farming are less than modern agricultural farming in initial years</p> <p>(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)</p> <p>(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)</p> <p>(c) Assertion (A) is true but Reason (R) is false</p> <p>(d) Assertion (A) is false but Reason (R) is true</p>
37	<p>Read the following statements- Assertion (A) and Reason (R). Choose one of the alternative given below</p> <p>Assertion (A) Even today ,more than 10 percent of goods produced in farms are wasted</p> <p>Reason (R) The current infrastructure facilities are quite inadequate to meet growing demand</p> <p>(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)</p> <p>(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)</p> <p>(c) Assertion (A) is true but Reason (R) is false</p> <p>(d) Assertion (A) is false but Reason (R) is true</p>
38	<p>Read the following statements- Assertion (A) and Reason (R). Choose one of the alternative given below</p> <p>Assertion (A) The idea of village development being at the centre of the over all development of the nation is relevant today ,when we see around us growing cities with large industries and modern information technology hub</p> <p>Reason (R) More than two-third of India's population depends on agriculture that is yet to become productive, one –third of rural India still lives in abject poverty</p> <p>(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)</p>

	<p>(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)</p> <p>(c) Assertion (A) is true but Reason (R) is false</p> <p>(d) Assertion (A) is false but Reason (R) is true</p>
39	<p>Read the following statements- Assertion (A) and Reason (R). Choose one of the alternative given below</p> <p>Assertion (A) Operation flood increased the production of milk in the country</p> <p>Reason (R) Operation flood is based on cooperative marketing</p> <p>(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)</p> <p>(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)</p> <p>(c) Assertion (A) is true but Reason (R) is false</p> <p>(d) Assertion (A) is false but Reason (R) is true</p>
40	<p>Read the following statements- Assertion (A) and Reason (R). Choose one of the alternative given below</p> <p>Assertion (A) An efficient and effective rural credit delivery system is crucial for raising agricultural productivity and income</p> <p>Reason (R) Lack of strictness in the recovery of loans ,the default rate has tended to rise over time</p> <p>(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)</p> <p>(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)</p> <p>(c) Assertion (A) is true but Reason (R) is false</p> <p>(d) Assertion (A) is false but Reason (R) is true</p>
	<p>Read the following case study carefully and answer questions from 41 to 44</p> <p>The revolutionary Billion –litre idea and execution of the worlds largest dairy –agricultural development program, Operation Flood transformed India from a nation with massive production of milk and dairy products</p> <p>Operation Flood is the programme initiated by the National Dairy Development Board to speed up the white revolution. It created a national milk grid linking producers throughout with customers in over 700 towns and cities, reducing seasonal and regional price variations while ensuring that producer gets a major share of the price consumers pay by cutting out middlemen</p> <p>The bedrock of Operation Flood that made the white revolution a success, was village milk producers cooperatives ,which procured milk and provided inputs and services, making modern management and technology available to members</p>
41	<p>Operation Flood was initiated in:</p> <p>(a) 1965 (b) 1966 (c) 1967 (d) 1968</p>
42	<p>Operation Flood is based on the model of-----</p> <p>(a) Cooperative marketing (b) regulated marketing</p> <p>© Self help group d) MSP</p>
43	<p>Which state is known as epicentre of milk cooperatives in India?</p> <p>(a) Kerala (b) Tamil Nadu (c) Andhra Pradesh (d) Gujarat</p>

44	<p>Which among the following is not a true statement</p> <p>(a) The main purpose of Cooperative credit societies is to provide adequate credit to farmers at reasonable rate of interest</p> <p>(b) Financial management of cooperative is a raising concern in different part of the country</p> <p>(c) Cooperative credit societies are examples of non-institutional sources of credit</p> <p>(d) 90% of agricultural marketing is still handled by private traders</p>
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Answer Key

1.d	2.c	3.c	4. b	5.a	6.d	7.d	8. b	9.a	10.c
11. d	12. b	13. d	14.b	15.c	16. a	17. a	18.b	19.b	20.c
21.c	22.d	23.a	24.b	25.d	26.c	27.b	28.a	29.b	30.c
31.b	32.a	33.a	34.a	35.a	36.d	37.b	38.a	39.a	40.b
41.b	42.a	43.d	44.a						

Tips for attempting the MCQ

- **Read the entire question.**
Read a multi-choice question in its entirety before glancing over the answer options.
- **Answer it in your mind first.**
After reading a question, answer it in your mind before reviewing the answer options.
- **Eliminate wrong answers.**
Eliminate answer options which you're 100 percent sure are incorrect before selecting the answer you believe is correct.
- **Use the process of elimination.**
Using the process of elimination, cross out all the answers you know are incorrect, then focus on the remaining answers.
- **Select the best answer.**
It's important to select the *best* answer to the question being asked, not just an answer that seems correct.
- **Read every answer option.**
Read every answer option prior to choosing a final answer.
- **Answer the questions you know first.**
If you're having difficulty answering a question, move on and come back to tackle it once you've answered all the questions you know.

- **Pay attention to these words...**
Pay particularly close attention to the words *not*, *sometimes*, *always*, and *never*.
- **"All of the above" and "None of the above"**
When you encounter "All of the above" and "None of the above" answer choices, do not select "All of the above" if you are pretty sure any one of the answers provided is incorrect. The same applies for "None of the above" if you are confident that at least one of the answer choices is true.
- **When there are seemingly two correct answers.**
When two answers are correct in a multiple choice question with an "All of the above" option, then it's probably the correct choice.
- **Place your bet on the positive option.**
In most cases, a positive option is probably true if there is also a negative one.
- **The more information... the better.**
More often than not, the correct answer usually contains more information than the other options. This is good to know if you must guess.

