ICSE Board
Class X Economics
Sample Paper - 1

Time: 2 hrs **Total Marks: 80**

General Instructions:

1. *Answers to this paper must be written on the paper provided separately.*
2. *You will **not** be allowed to write during the first **15** minutes.*
   This time is to be spent in reading the question paper.
3. *The time given at the head of the paper is the time allotted for writing the answers.*
4. *Attempt **all** questions from **Section A** and **any four** questions from **Section B**.*
5. *The intended marks of questions or parts of questions are given in brackets [ ].*

SECTION A (40 Marks)

*Attempt **all** questions from this section.*

Question 1

a) What is price elasticity of demand and income elasticity of demand? [2]
b) How is supply different from stock? [2]
c) Differentiate between a tax on income and a tax on commodity. [2]
d) State any two ways in which consumers are exploited in an economy. [2]
e) What are the functions of the central bank? [2]

Question 2

a) What is the difference between income effect and substitution effect? [2]
b) What is meant by supply curve? How to derive the market supply curve from individual supply curves? [2]
c) Mention any two important sources of tax revenue of the Central Government. [2]
d) What are the two primary functions of money? Give the meaning of each. [2]
e) What is qualitative or selective credit control? [2]

Question 3

a) Define bandwagon effect. [2]
b) What is public revenue? State two sources of government income. [2]
c) Mention any two sources of non-tax revenue of the Central Government. [2]
d) Define demand-pull inflation. [2]
e) Why is the central bank referred to as the lender of the last resort? [2]

Question 4

a) Define public finance. [2]

b) What are the differences between tax and subsidy? [2]

c) What is meant by progressive tax? Give example. [2]

d) What is meant by deflation? [2]

e) Mention any two ways the deflationary condition can change by the qualitative methods of credit control. [2]

SECTION B (40 Marks)

*Attempt **any four** questions from this section.*

Question 5

a) List the common business malpractices which prevail in the market. [5]

b) What is cash reserve ratio? Explain its role in credit control. [5]

Question 6

a) Define inflation. Explain any three types of inflation in an economy. [5]

b) Distinguish between a direct and indirect tax. Discuss their relative merits and demerits. [5]

Question 7

a) Explain the fiscal measures to control inflation. [5]

b) What is public debt? Discuss the role of public debt in India. [5]

Question 8

a) Discuss the positive and negative aspects of the policy of privatisation of commercial banks. [5]

b) What are the differences between public and private debt? [5]

Question 9

a) Calculate the market demand for a good. In a market, there are 20 consumers of a good and the demand of each individual consumer is similar as given below: [5]

Price	**Demand of each consumer**
10	18
8	20
4	24
2	28

b) Explain the price elasticity of demand. [5]

Question 10

a) What is the total expenditure method? Explain the three possible situations in the total expenditure method. [5]

b) Explain the demand for a good in relation to price of the substitute good with diagrams. [5]

Solution

SECTION A

Answer 1

a) Price elasticity of demand measures the responsiveness of quantity demanded for any commodity due to one percent change in the price of that good.

e_p = Percentage change in quantity demanded/Percentage change in the price

The income elasticity of demand shows the tendency in quantity demanded for any commodity due to one percent change in the money income of the consumer.

e_d = Percentage change in quantity demanded/Percentage change in money income

b) Supply:

Supply means the quantity of a commodity which is actually brought into the market for sale. It indicates only actual sale incurred in the market. It is expressed in terms of flow of goods per time period.

Stock:

Stock means the total volume of commodity which can be brought into the market for sale. It indicates potential supply in the market. It is not expressed in terms of flow of goods per time period.

c) Tax on income: A tax on income is paid directly to the Government by the person to whom it is imposed. Hence, the tax on income is known as direct tax. It cannot be shifted on to any other person. These taxes are levied according to the ability of taxpayers.

