

SOLUTIONS
Senior School Certificate Examination 2026
ECONOMICS (Subject Code–030)
[Paper Code: 58/4/3]

Maximum Marks: 80

Q. No.	EXPECTED ANSWER / VALUE POINTS	Marks
SECTION A Macro Economics		
1.	Investment is defined as addition to the _____. (i) Stock of physical capital (ii) Changes in the inventory (iii) Consumption (Choose the correct option to fill in the blank) Options: (A) Only (i) (B) (i) and (ii) (C) (i) and (iii) (D) (i), (ii) and (iii) Ans. (B) (i) and (ii)	1
2.	Suppose, a banking system received primary deposits of ₹ 1,000 and as a result commercial banks created credit worth ₹ 5,000. The value of Reserve Ratio in the given situation would be _____ percent. (Choose the correct option to fill in the blank) (A) 10 (B) 20 (C) 25 (D) 40 Ans. (B) 20	1
3.	Study the given image carefully: The line LK represents _____ curve. (Choose the correct option to fill in the blank) Options: (A) Consumption (B) Aggregate Supply (C) Aggregate Demand (D) Investment Ans. (C) Aggregate Demand <i>Note : The following question is for Visually Impaired candidates only in lieu of Q. no. 3.</i> _____ refers to that consumption, which is independent of the level of income. (Choose the correct option to fill in the blank) (A) Autonomous Consumption (B) Induced Consumption (C) Break-even level (D) Autonomous Investment and Consumption Ans. (A) Autonomous Consumption	1

4.	Read the following statements: Assertion (A) and Reason (R). Choose the correct option from those given below: <i>Assertion (A):</i> Government can control the situation of deficient demand through its taxation policy. <i>Reason (R):</i> Reduction in tax rates by the government leads to increase in the disposable income of the people. Options: (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, but 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).	1
5.	Reserve Bank of India (RBI) performs the function of Banker to the Banks by acting as a: (i) Clearing House (ii) Custodian of Cash Reserves (iii) Lender to the Government (iv) Periodic inspection of Banks Options: (A) (i) and (ii) (B) (ii) and (iii) (C) (i), (ii) and (iv) (D) (i) and (iv) Ans. (C) (i), (ii) and (iv)	1
6.	Purchase of a property by an Indian resident abroad can be recorded on the _____ side of _____ account of Balance of Payments. (Choose the correct option to fill in the blanks) Options: (A) Credit, Capital (B) Credit, Current (C) Debit, Current (D) Debit, Capital Ans. (D) Debit, Capital	1
7.	Assuming for an imaginary economy, consumption at zero level of income and break-even level of income is ₹ 50 and ₹ 200 respectively. Choose the correct value of Marginal Propensity to Consume (MPC), from the following: (A) 0.8 (B) 0.9 (C) 0.75 (D) 0.85 Ans. (C) 0.75	1
8.	Read the following statements carefully: <i>Statement I:</i> The measurement of value makes it easier to compare the relative worth of two commodities. <i>Statement II:</i> Money facilitates the act of sale and purchase of goods and services. In the light of the given statements, choose the correct option from the following: (A) Statement I is true and Statement II is false. (B) Statement I is false and Statement II is true. (C) Both Statements I and II are true. (D) Both Statements I and II are false. Ans. (C) Both Statements I and II are true.	1