CBSE SAMPLE QUESTION PAPER – 2021-22
TERM 1 - CLASS 12 ECONOMICS

Time: 90 minutes

Theory: 40 Marks

GENERAL INSTRUCTIONS:

1. There are a total 60 questions in this paper out of which 50 questions are to be attempted.
2. This paper is divided into three Sections:
 - a. Section A – Contains 24 questions. Attempt any 20 questions
 - b. Section B – Contains 24 questions. Attempt any 20 questions
 - c. Section C – Contains 12 questions. Attempt any 10 questions
3. All Questions carry equal marks.
4. There are no negative marking

Q.NO.	QUESTIONS
	SECTION A (20 questions out of 24 questions are to be attempted)
1	<p>The Government can achieve its budget objective of 'Redistribution of Income' by _____ (Fill up the blank with correct alternative)</p> <ol style="list-style-type: none"> a) managing the General Price Level in the economy to the desired level. b) increasing the Gross Domestic Products (GDP) of the economy. c) bringing the production of goods and services under its direct and absolute control. d) rationalisation of taxes in pro-poor direction.
2	<p>Balance of Payments of an economy records _____ for a fiscal year. (Fill up the blank with correct alternative)</p> <ol style="list-style-type: none"> a) income and expenditure of the government b) inflow and outflow of funds of the government c) inflow and outflow of foreign exchange to/from the economy d) inflow and outflow of loans to/from the rest of the world
3	<p>Identify which of the following bank does not interact directly with the general public? (Choose the correct alternative)</p> <ol style="list-style-type: none"> a) Bank of India b) State Bank of India c) Central Bank of India d) Reserve Bank of India
4	<p>Identify which of the following is not an example of 'invisible item' under Current Account of the Balance of Payments transactions: (Choose the correct alternative)</p> <ol style="list-style-type: none"> a) Air and sea transport b) Postal and courier services c) Education-related travel d) Merchandise linked transactions
5	<p>Read the following statements carefully and choose the correct alternative from the following:</p> <p>Statement 1 – Demonetization was the step taken by the Government of India in order to tackle the problems of corruption, black money, terrorism and circulation of fake currency in the Indian Economy.</p> <p>Statement 2 – Demonetization has ensured improved tax compliance in India over the period of time.</p> <p>Alternatives:</p> <ol style="list-style-type: none"> a) Both the statements are true. b) Both the statements are false. c) Statement 1 is true and Statement 2 is false d) Statement 2 is true and Statement 1 is false
6	<p>Ms Sakshi, an economics teacher, was explaining the concept of 'minimum percentage of the total deposits to be kept by any commercial bank with the Central Bank of the country, as per norms and statute prevailing in the country'.</p>

	<p>From the following, choose the correct alternative which specifies towards the concept explained by her?</p> <ul style="list-style-type: none"> a) Cash Reserve Ratio b) Repo Rate c) Bank Rate d) Statutory Liquidity Ratio
7	<p>Two friends Mira and Sindhu were discussing the exchange rate systems. 'Under this system, the exchange rates are determined by the market forces of demand and supply. However, deliberate efforts are made by the competent authority to keep the exchange rates within a specific range'.</p> <p>The above-mentioned statement was given by Sindhu, identify the type of exchange rate system was she talking about?</p> <ul style="list-style-type: none"> a) Fixed Exchange Rate b) Floating Exchange Rate c) Managed Floating Exchange Rate d) Managed Fixed Exchange Rate
8	<p>Read the following statements carefully and choose the correct alternative from the following:</p> <p>Statement 1 – Public goods are those goods and services that are collectively consumed by the public.</p> <p>Statement 2 – Public goods are excludable and rivalrous in nature.</p> <p>Alternatives:</p> <ul style="list-style-type: none"> a) Both the statements are true. b) Both the statements are false. c) Statement 1 is true and Statement 2 is false d) Statement 2 is true and Statement 1 is false
9	<p>Under the Balance of Payments structure of a nation, the two main categories of accounts for the classification of the transactions are___ and ___. (Fill up the blank with correct alternative)</p> <ul style="list-style-type: none"> i. current account ii. unilateral transfer account iii. capital account iv. loan account <p>Identify the correct alternatives from the following:</p> <p>Alternatives:</p> <ul style="list-style-type: none"> a) i and ii b) i and iii c) iii and iv d) iv and i
10	<p>Identify which of the following is not a function of the Reserve Bank of India?</p> <p style="text-align: right;">(Choose the correct alternative)</p> <ul style="list-style-type: none"> a) To act as the banker to the Government of India. b) To act as the custodian of the gold reserve of India c) To act as the financial advisor to the Government of India d) To issue coins and one rupee note
11	<p>Industrial Policy Resolution (IPR) 1956 formed the basis of the_____ Five Year Plan.</p> <p style="text-align: right;">(Fill up the blank with correct alternative)</p> <ul style="list-style-type: none"> a) First b) Fourth c) Second a) Third
12	<p>Occupational structure refers to_____ (Fill in the blank with correct alternative)</p> <ul style="list-style-type: none"> a) size of labour force in a country