Tax on commodity: A tax on commodity is paid to the Government by one person but the tax burden is borne by another person. Hence, the tax on commodity is known as indirect tax. It can be shifted on to the other person. Ability of the taxpayers is assessed indirectly in this taxation.

d) Consumers are being exploited in the following manner:

i. Sale of adulterated goods, i.e. adding something inferior to the product being sold.

ii. Misleading advertisements, i.e. advertisements falsely claiming a product or service to be of superior quality, grade or standard.

e) Functions of the central bank:

Issuing of notes
Banker, agent and advisor to the Government
Banker to banks and supervisor like the lender of the last resort
Custodian of the cash reserves of commercial banks
Custodian of foreign exchange reserves
Controller of credit
Promoter of economic development

Answer 2

a) Income effect: A change in quantity demanded when real income of the buyer changes as a result of change in price of the commodity.
Substitution effect: Substitution of one commodity for the other when it becomes relatively cheaper.

b) Supply curve is a graphical representation of supply schedule, indicating positive relationship between price of a commodity and its quantity supplied. There are two aspects—individual supply curve and market supply curve.
Market supply curve is derived by the horizontal summation of supply curves of all the firms in the industry.

c) Two important sources of tax revenue of the Central Government are
Union excise duties, i.e. taxes on the production of various goods except on alcoholic and other drugs which are sold within the country.
Custom duties which are imposed by the Central Government either on imported or exported items.

d) Medium of exchange and measure of value are the two primary functions of money.
Money acts as a medium of exchange. The major function of money is to facilitate the process of exchange by removing the defects of the barter system.
Money is the measure of value. It is the monetary expression of the market value of goods and services.

e) Selective credit control refers to discriminatory policy of the central bank in favour or against certain sectors of the economy. In priority sectors, the flow of credit may be encouraged to stimulate production in those sectors. This is a positive approach of selective credit control. On the other hand, the central bank may refuse to provide the credit to priority sectors. During the inflationary situation, the availability of credit for speculative activities is discouraged. This is a negative approach of selective control.

Answer 3

a) Bandwagon effect can be defined as that the consumer's demand for a commodity may be influenced by the taste and preference of the social class to which she belongs.

b) Public revenue means the income or earnings of the Government of any country. The following are the two important sources of government income:

i. Tax revenue: Tax revenue is the most important source of income for the Government. A tax is a compulsory payment imposed on individuals or companies by the Government to meet expenditures.

ii. Non-tax revenue: Revenue to the Government other than taxes is known as the non-tax revenue. It is collected in order to provide administrative services to the people.

c) Non-tax revenue of the Central Government are

i. Interest receipts on loans provided to the states and union territories.

ii. Dividend and profits received from public enterprises such as postal, railway etc.

d) Demand pull inflation means an inflation generated by the pressure of excess demand in the economy. If there is an excess of aggregate demand over aggregate supply, the general price level will tend to increase which leads to inflation in the economy.

e) When a commercial bank fails to get financial accommodation from any other source, it approaches the central bank as a last resort. The central bank advances a loan to the commercial bank against approved securities.

Answer 4

a) Prof Dalton defined public finance as 'it is connected with the income and expenditure of public authorities and with adjustment of one to another'. Tax revenue and non-tax revenue are two sources of income.

b) Tax is a compulsory payment to the Government by the income groups. Therefore, it increases the revenue of the Government. It increases the price of a good and reduces the income of the taxpayer.

Subsidy is a payment to taxpayers by the Government to enable them to sell certain goods at a low price. Thereby it reduces the revenue of the Government. It reduces the selling price of a good and it increases the income of the taxpayer.

c) A tax is said to be progressive when the rate of tax increases with the increase in taxpayer's income. Under this system, the tax liability increases not only in absolute terms but the proportion of income tax also increases. In India, the income tax rates are progressive in nature as the tax rate increases from 20 to 30 percent where an individual earns more than Rs 8 lakh per year.

d) Deflation is a situation of continuous decrease in the general price level of an economy. It implies that the supply of goods exceeds the demand for those goods. It happens with overproduction of goods and services, and a fall in the purchasing power of the public due to a fall in income and employment opportunities in an economy.

e) To control the deflationary condition, the central bank follows two qualitative credit control measures. They are

i. Reduction of margin money requirements is a measure which induces the borrowers to avail more loans from commercial banks.

ii. Relaxation in credit authorisation is a measure where the central bank can reduce the ceiling on the amount of credit to be disbursed by the commercial bank for certain purposes.