9.	To arrive at the value of National Income (NNP_{FC}), _____ must be added to _____ at factor cost. (Choose the correct option to fill in the blanks) Options: (A) Depreciation, Net Domestic Product (B) Depreciation, Gross Domestic Product (C) Net Factor Income from Abroad, Net Domestic Product (D) Net Indirect Taxes, Gross Domestic Product Ans. (C) Net Factor Income from Abroad, Net Domestic Product	1																																				
10.	Under _____ exchange rate system, the competent authority may devalue currency to increase exports. (Choose the correct option to fill in the blank) Options: (A) Fixed (B) Floating (C) Managed (D) Fixed floating Ans. (A) Fixed	1																																				
11.	(a) Define Money Supply. Ans. Money supply refers to the total volume of money held by the public at a particular point of time. (b) Explain any one component of money supply. Ans. Net Demand Deposits (DD) held by commercial banks is one of the components of money supply. These are chequable deposits that can be withdrawn by the account-holder on demand. (Any other valid component to be awarded marks)	1 2 3																																				
12.	(a) On the basis of the given data, estimate the value of Gross National Product at Market Price (GNP_{MP}): <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>S. No.</th><th>Items</th><th>Amount (in ₹ crore)</th></tr> </thead> <tbody> <tr><td>(i)</td><td>Private final consumption expenditure</td><td>800</td></tr> <tr><td>(ii)</td><td>Government final consumption expenditure</td><td>700</td></tr> <tr><td>(iii)</td><td>Net imports</td><td>200</td></tr> <tr><td>(iv)</td><td>Gross public investment</td><td>100</td></tr> <tr><td>(v)</td><td>Inventory investment</td><td>50</td></tr> <tr><td>(vi)</td><td>Gross residential construction investment</td><td>300</td></tr> <tr><td>(vii)</td><td>Net indirect taxes</td><td>70</td></tr> <tr><td>(viii)</td><td>Gross business fixed investment</td><td>130</td></tr> <tr><td>(ix)</td><td>Consumption of fixed capital</td><td>20</td></tr> <tr><td>(x)</td><td>Interest</td><td>150</td></tr> <tr><td>(xi)</td><td>Net factor income paid to abroad</td><td>100</td></tr> </tbody> </table> Ans. Gross Domestic Product at Market Price (GDP_{MP}) $= (i) + (ii) + \{(iv) + (v) + (vi) + (viii)\} - (iii)$ $= 800 + 700 + \{100 + 50 + 300 + 130\} - 200$ $= ₹1880 \text{ crore}$ Gross National Product at Market Price (GNP_{MP}) = $GDP_{MP} - (xi)$ $= 1880 - 100$ $= ₹1780 \text{ crore}$ OR	S. No.	Items	Amount (in ₹ crore)	(i)	Private final consumption expenditure	800	(ii)	Government final consumption expenditure	700	(iii)	Net imports	200	(iv)	Gross public investment	100	(v)	Inventory investment	50	(vi)	Gross residential construction investment	300	(vii)	Net indirect taxes	70	(viii)	Gross business fixed investment	130	(ix)	Consumption of fixed capital	20	(x)	Interest	150	(xi)	Net factor income paid to abroad	100	1 $\frac{1}{2}$ $\frac{1}{2}$ $\frac{1}{2}$ $\frac{1}{2}$ 3
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(b)	Explain any two precautions to be kept in mind while estimating National Income by the Value Added method.																																					