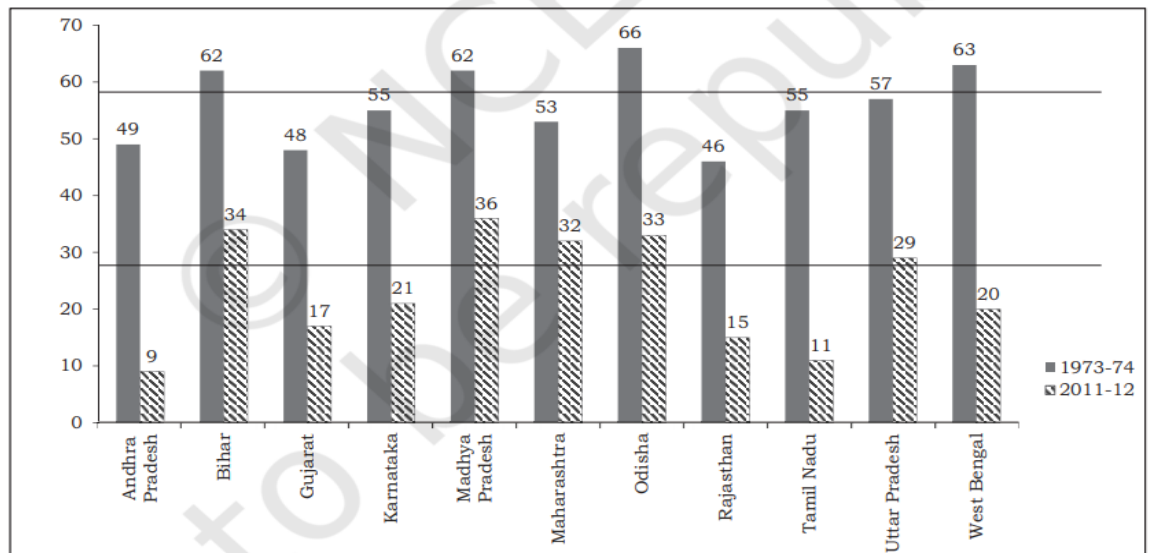
	<div>b) number of people living in a country</div> <div>c) distribution of workforce among different sectors of an economy</div> <div>d) nature of different occupations</div>																				
13	<div>_____ is the portion of agricultural produce which is sold in the market by the farmers, after meeting their self-consumption requirements. (Fill in the blank with correct alternative)</div> <div>a) Trade Surplus</div> <div>b) Marketable Surplus</div> <div>c) Producer Surplus</div> <div>d) Consumer Surplus</div>																				
14	<div>Read the following statements carefully and choose the correct alternatives given below:</div> <div>Statement 1 –Poverty line in India is defined in terms of monetary value of the minimum nutritional (calorific) requirements of an individual in a day.</div> <div>Statement 2 – The definition of poverty line in monetary terms has not changed over the years.</div> <div>Alternatives:</div> <div>a) Both the statements are true.</div> <div>b) Both the statements are false.</div> <div>c) Statement 1 is true and Statement 2 is false</div> <div>d) Statement 2 is true and Statement 1 is false</div>																				
15	<div>Read the following statements carefully and choose the correct alternatives given below:</div> <div>Statement 1 – India is often called as the ‘outsourcing hub’ of the world.</div> <div>Statement 2 – Availability of skilled manpower is one of the prime factors responsible for the status gained by India at the international platform.</div> <div>Alternatives:</div> <div>a) Both the statements are true.</div> <div>b) Both the statements are false.</div> <div>c) Statement 1 is true and Statement 2 is false</div> <div>d) Statement 2 is true and Statement 1 is false</div>																				
16	<div>Before the advent of Green Revolution in 1960’s, India was primarily dependent on _____ for the supply of food grains. (Fill in the blank with correct alternative)</div> <div>a) United States of America (USA)</div> <div>b) Britain (United Kingdom)</div> <div>c) Mexico</div> <div>a) Union of Soviet Socialist Republics (USSR)</div>																				
17	<div>From the following given sets of statements in column I and II, choose the correct pair of statements.</div> <table><tr><td></td><td>Column I</td><td></td><td>Column II</td></tr><tr><td>A</td><td>Exports of goods and services</td><td>i</td><td>Excess of Exports of goods over the Imports of goods</td></tr><tr><td>B</td><td>Trade Surplus</td><td>ii</td><td>An element of invisible items</td></tr><tr><td>C</td><td>Current Transfers to rest of the world</td><td>iii</td><td>Recorded as a positive item in the BOP account</td></tr><tr><td>D</td><td>Portfolio Investments</td><td>iv</td><td>Foreign Institutional Investors</td></tr></table>		Column I		Column II	A	Exports of goods and services	i	Excess of Exports of goods over the Imports of goods	B	Trade Surplus	ii	An element of invisible items	C	Current Transfers to rest of the world	iii	Recorded as a positive item in the BOP account	D	Portfolio Investments	iv	Foreign Institutional Investors
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	<p>Alternatives:</p> <p>a) A-i b) B-ii c) C-iii d) D-iv</p>
18	<p>National Bank for Agricultural and Rural Development (NABARD) was set up in 1982 as a/the_____body to coordinate the activities of all institutions involved in the rural financing system. (Fill in the blank with correct alternative)</p> <p>a) cooperative b) apex c) micro credit d) private credit</p>
19	<p>The Government of India has decided to vaccinate the adult population of India (with Covaxin/Covishield), without any charge. This would be categorized as _____ (Fill in the blank with correct alternative)</p> <p>a) revenue nature income b) capital nature expenditure c) revenue nature expenditure d) capital nature income</p>
20	<p>_____ is not a reason for poverty in India. (Fill in the blank with correct alternative)</p> <p>a) population explosion b) rise in per capita GDP c) low capital formation d) socio-economic exclusion</p>
21	<p>In a hypothetical economy, Mr. Neeraj has deposited ₹100 in the bank. If it is assumed that there is no other currency circulation in the economy, then the total money supply in the economy will be _____ (Fill up the blank with correct alternative)</p> <p>a) zero b) ₹ 100 c) not defined d) ₹ 120</p>
22	<p>‘Since independence, India has witnessed a considerable fall in the Infant Mortality Rate in India’ Identify which of the following may not be one of the reasons for the fall in the Infant Mortality Rate? (Choose the correct alternative)</p> <p>a) Improvement in health facilities over the years b) Improvement in educational standards over the years c) Fall in standard of living of the population of the nation over the years d) Technological expansion over the years</p>
23	<p>Read the following statements carefully and choose the correct alternatives given below: Statement 1 – Subsidies do not add any burden on the financial health of a nation. Statement 2 – Complete removal of subsidies may violate the aim of equitable distribution of income.</p> <p>Alternatives:</p> <p>a) Both the statements are true. b) Both the statements are false. c) Statement 1 is true and Statement 2 is false d) Statement 2 is true and Statement 1 is false</p>

24	<p>Prior to India's independence, the stagnation in the agricultural sector was mainly caused by _____.</p> <p>(Fill up the blank with correct alternative)</p> <ul style="list-style-type: none"> a) investment in technology b) investment in agriculture facilities c) advanced infrastructural facilities d) land settlement system
	<p style="text-align: center;">SECTION B</p> <p style="text-align: center;">(20 questions out of 24 questions are to be attempted)</p>
25	<p>Read the following statements - Assertion (A) and Reason (R):</p> <p>Assertion (A) – Acquisition of a domestic (Indian) company by a foreign (Australian) company will be recorded on the credit side of Balance of Payment Account.</p> <p>Reason(R) – It leads to outflow of foreign exchange from the domestic economy.</p> <p>From the given alternatives choose the correct one:</p> <p>Alternatives:</p> <ul style="list-style-type: none"> a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A). c) Assertion (A) is true but Reason (R) is false. d) Assertion (A) is false but Reason (R) is true.
26	<p>Suppose in an economy, the initial deposits of ₹ 400 crores lead to the creation of total deposits worth ₹ 4000 crores.</p> <p>Under the given situation the value of reserve requirements would be _____</p> <p>(Fill up the blank with correct alternative)</p> <ul style="list-style-type: none"> a) 0.01 b) 1 c) 0.1 d) 0.4
27	<p>Read the following statements - Assertion (A) and Reason (R):</p> <p>Assertion (A) – Major policy initiatives (land reforms and Green Revolution) helped India to become self-sufficient in food grains production.</p> <p>Reason(R) – The proportion of people depending on agriculture did not decline as expected after the Green Revolution.</p> <p>From the given alternatives choose the correct one:</p> <p>Alternatives:</p> <ul style="list-style-type: none"> a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A). c) Assertion (A) is true but Reason (R) is false. d) Assertion (A) is false but Reason (R) is true.
28	<p>Identify the incorrect statement from the following: (Choose the correct alternative)</p> <ul style="list-style-type: none"> a) Diversification in agriculture sector provides sustainable livelihood rural population. b) Diversification includes - change in cropping pattern, shift of workforce from agriculture to other allied activities and non-agriculture sector. c) Objective of investment in new agricultural avenues (non-farm activities) increases financial risks for the rural population.

	d) Diversification reduces the proportion of unemployed population in the rural areas to considerable limits.										
29	<p>Read the following statements - Assertion (A) and Reason (R):</p> <p>Assertion (A) – Human capital treats human beings as a means to an end (increase in productivity).</p> <p>Reason(R) – Human Capital Formation decreases by way of investments in education and health.</p> <p>From the given alternatives choose the correct one:</p> <p>Alternatives:</p> <p>a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).</p> <p>b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).</p> <p>c) Assertion (A) is true but Reason (R) is false.</p> <p>d) Assertion (A) is false but Reason (R) is true.</p>										
30	<p>From the set of statements given in Column I (Name of the Scheme) and Column II (Objective of Poverty Alleviation Program), choose the correct pair of statements:</p> <table border="1"> <thead> <tr> <th>Column I (Name of the Scheme)</th><th>Column II (Objective of Poverty Alleviation Program)</th></tr> </thead> <tbody> <tr> <td>A) Mahatma Gandhi National Rural Employment Guarantee Act</td><td>i) developing infrastructure and housing conditions</td></tr> <tr> <td>B) Poshan Abhiyan (Mid Day Meal Programme)</td><td>ii) guaranteed wage employment to rural unskilled worker</td></tr> <tr> <td>C) National Social Assistance Programme</td><td>iii) helping specific group – elderly people by giving them pensions</td></tr> <tr> <td>D) Valmiki Ambedkar Awas Yojana</td><td>iv) improving food and nutritional status of the poor</td></tr> </tbody> </table> <p>Alternatives:</p> <p>a) A-i</p> <p>b) B-ii</p> <p>c) C-iii</p> <p>d) D-iv</p>	Column I (Name of the Scheme)	Column II (Objective of Poverty Alleviation Program)	A) Mahatma Gandhi National Rural Employment Guarantee Act	i) developing infrastructure and housing conditions	B) Poshan Abhiyan (Mid Day Meal Programme)	ii) guaranteed wage employment to rural unskilled worker	C) National Social Assistance Programme	iii) helping specific group – elderly people by giving them pensions	D) Valmiki Ambedkar Awas Yojana	iv) improving food and nutritional status of the poor
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31



Note: For the year 1973, Uttar Pradesh includes the present Uttarakhand; Madhya Pradesh includes Chhattisgarh and Bihar includes Jharkhand.

Figure Showing Population below poverty line in some large states, 1973-2012 (%)

On the basis of the given bar diagram, identify the states which are able to reduce the poverty level as compared to other states between 1973 -2012.

- Tamil Nadu, Gujrat, Bihar, Andhra Pradesh
- Bihar, Madhya Pradesh, West Bengal and Orissa
- Rajasthan, Madhya Pradesh, Bihar and Uttar Pradesh
- Andhra Pradesh, Rajasthan, West Bengal and Tamil Nadu

32

Select Indicators of Development in Education and Health Sectors

Particulars		1951	1981	1991	2001	2016-17
Real Per Capita Income (in Rs)		7.651	12.174	15,748	23,095	77,659
Crude Death Rate (Per 1,000 Population)		25.1	12.5	9.8	8.1	6.3
Infant Mortality Rate		146	110	80	63	33
Life Expectancy at Birth (in Years)	Male	37.2	54.1	59.7	63.9	67
	Female	36.2	54.7	60.9	66.9	70
Literacy Rate (%)		16.67	43.57	52.21	65.20	76

Source: Economic Survey for various years, Ministry of Finance National Statistical Office & Ministry of Statistics and Programme Implementation; Government of India.

On the basis of the above-mentioned information answer the following question:

The Real Per Capita Income of India (as per the given data) has increased by _____ (approximately) between 1951 and 2016-17. (Fill up the blank with correct alternative)

- 915 %
- 1015 %
- 815 %
- 715 %

33

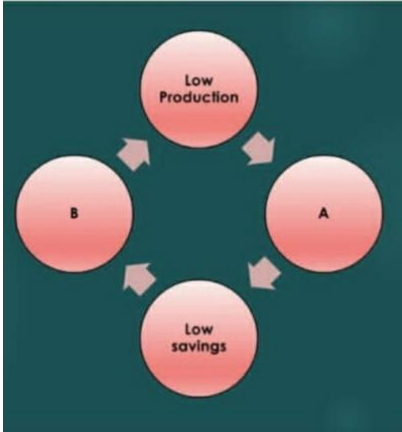
Read the following statements - Assertion (A) and Reason (R):

Assertion (A) – The goal of equitable distribution of land was fully served by abolition of intermediaries, in the post-independence India.

Reason(R) – Big landlords challenged the land ceiling legislation, delaying the implementation and subsequently escaping from the legislation

	<p>From the given alternatives choose the correct one:</p> <p>Alternatives:</p> <ul style="list-style-type: none"> a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A). c) Assertion (A) is true but Reason (R) is false. d) Assertion (A) is false but Reason (R) is true.
34	<p>Read the following statements carefully and choose the correct alternatives given below:</p> <p>Statement 1 – The emergence of Self-Help Groups (SHG's) ensured the reduction in the fissures of the formal credit system.</p> <p>Statement 2 – The borrowings from SHGs mainly confined to consumption purposes by its members.</p> <p>Alternatives:</p> <ul style="list-style-type: none"> a) Both the statements are true. b) Both the statements are false. c) Statement 1 is true and Statement 2 is false d) Statement 2 is true and Statement 1 is false
35	<p>Read the following statements carefully and choose the correct alternatives given below:</p> <p>Statement 1 – The value of money multiplier is determined by the reserve ratio prevailing in the monetary system.</p> <p>Statement 2 – The process of credit creation directly relates to the value of reserve ratio.</p> <p>Alternatives:</p> <ul style="list-style-type: none"> a) Both the statements are true. b) Both the statements are false. c) Statement 1 is true and Statement 2 is false d) Statement 2 is true and Statement 1 is false
36	<p>Arrange the following event in the correct chronological order:</p> <p style="text-align: right;">(Choose the correct arrangements)</p> <ul style="list-style-type: none"> i. The year of great divide ii. Establishment of Tata Iron and Steel Company (TISCO) iii. Introduction of Railways in India by the British iv. Opening of Suez Canal <p>Alternatives:</p> <ul style="list-style-type: none"> a) iv,ii,i,iii b) i,iv,iii,ii c) ii,iii,iv,i d) iii,iv,ii,i
37	<p>Read the following statements -Assertion (A) and Reason(R), choose one of the correct alternatives given below:</p> <p>Assertion (A): Trade of invisible items between two nations is a part of capital account of Balance of Payment</p> <p>Reason(R): Transactions that affect the asset-liability status of a country in relation to the rest of the world are known as Capital Account transaction.</p> <p>Alternatives:</p> <ul style="list-style-type: none"> a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