	Ans. Two precautions to be adopted while estimating National Income by Value added method are: • Value of intermediate goods should not be included as it will lead to the problem of double counting. • Sale and purchase of second-hand goods should not be included in the estimation of National Income, as such transactions do not add to the current flow of goods and services. (Any other valid precaution to be awarded marks)	1 ½ 1 ½ 3																														
13.	Explain the adjustment mechanism, if in an economy, ex-ante Savings are more than ex-ante Investments. Ans. When ex-ante savings are more than ex-ante investments, it means households are planning to consume less than what the firms expected them to consume. This will lead to unintended accumulation of inventories. To bring back the inventory to the desired level, producers may intend to decrease production in the economy. This mechanism will continue till the equilibrium is attained. (To be marked as a whole) OR Explain the process of working of Investment Multiplier, for a hypothetical economy with Marginal Propensity to Consume (MPC) as 0.8 and Incremental Investment as ₹ 3,000 crore. Ans. The working process of the Investment Multiplier increase in investment on the National Income, is based on the assumption that one's expenditure is another's income. For the given hypothetical economy, the change in investment is of ₹ 3,000 crore Marginal Propensity to Consume (MPC) is 0.8. <table><tr><th>Round</th><th>Increase in investment (ΔI) (₹ in crore)</th><th>Increase in income (ΔY) (₹ in crore)</th><th>Increase in consumption (ΔC) (₹ in crore)</th><th>Increase in savings (ΔS) (₹ in crore)</th></tr><tr><td>1</td><td>3,000</td><td>3,000</td><td>2,400</td><td>600</td></tr><tr><td>2</td><td>—</td><td>2,400</td><td>1,920</td><td>480</td></tr><tr><td>3</td><td>—</td><td>1,920</td><td>.</td><td>.</td></tr><tr><td>—</td><td>—</td><td>.</td><td>.</td><td>.</td></tr><tr><td>Total</td><td>3,000</td><td>15,000</td><td>12,000</td><td>3,000</td></tr></table> Thus, an increase in investment (ΔI) of 3,000 leads to a total increase in national income (ΔY) by 15,000, which is 5 times the increase in investment. Investment Multiplier = $\frac{1}{1-MPC}$ $= \frac{1}{1-0.8} = 5$ (Any other valid explanation to be awarded marks)	Round	Increase in investment (ΔI) (₹ in crore)	Increase in income (ΔY) (₹ in crore)	Increase in consumption (ΔC) (₹ in crore)	Increase in savings (ΔS) (₹ in crore)	1	3,000	3,000	2,400	600	2	—	2,400	1,920	480	3	—	1,920	.	.	—	—	.	.	.	Total	3,000	15,000	12,000	3,000	4 1 2 ½ ½ 4
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14.	Read the following passage carefully : “The Reserve Bank of India (RBI) Governor announced a 50 basis points reduction in the Cash Reserve Ratio (CRR) to 4% during the Monetary Policy Committee																															

	(MPC) address on December 6. The Governor noted that this move reflects a balanced approach towards managing liquidity while ensuring economic stability.” Based on the above passage and common understanding, answer the following questions: (i) Explain the rationale and the likely impact of the decision taken by the Monetary Policy Committee (MPC) of Reserve Bank of India (RBI). Ans. The decision of the Monetary Policy Committee (MPC) to reduce Cash Reserve Ratio (CRR) addresses the deflationary pressure in the economy. The rationale behind this reduction was to ensure infusion of greater liquidity in the economy to maintain overall economic stability. Reduction in the CRR will lead to greater availability of funds with the commercial banks, which may increase the lending capacity of commercial banks. Thereby, reducing CRR, will increase the money supply and Aggregate Demand in the economy, ultimately addressing the issue of deficient demand. (ii) Define Cash Reserve Ratio (CRR). Ans. Cash Reserve Ratio (CRR) refers to the percentage of deposits which commercial banks are required to keep as cash reserves with the Central Bank.	1 2 1 4
15.	(a) Define Accommodating Items under Balance of Payments (BoP). Ans. Accommodating items are those international economic transactions which are undertaken (by competent authorities) to correct the situation of surplus/deficit in Balance of Payments (BoP). (b) “Economic transactions that are recorded in the current account can be classified in two parts — merchandise and invisibles. Net inflows from both the transactions are referred to as Trade Surplus.” Do you agree with the given statement? Give valid arguments in support of your answer. Ans. No. The current account includes transactions relating to merchandise (visible items) and invisibles. However, trade balance includes merchandise transactions only. Additionally, trade surplus refers to a situation where the value of exports of merchandise exceeds the value of imports of merchandise. Hence, net inflows from both merchandise and invisibles together determine the current account balance, not Trade Surplus. (To be marked as a whole)	1 3 4
16.	Read the following passage carefully: The domestic product measures the value of all goods and services arising out of economic activity within a country over a specific period, while National Income is the sum total of income earned by all factors of production as a result of the economic activities during a period of time. National Income includes only those incomes which are derived directly from the current production of goods and services, which are called Factor Incomes. When National Income is measured at current prices over a number of years, the changes in National Income would include the effect of the changes in production along with the changes in prices. This estimate compared over the period would not be an accurate measure of the overall real increase in production of the country or the economic welfare of the people of the economy. Therefore, it would be necessary to eliminate the effect of prices, in other words, to recompute the whole series at given prices of one particular base year. National Income, thus computed, is termed as National Income at constant prices.	

	On the basis of the above passage and common understanding, answer the following questions: (a) “All capital goods are producer goods, but all producer goods are not capital goods.” Justify the given statement with valid arguments. Ans. Producer goods can be categorized as capital goods and intermediate goods. Capital goods are used in the production of goods and services but are not completely used up in the same year, whereas intermediate goods are completely used up within the same year of production and lose their identity. Thus, every capital good is a producer good since it is used in production. However, all producer goods are not capital goods, because intermediate goods are also producer goods. (To be marked as a whole) (b) Distinguish between Domestic Income and National Income. Ans. Domestic Income refers to the sum of factor incomes arising out of economic activity within the domestic territory of a country over a specific period of time. Whereas; National Income refers to the sum of factor incomes arising out of economic activity undertaken by the normal residents of a country over a specific period of time.	3 1 ½ 1 ½ 6
17. (a)	(i) “The Credit Linked Subsidy Scheme (CLSS) is a key component of the Pradhan Mantri Awas Yojana (PMAY), aimed at providing affordable housing for the Economically Weaker Sections (EWS), Lower-income Groups (LIG), and Middle-income Groups (MIG) in India.” Identify and explain the government budget objective highlighted in the above statement. Ans. The highlighted government budget objective is the ‘Redistribution Function’. Government can reduce inequalities of income through taxes and public expenditure like subsidies. The Credit Linked Subsidy Scheme (CLSS) of the government aims at providing affordable housing for the Economically Weaker Sections (EWS), Lower-income Groups (LIG) and Middle-income Groups (MIG) in India. It will reduce the financial burden on these groups and will promote equitable distribution of income, thereby bridging the gap between rich and poor. (ii) Differentiate between the two types of tax revenue sources of the government. Ans. The two types of tax revenue sources of the government are Direct Taxes and Indirect Taxes. Direct taxes are those taxes whose impact and incidence lies on the same entity. In other words, the liability of paying direct taxes can’t be shifted. Whereas; Indirect taxes are those taxes whose impact and incidence may lie on different entities. In other words, the liability of paying indirect taxes can be shifted. OR	1 2 1 ½ 1 ½ 6

(b)	(i) Medha, an economics student, was studying about the expenditure on defence incurred by the government in the form of acquiring new platforms (jets, submarines etc.), and salaries and pensions of armed forces personnel. She classified both the expenditures as capital expenditure. Do you agree with Medha's views? Give valid explanation in support of your answer. Ans. No. The expenditure on salaries and pensions of armed forces personnel is revenue expenditure as it neither leads to creation of assets nor reduces liabilities of the government. However, expenditure incurred by the government on acquiring new platforms (jets, submarines etc.) is capital expenditure as it leads to the creation of assets for the government. (ii) If, for an economy, Primary Deficit is ₹ 1,000 crore and interest payments are 20% of total borrowings of the government, then calculate the value of fiscal deficit. Ans. Primary Deficit (PD) = Fiscal Deficit (FD) – Interest Payment (IP) $1000 = \text{FD} - 20\% \text{ of FD}$ $1000 = 80\% \text{ of FD}$ $\text{FD} = \frac{1000 \times 100}{80}$ Fiscal Deficit = ₹ 1,250 crore	1 ½ 1 ½ 1 ½ ½ ½ 6
SECTION B Indian Economic Development		
18.	Based on the given image, choose the <i>incorrect</i> option:  (A) Information related to employment is collected by Union Ministry of Labour. (B) International Labour Organization (ILO) has initiated modernization of this enterprise and the provision of social security measures to workers. (C) Highly vulnerable to uncertainties of the market. (D) An enterprise hires 10 or less than 10 workers. Ans. (A) Information related to employment is collected by Union Ministry of Labour. Or (B) International Labour Organization (ILO) has initiated modernization of this enterprise and the provision of social security measures to workers. Or (D) An enterprise hires 10 or less than 10 workers.	1
19.	Read the following statements carefully: <i>Statement I:</i> Diversification in agriculture relates to change in cropping pattern and shift in workforce to allied activities. <i>Statement II:</i> Agricultural marketing is a process that involves the assembling, storage, processing, transportation, packaging, grading and distribution of agro-products. In the light of the given statements, choose the correct option from the following: (A) Statement I is true and Statement II is false. (B) Statement I is false and Statement II is true.	