	<p>b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).</p> <p>c) Assertion (A) is true but Reason (R) is false.</p> <p>d) Assertion (A) is false but Reason (R) is true.</p>
38	<p>Demand Deposits include _____ and _____. (Fill up the blank with correct alternative)</p> <p>i. Saving account deposits</p> <p>ii. Fixed deposits</p> <p>iii. Current Account Deposits</p> <p>iv. Post Office Savings</p> <p>Alternatives:</p> <p>a) i and ii</p> <p>b) ii and iii</p> <p>c) i and iii</p> <p>d) i and iv</p>
39	<p>Read the following statements -Assertion (A) and Reason(R), Choose one of the correct alternatives given below:</p> <p>Assertion (A): Since the default rates of farm loans have become chronically high due to multiple reasons, the rural banks are facing a lot of cash crunch.</p> <p>Reason(R): Due to lack of proper storage facilities a lot of farm produce is wasted.</p> <p>Alternatives:</p> <p>a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).</p> <p>b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).</p> <p>c) Assertion (A) is true but Reason (R) is false.</p> <p>d) Assertion (A) is false but Reason (R) is true.</p>
40	<p>Read the following statements -Assertion (A) and Reason(R), Choose one of the correct alternatives given below:</p> <p>Assertion (A): Since Independence, the economic conditions of many farmers across India has improved as they have adopted horticulture as a secondary source of income.</p> <p>Reason(R): Varying climatic and soil conditions have given India an added advantage to be the producer of diverse horticultural crops.</p> <p>Alternatives:</p> <p>a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).</p> <p>b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).</p> <p>c) Assertion (A) is true but Reason (R) is false.</p> <p>d) Assertion (A) is false but Reason (R) is true.</p>
41	<p>Read the following statements -Assertion (A) and Reason(R), Choose one of the correct alternatives given below:</p> <p>Assertion (A): Demand Deposits are considered as a convenient mode of payment for execution of even the high value transactions.</p>

	<p>Reason(R): Demand Deposits are non-withdrawable in nature and cannot be withdrawn against issue of cheques and other similar instruments of payment.</p> <p>Alternatives:</p> <ol style="list-style-type: none"> Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A). Assertion (A) is true but Reason (R) is false. Assertion (A) is false but Reason (R) is true.
42	<p>Choose the correct alternatives to be filled in given blanks A and B.</p>  <ol style="list-style-type: none"> Low level of income and Low level of investment Low level of investment and Low level of Income Low Mobilization of savings and Low level of investment Low level of Investment and Low savings
43	<p>Ms Ramanpreet has started a new business venture, she intends to spend a huge amount towards 'on-the-job training' of her workers before putting them to work. It exhibits the right step in the direction of Human Capital Formation.</p> <p>Spot which of the following does not directly contribute to the process of human capital formation by Ms Ramanpreet:-</p> <ol style="list-style-type: none"> adds skills and expertise improves efficiency ensures gender equity increases output productivity
44	<p>Suppose that the Balance of Trade (BOT) of a nation, exhibits a surplus of ₹ 20,000 crores. The import of merchandise of the nation is half of the exports of merchandise to the rest of the world. The value of exports would be ₹ _____ crores. (Fill up the blank with correct alternative)</p> <ol style="list-style-type: none"> 30,000 40,000 24,000 35,000
45	<p>Read the following statements carefully and choose the correct alternatives given below:</p> <p>Statement 1 – Government of India adopted 'Trickle Down Approach' to alleviate poverty to benefit the last man at the bottom of the pyramid.</p> <p>Statement 2 – Empirical data over the years have shown that trickle-down theory did not yield desired results in India.</p> <p>Alternatives:</p>

	<div>a) Both the statements are true.</div> <div>b) Both the statements are false.</div> <div>c) Statement 1 is true and Statement 2 is false</div> <div>d) Statement 2 is true and Statement 1 is false</div>																				
46	<div>Read the following statements -Assertion (A) and Reason(R), Choose one of the correct alternatives given below:</div> <div>Assertion (A):If the receipts and payments on the current account are equal to each other, it depicts a situation of Current Account Surplus.</div> <div>Reason(R):A surplus current account means that the nation is a lender to other countries and a deficit current account means that the nation is a borrower from other countries.</div> <div>Alternatives:</div> <div><div>a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).</div><div>b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).</div><div>c) Assertion (A) is true but Reason (R)is false.</div><div>d) Assertion (A) is false but Reason (R)is true.</div></div>																				
47	<div>Identify the correct statement from the following: (Choose the correct alternative)</div> <div><div>a) Restrictive policies of commodity production, trade and tariff pursued by the colonial government adversely affected the structure, composition and volume of India’s foreign trade.</div><div>b) Effective trade policies of commodity production, trade and tariff pursued by the colonial government favorably affected the structure, composition and volume of India’s foreign trade.</div><div>c) Liberal policies of commodity production, trade and tariff pursued by the colonial government adversely affected the structure, composition and volume of India’s foreign trade.</div><div>d) Restrictive policies of commodity production, trade and tariff pursued by the colonial government favorably affected the structure, composition and volume of India’s foreign trade.</div></div>																				
48	<div>Match the situations given in Column I with their respective implications given in Column II: (Choose the correct alternative)</div> <table><tr><td></td><td>Column I</td><td></td><td>Column II</td></tr><tr><td>A</td><td>Migration</td><td>i.</td><td>reduced in per capita economic growth</td></tr><tr><td>B</td><td>Low level of academic standards</td><td>ii.</td><td>Imbalance between demand and supply of human resource</td></tr><tr><td>C</td><td>Population- High Growth rate</td><td>iii.</td><td>Brain Drain</td></tr><tr><td>D</td><td>Lack of proper manpower planning</td><td>iv.</td><td>Mismatch between required skill and academic standards</td></tr></table> <div><div>a) A-ii; B-iii; C-iv; D-i</div><div>b) A-iii; B-iv; C-i; D-ii</div><div>c) A-i; B-ii; C-iii; D-iv</div><div>d) A-ii; B-iv, C-i; D-iii</div></div>		Column I		Column II	A	Migration	i.	reduced in per capita economic growth	B	Low level of academic standards	ii.	Imbalance between demand and supply of human resource	C	Population- High Growth rate	iii.	Brain Drain	D	Lack of proper manpower planning	iv.	Mismatch between required skill and academic standards
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	<div>SECTION C</div> <div>(10 questions out of 12 questions are to be attempted)</div>																				
	<div>Q.No. 49 – 54 are to be answered on the basis of the following data: (in ₹ Crores)</div>																				

		2019-2020 वास्तविक Actuals	2020-2021 बजट अनुमान Budget Estimates
	1. Revenue Receipts	1684059	2020926
	2. Tax Revenue (Net to Centre)	1356902	1635909
	3. Non Tax Revenue	327157	385017
	4. Capital Receipts	1002271	1021304
	5. Recovery of Loans	18316	14967
	6. Other Receipts	50304	210000
	7. Borrowings and Other Liabilities ¹	933651	796337
	8. Total Receipts (1+4)	2686330	3042230
	9. Total Expenditure (10+13)	2686330	3042230
	10. On Revenue Account of which	2350604	2630145
	11. Interest Payments	612070	708203
₹	12. Grants in Aid for creation of capital assets	185641	206500
=	13. On Capital Account	335726	412085

Source: indiabudget.gov.in

49	The value of recovery of loans has _____ crores between 2019-20 (Actual) and 2020-21 (Budgeted Estimate). (Fill up the blank with correct alternative) a) fallen by ₹ 3349 b) risen by ₹ 3349 c) fallen by ₹ 3439 d) risen by ₹ 3439		
50	The percentage change in the Non-Tax Revenue, between 2019-20 (Actual) and 2020-21 (Budgeted Estimate), taking the 2019-20 as base, would be _____. (Fill up the blank with correct alternative) a) 15.02% b) 16.20% c) 17.68% d) 20.01%		
51	Identify which of the following is not an example of tax revenue for the government: (Choose the correct alternative) a) Wealth Tax b) Special Assessments c) Income Tax d) Corporate Tax		
52	Identify the correct formula to calculate Fiscal Deficit a) Total expenditure - Total Receipt (other than borrowings) b) Revenue Expenditure- Revenue Receipt c) Capital Expenditure- Capital Receipt d) Revenue Expenditure + Capital expenditure - Revenue Receipt		
53	**Read the following statements carefully and choose the correct alternatives given below:** **Statement 1** – Revenue and Capital receipts are increasing but borrowings and other liabilities are reducing. **Statement 2** – Grants and aid for creation of capital assets decreased from 2019 to 2021 **Alternatives:** a) Both the statements are true. b) Both the statements are false. c) Statement 1 is true and Statement 2 is false d) Statement 2 is true and Statement 1 is false		
54	The value of Primary Deficit for the year 2020-21, would be ₹ _____ crores. (Fill up the blank with correct alternative)) a) 88134 b) 321581		

	<p>c) 96133</p> <p>d) 609219</p>
	<p>Q.No. 55-60 are to be answered on the basis of the following data:</p> <p>India's post-1990 economic strategy entailed three important breaks with the past:</p> <ul style="list-style-type: none"> ● To dismantle the vast network of controls and permits that dominated the economic system. ● To redefine the role of the state as a facilitator of economic transactions and as a neutral regulator rather than the primary provider of goods and services. ● To move away from a regime of import substitution and to integrate fully with the global trading system. <p>The 1991 reforms unleashed the energies of Indian entrepreneurs and gave untold choice to the consumers and changed the face of the Indian economy. The reform agenda constituted a paradigm shift, and has defined the broad contours of economic policymaking for three decades.</p> <p>Liberalization was adopted as the guiding principle of governance and all governments since 1991, have broadly stuck to that path.</p> <p>Today we don't need a paradigm shift. We need to look at individual sectors and see which one of these needs, reforms to create a competitive environment and improve efficiency. The power sector, the financial system, governance structures and even agricultural marketing need reforms.</p> <p>Today's reforms also require much more discussion and consensus-building. The central government needs to work in tandem with state governments and consult different stakeholders impacted by reform decisions. Timing and sequencing are critically important in the new reforms' agenda.</p> <p>Source: Excerpts from 'Like 1991, the 2021 crisis presents an opportunity, by C.Rangarajan, 22nd January 2021(livemint.com)</p>
55	<p>According to the given text, _____ was adopted as the guiding principle of governance and all governments since 1991.</p> <p>a) Modernization</p> <p>b) Liberalisation</p> <p>c) Privatization</p> <p>d) Globalization</p>
56	<p>Read the following statements carefully and choose the correct alternatives given below:</p> <p>Statement 1 – 1991 was a landmark moment in India's post-independence history as that changed the nature of the economy in fundamental ways.</p> <p>Statement 2 –India's economic establishment launched a multipronged reforms agenda to repair India's macroeconomic balance sheet and ignite growth.</p> <p>Alternatives:</p> <p>a) Both the statements are true.</p> <p>b) Both the statements are false.</p> <p>c) Statement 1 is true and Statement 2 is false</p> <p>d) Statement 2 is true and Statement 1 is false</p>
57	<p>Read the following statements - Assertion (A) and Reason (R):</p>