	(C) Both Statements I and II are true. (D) Both Statements I and II are false Ans. (C) Both Statements I and II are true.	1
20.	Human Development is based on the idea that _____ and _____ are integral to human wellbeing. (Choose the correct option to fill in the blanks) (A) Education, Wealth (B) Health, Wealth (C) Education, Health (D) Health, Housing Ans. (C) Education, Health	1
21.	Identify the correct option with reference to the following statement: “Farmers and industrial units were required to transact fixed quantities of raw materials and finished goods on the basis of prices fixed by the government, while the rest were purchased and sold at market price.” Options: (A) Great Leap Forward (B) Dual Pricing Policy (C) Special Economic Zones (SEZs) (D) Commune System Ans. (B) Dual Pricing Policy	1
22.	_____ was the successor organisation to General Agreement on Trade and Tariff (GATT). (Choose the correct option to fill in the blank) (A) International Bank for Reconstruction and Development (IBRD) (B) International Monetary Fund (IMF) (C) Reserve Bank of India (RBI) (D) World Trade Organisation (WTO) Ans. (D) World Trade Organisation (WTO)	1
23.	Read the following statements carefully: <i>Statement I:</i> Population explosion, affluent consumption and production have placed a huge stress on the environment. <i>Statement II:</i> Carrying capacity is the largest size of a density-dependent population for which the population growth rate is zero. In the light of the given statements, choose the correct option from the following: (A) Statement I is true and Statement II is false. (B) Statement I is false and Statement II is true. (C) Both Statements I and II are true. (D) Both Statements I and II are false. Ans. (C) Both Statements I and II are true.	1
24.	Read the following statements carefully: <i>Statement I:</i> Worker Population Ratio is used for analyzing the overall employment situation of a country. <i>Statement II:</i> A garment company has hired two workers on daily wage basis. Such a situation is considered as a formal sector employment. In the light of the given statements, choose the correct option from the following: (A) Statement I is true and Statement II is false. (B) Statement I is false and Statement II is true. (C) Both Statements I and II are true. (D) Both Statements I and II are false. Ans. (A) Statement I is true and Statement II is false.	1
25.	Identify the <i>incorrect</i> statement from the following. (A) Expansion of rural credit has helped the Indian farmers to increase their production and productivity.	

	(B) The expansion and promotion of the rural banking sector has taken a backseat after the economic reforms. (C) It is an accepted fact that if, farmers sell their produce directly to consumers, their profitability increases. (D) Farmers who have the required information on prevailing prices often sell their produce at low prices. Ans. (D) Farmers who have the required information on prevailing prices often sell their produce at low prices.	1
26.	Read the following statements: Assertion (A) and Reason (R). Choose the correct option from those given below: <i>Assertion (A):</i> Education is one of the important factors for economic growth of a country. <i>Reason (R):</i> A healthy person could provide uninterrupted labour supply for a longer period of time. Options: (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, but 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, but Reason (R) is not the correct explanation of Assertion (A).	1
27.	Which of the following is not an advantage of Green Revolution? (A) Increased marketed surplus (B) Increase in prices of food grains (C) Self-sufficiency in food grains (D) Creation of buffer stock Ans. (B) Increase in prices of food grains	1
28.	(a) Anaya and Rohan owned separate farms. Anaya focused on learning modern farming techniques, training workers in crop rotation, soil management, and pest control. On the other hand, Rohan invested in advanced machinery, irrigation systems, HYV seeds. “Both Anaya and Rohan invested in human capital.” Do you agree with the given statement? Give valid argument in support of your answer. Ans. No. Rohan invested in physical capital by purchasing advanced machinery, irrigation systems and HYV seeds, which are tangible assets used in the production process. In contrast, Anaya invested in human capital as she enhanced knowledge and skills by learning modern farming techniques and training workers in crop rotation, soil management and pest control.	1 ½
	OR	3
	(b) “Expenditure on preventive medicine, curative and social medicine helps in building human capital and economic development.” Do you agree with the given statement? Give valid argument in support of your answer. Ans. Yes. Expenditure on health as a source of human capital formation, in an economy, may take different forms like expenditure on preventive medicine, curative medicine and social medicine, etc. A healthy person provides uninterrupted labour supply for a longer period of time. Thus, such expenditures lead to human capital formation, contributing towards economic development of the country. (To be marked as a whole)	3