	<p>Assertion (A) – India’s pre-1990 economic strategy dismantles the vast network of controls and permits that dominated the economic system.</p> <p>Reason(R) – The 1991 reforms unleashed the energies of Indian entrepreneurs, gave untold choice to consumers and changed the face of the Indian economy.</p> <p>From the given alternatives choose the correct one:</p> <p>Alternatives:</p> <ul style="list-style-type: none"> a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A). c) Assertion (A) is true but Reason (R) is false. d) Assertion (A) is false but Reason (R) is true.
58	<p>In the light of the given text and common knowledge, identify the incorrect statement: -</p> <ul style="list-style-type: none"> a) A severe balance of payments problem triggered an acute economic crisis in 1991. b) In 1991, the economic and political leadership launched a multipronged reforms agenda to repair the macroeconomic situation of the nation. c) In post 1991 situation, the state was d) given the role of primary regulator of the economy. e) Post pandemic, individual sectors should be looked closely. Sectors that need reforms should be identified and corrective action should be taken.
59	<p>Read the following statements carefully and choose the correct alternatives given below:</p> <p>Statement 1 – Timing and sequencing are critically important in the post-economic reformagenda.</p> <p>Statement 2 –Post pandemic reforms in India require a paradigm shift.</p> <p>Alternatives:</p> <ul style="list-style-type: none"> a) Both the statements are true. b) Both the statements are false. c) Statement 1 is true and Statement 2 is false d) Statement 2 is true and Statement 1 is false
60	<p>Read the following statements - Assertion (A) and Reason (R):</p> <p>Assertion (A) – The 1991 reforms released the vitalities of Indian businesspersons.</p> <p>Reason(R) – The reform agenda established a paradigm shiftand defined the broad outlines of economic policymaking for years to come.</p> <p>From the given alternatives choose the correct one:</p> <p>Alternatives:</p> <ul style="list-style-type: none"> a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

	<p>b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).</p> <p>c) Assertion (A) is true but Reason (R) is false.</p> <p>d) Assertion (A) is false but Reason (R) is true.</p>
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Marking Scheme

Economics (Class XII) Term I (2021-22)

Q.NO.	ANSWER	Q.NO.	ANSWER	Q.NO.	ANSWER
1	d)	21	b)	41	c)
2	c)	22	c)	42	a)
				For VI candidates	a)
3	d)	23	d)	43	c)
4	d)	24	d)	44	b)
5	a)	25	c)	45	a)
6	a)	26	c)	46	d)
7	c)	27	b)	47	a)
8	c)	28	c)	48	b)
9	b)	29	c)	49	a)
10	d)	30	c)	50	c)
11	c)	31	d)	51	b)
		For VI candidates	c)		
12	c)	32	a)	52	a)
13	b)	33	d)	53	c)
14	c)	34	a)	54	a)
15	a)	35	c)	55	b)
16	a)	36	d)	56	a)
17	d)	37	d)	57	d)
18	b)	38	c)	58	c)
19	c)	39	b)	59	c)
20	b)	40	a)	60	a)

Class -XII	
Subject: Economics	
CASE STUDY 1	
	<p>Read the following hypothetical text and answer the given questions:</p> <p>India's Micro, Small and Medium Enterprises (MSME) sector is poised for a mega transformation in 2020, with the launch of an Alibaba-like e- marketplace, trendy yet affordable khadi products to appeal to the masses and digital data-based credit ratings to help entrepreneurs avail loans. However, the MSME sector, often considered the bulwark of the economy as it contributes around 29% to the GDP and 48% to the Indian exports.</p> <p>There is an urgent need of major reforms and policy interventions towards ensuring timely availability of low cost credit, improving ease of doing business and technological up gradation, to take on the formidable challenge of creating millions of jobs, ensure equitable distribution of national income and achieving large-scale import substitution. The World Bank has recently approved loan worth \$750 million to address the immediate liquidity and credit needs of India's MSME sector that has been severely impacted by the Covid-19 crisis. This will give a push to the Atmanirbhar Bharat vision of the government.</p>
Q-1	<p>Identify which of the following is not an advantage of the MSME sector? (Choose the correct alternative)</p> <p>a) It is suited for the utilization of local resources.</p> <p>b) It is helpful in creation of employment opportunities</p> <p>c) It requires more capital than labour</p> <p>d) It ensures equitable distribution of income in the country.</p>
Q-2	MSME sector suffered to a large extent in COVID-19 pandemic situation due _____ (fill up the blank with correct answer)
Q-3	<p>Read the following statements - Assertion (A) and Reason (R)</p> <p>Assertion (A): Small scale industries ensure a more equitable distribution of national income and wealth.</p> <p>Reason (R): The ownership of small scale industries is more wide spread than the ownership of large scale industries.</p> <p>Select the correct alternative from the following:</p> <p>a) Both Assertion (A) and Reason (R) are true.</p> <p>b) Both Assertion (A) and Reason (R) are false.</p>
Q.N.-4	<p>State whether the given statement is true or false:</p> <p>Small Scale Industries are the largest employer of the labour force in India.</p>

CASE STUDY – 2

Read the following hypothetical text and answer the given questions:

The performance of Indian economy during the period of first seven five year plans (1950-1990) was satisfactory if not very impressive. On the eve of independence, India was an industrially backward country, but during this period of first seven plans our industries became far more diversified, with the stress being laid on the public investments in the industrial sector. The policy of import substitution led to protection of the domestic industries against the foreign producers but we failed to promote a strong export surplus. Although public sector expanded to a large extent but it could not bring desired level of improvement in the secondary sector. Excessive government regulations prevented the natural trajectory of growth of entrepreneurship as there was no competition, no innovation and no modernization on the front of the industrial sector.

Many Public Sector Undertakings (PSU's) incurred huge losses due to operational inefficiencies, red-tapism, poor technology and other similar reasons. These PSU's continued to function because it was difficult to close a government undertaking even it is a drain on country's limited resources.

On the Agricultural front, due to the measures taken under the Green Revolution, India more or less became self-sufficient in the production of food grains.

So the needs for reform of economic policy was widely felt in the context of changing global economic scenario to achieve desired growth in the country.

Q-1 Which of the following was not a reason for the public sector to play a major role in the initial phase of Indian Economic Planning? (choose the correct alternative)

- a) Private entrepreneurs lacked sufficient capital for investment.
- b) Government aimed at social welfare.
- c) The market was big enough to encourage private industrialists for investment.
- d) The government wanted to protect the indigenous producers from the foreign competition.

Q-2 Inward looking trade strategy aimed at _____ (fill up the blank with correct answer)

Q-3 State whether the given statement is true or false:
Mechanization of the Indian agriculture was one of the cause of Green Revolution in India.

Q-4 Read the following statements - Assertion (A) and Reason (R)
Assertion (A): Many public sector undertakings incurred huge losses due to operational inefficiencies.
Reason (R): Red-tapism was one of the reasons for continuation of such enterprises.