29.	Explain the Great Leap Forward campaign initiated by China. Ans. The Great Leap Forward (GLF) campaign aimed at industrializing the country on a massive scale. People were encouraged to set up industries in their backyards. GLF campaign met with many problems. A severe drought caused havoc in China killing about 30 million people. Russia had conflicts with China and it withdrew its professionals who had earlier been sent to China to help in the industrialisation process. (To be marked as a whole)	3																																									
30.	Elaborate, how the efforts of various governments in India have helped in generation of employment, directly or indirectly, in the nation. Ans. Government of India has played an important role in generating employment directly or indirectly in two ways: • Direct Employment: The government directly provides jobs by recruiting people in administrative departments, public sector industries and government run organisations. • Indirect Employment: When government enterprises increase production, related private sector businesses also expand, creating additional job opportunities in the private sector.	2 2																																									
		4																																									
31.	On the basis of the given data, outline and compare the share of Employment and Gross Value Added (GVA) of the sector that emerges to be a prospective employer in India and China. Sectoral Share of Employment and GDP (%) in 2021 <table><tr><th rowspan="2">Sector</th><th colspan="3">Contribution of GVA</th><th colspan="3">Distribution of workforce</th></tr><tr><th>India</th><th>China</th><th>Pakistan</th><th>India</th><th>China</th><th>Pakistan</th></tr><tr><td>Agriculture</td><td>19</td><td>8</td><td>24</td><td>46</td><td>23</td><td>37</td></tr><tr><td>Industry</td><td>29</td><td>39</td><td>20</td><td>25</td><td>32</td><td>25</td></tr><tr><td>Services</td><td>52</td><td>53</td><td>56</td><td>29</td><td>45</td><td>38</td></tr><tr><td>Total</td><td>100</td><td>100</td><td>100</td><td>100</td><td>100</td><td>100</td></tr></table> Ans. The given data pertains to the sectoral share of employment and Gross Value Added (GVA). Due to topographic and climatic conditions, the cultivable area in China is relatively smaller than that of India. Hence, the contribution of the agricultural sector to the GVA in China is 8% employing 23% of its workforce, whereas in India it is 19% employing 46% of its workforce. Owing to rapid industrialisation in China, the contribution of the industrial sector to GVA stands at 39% with 32% of the workforce as against corresponding figures of 29% and 25% in India. Both the nations have similar contribution of the Service sector to GVA standing at 52% and 53% with corresponding 29% and 45% to the workforce, respectively in India and China. (To be marked as a whole)	Sector	Contribution of GVA			Distribution of workforce			India	China	Pakistan	India	China	Pakistan	Agriculture	19	8	24	46	23	37	Industry	29	39	20	25	32	25	Services	52	53	56	29	45	38	Total	100	100	100	100	100	100	4
Sector	Contribution of GVA			Distribution of workforce																																							
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Services	52	53	56	29	45	38																																					
Total	100	100	100	100	100	100																																					
32.	(i) Explain briefly the rationale behind the ‘License Raj’ under the Industrial Policy Resolution, 1956. Ans. The Industrial Policy Resolution, 1956 regulated the private sector through a system of licenses. This policy aimed at achieving regional equality. The government made it relatively easier to obtain an industrial license, for industrial units to be established in economically backward areas. Moreover, license was needed for expanding/diversifying output by existing industrial units. This was meant to ensure that the quantity of goods produced was not more than what the economy required.	3																																									