Select the correct alternative from the following:

- a) Both Assertion (A) and Reason (R) are true.
- b) Both Assertion (A) and Reason (R) are false.

CASE STUDY – 3

Read the following hypothetical text and answer the given questions:

Sustainable development is the synonymous in the minds of many with the colour green and for good reasons. Twenty years ago, at the First Earth Summit at Rio de Janeiro, in Brazil, world leaders set out what today is conventional wisdom: SOCIAL AND ECONOMIC HUMAN PROGRESS - cannot be divorced from environmental protection unless both are advanced together, both will flounder together.

Sustainable development is as much about health, education and jobs, as it is about the ecosystems. It is about ever widening inclusion and movement away from decisions that erode democratic space and do not address social inequality, intolerance, and violence.

Sustainable Development is about changes that transform impoverished people, communities, and countries into informed, educated healthy and productive societies. It is about wealth creation that generates equality and opportunity.

Sustainable Development is about consumption and production patterns that respect planetary boundaries; it is also about increasing tolerance and respect for human rights at all levels. Building on human development legacy that oriented with Economists like Amartya Sen and MahbubUIHaq and was captured by the first Human Development Report in 1990.

United Nations Development Programme (UNDP) has long promoted alternative approaches to measure human progress, along with the Human Development Index (HDI). Today, we are building on this legacy by exploring how to adjust the index to reflect environmental sustainability, so that governments and citizens might better track real progress towards truly sustainable development. This must be our collective objective.

Q-1 Which of the following is not one of the ways to attain the goal of sustainable development? (choose the correct alternative)

- a) Use of cleaner fuels
- b) Use of traditional knowledge and practices
- c) Spreading awareness
- d) Sticking to methods to promote inequalities.

Q-2 State whether the given statement is true or false:
As per the UNDP Report education and health are the broader issues of human development.

Q-3 Sustainable development and economic growth are _____ (directly/indirectly) related. (choose the correct alternative)

Q-4 Read the following statements - Assertion (A) and Reason (R)

Assertion (A): Sustainable Development is about changes that transform impoverished people, communities, and countries into informed, educated, healthy and productive societies.

Reason (R): Sustainable Development advocates about wealth creation that generates Socio-economic equality and opportunity.

Select the correct alternative from the following:

- a) Both Assertion (A) and Reason (R) are true.
- b) Both Assertion (A) and Reason (R) are false.

CASE STUDY – 4

Read the following hypothetical text and answer the given questions:

Infrastructure is often called as the lifeline of the economy of a nation. It comprises of a well established and well knit network of power, telecom, ports, airports, roads, civil aviation, railways and road transport in a country. Countries need adequate infrastructure so that various economic activities in an economy are executed efficiently, smoothly and above all in time. The deficiencies in the of infrastructural needs of a nation cannot be made up through imports rather the best approach is that it must be created within the domestic economy to put it on through the higher growth trajectory.

However,building of infrastructure requires large and lumpy investment and has a relatively long gestation period. Due to this fact, infrastructural facilities are either built or run by the government and public sector enterprises and if private sector is permitted to make investment and run infrastructural projects, they must be regulated in order to ensure quality infrastructure to one and all in the society.

Q-1	Identify the main category of infrastructure mentioned in the above paragraph. (choose the correct alternative) a) Social b) Economic c) Personal d) Financial
Q-2	The demand-supply gap of major infrastructural facility like power, transport can be met through_____ (fill up the blank with correct answer)
Q-3	State whether the given statement is true or false: 'Infrastructure is often called as the lifeline of the economy of a country,as it helps in increasing the productivity ofthe factors of production and enhancing the quality of life'.
Q-4	State any one reason as to why infrastructural facilities are mainly built or run by the government and public sector enterprises?

CASE STUDY- 5

Read the following hypothetical text and answer the given questions:

	<p>The Budget Estimate of total spending for 2021-22 is ₹34.83 lakh crore. The Revised Estimate (RE) for total central spending in 2020-21 is ₹34.5 lakh crore. The Gross Domestic Product (GDP) deflator — if one takes 14.4% nominal GDP growth projection for 2021-22 given in the budget and 11% real GDP forecast given in the latest Economic Survey — comes to 3.4%. This means that central spending should have increased to at least ₹35.7 lakh crore to keep it unchanged in real terms. The fact that it has not happened implies that the 2021-22 budget entails a negative fiscal stimulus to the economy.</p> <p>To be sure, one could argue that 2020-21 was an abnormal year — and, therefore, the government is justified in rolling back its welfare spending push, as the economy gets unlocked and vaccination gains momentum.</p>
Q-1	With the rise in real national income, the economic welfare of the people _____ (rises/falls). (choose the correct alternative)
Q-2	If GDP Deflator = 125, Nominal GDP= ₹15000crs. then Real GDP is equal to ₹ _____ (fill up the blank with correct answer)
Q-3	<p>Read the following statements - Assertion (A) and Reason (R)</p> <p>Assertion (A): Real GDP is always equal to Nominal GDP.</p> <p>Reason (R): Real GDP is a better measure to make periodic comparison in the physical output of goods and services over different years.</p> <p>Select the correct alternative from the following:</p> <p>a) Assertion (A) is true and Reason (R) is false.</p> <p>b) Assertion (A) is false and Reason (R) is true.</p>
Q-4	State the significance of GDP Deflator.

SUGGESTED ANSWERS TO THE CASE STUDIES

CASE STUDY 1	
Q-1	c) It requires more capital
Q-2	a) Liquidity crunch (or any other valid answer)
Q-3	a)Both Assertion (A) and Reason (R) are true.
Q-4	False
CASE STUDY 2	
Q-1	c) The market was big enough to encourage private industrialists for investment.
Q-2	protecting domestic industries from international competition. (or any other valid answer)
Q-3	True
Q-4	a) Both Assertion (A) and Reason (R) are true.
CASE STUDY 3	
Q-1	d) Sticking to methods to promote inequalities.
Q-2	True
Q-3	Directly
Q-4	a) Both Assertion (A) and Reason (R) are true.
CASE STUDY 4	
Q-1	b) Economic
Q-2	active role of public and private sectors. (or any other valid answer)
Q-3	True
Q-4	Higher investment requirements/longer gestation period of the project. (or any other valid answer)
CASE STUDY 5	
Q-1	Rises
Q-2	₹12,000 crores
Q-3	b) Assertion (A) is false and Reason (R) is true.
Q-4	GDP Deflator is a tool that shows changes in the price level of the economy over a given period of time.