SECTION B

Answer 5

a) Common business malpractices which prevail in the market:

i. Sale of adulterated goods, i.e. adding something inferior to the product being sold.
ii. Sale of sub-standard goods, i.e. sale of goods which do not confirm to prescribed quality standards.
iii. Use of false weights and measures leading to underweight.
iv. Supply of defective goods.
v. Misleading advertisements, i.e. advertisements falsely claiming a product or service to be of superior quality, grade or standard.
vi. Sale of spurious goods, i.e. selling something of little value instead of the real product.
vii. Sale of duplicate goods.
viii. Hoarding and black-marketing which leads to scarcity and rise in price.
ix. Charging more than the maximum retail price (MRP) fixed for the product.
x. Supply of inferior services, i.e. quality of service is lower than the quality agreed upon.

b) Cash reserve ratio (CRR) means the minimum percentage of a bank's total deposits necessary to be kept with the central bank. According to RBI Act, 1934, every commercial bank needs to maintain with the central bank a certain percentage of their deposits in the form of cash reserves. By an amendment of the Act in 1962, the central bank can vary the CRR between 3 and 15 percent of total deposits of commercial banks.

During an inflationary situation, the central bank increases the CRR and thereby the fund for providing a loan with the commercial bank declines. In this process, the flow of credit and the aggregate demand are reduced. Thus, the process of credit creation by the commercial bank is checked and the inflationary condition is controlled. On the other hand, the RBI reduces the CRR to curb the deflationary situation.

Answer 6

a) Crowther defined inflation as 'a state in which the value of money is falling, i.e. prices are rising'.

Types of inflation observed in an economy on the basis of the rate of increase in the price level:

i. Creeping inflation is inflation where the price level increases at a very slow rate of 2 to 2.5 percent per annum.
ii. Walking inflation is inflation where the general price level of the economy increases at the rate of 5 to 6 percent per annum.
iii. Hyperinflation is inflation where the general price level increases at the rate of 200 percent or more per month. Here the price rise is ten or even a hundred-fold in a month.

b) Direct tax means the burden of tax cannot be shifted to any other individual or firm by the taxpayer. It is progressive in nature because the tax rate increases with the increase in income slabs. Here the impact and incidence of tax fall on the same person.

Indirect tax burden of tax can be shifted by the taxpayer. It is regressive in nature because the common people bear this tax burden. Here the producer bears the impact and incidence of tax on the consumer.

Merits of direct tax:

i. Equity: Direct tax is imposed on the income of a person based on the principle of ability to pay. The income tax burden is equitably distributed on different people and institutions. Thereby the tax burden falls more on the rich than on the poor.
ii. Certainty: An individual knows how much of tax is due and when to pay. The Government knows with certainty how tax revenue is to be collected from direct tax. Accordingly, the Government can adjust its income and expenditure.

Merits of indirect taxes:

i. Broad coverage: In the tax on commodity, all the buyers of the commodity have to pay the indirect tax irrespective of the income level whether they belong to the high income group or low income group. By widening the tax net, the Government can yield more revenue for public expenditure.
ii. Convenient: Indirect taxes are paid in small portion at regular intervals. It is not a burden to the taxpayer as it is included in the price of the commodity.

Demerits of direct tax:

i. Tax evasion: Direct taxes have great chances of tax evasion as these taxes are collected based on honesty of the taxpayers. Business groups try to evade the tax by misrepresenting their income statements to the income tax authorities.
ii. Narrow in scope: Direct taxes are imposed heavily on rich people. The Government cannot approach the low income group through these taxes. Hence, they have limited scope in collecting tax.

Demerits of indirect tax:

i. Uncertain: Taxes on goods with elastic demand are very uncertain. When the commodity is taxed, prices of the commodity increase which reduce the demand for the commodity in the market. Hence, the revenue from indirect tax is uncertain.
ii. Discourage savings: Most income is spent on consumption of goods where the price of goods includes indirect tax.

Answer 7

a) Fiscal measures to control inflation include taxation, government expenditure and public borrowings. The choice of fiscal measures for controlling inflation depends on the causes of excess demand as follows-

i. Government expenditure: When excess demand is caused by the Government expenditure in excess of real output, the most effective measure is to cut down the public expenditure. A cut in public expenditure reduces not only the Government demand for goods and services but also the private consumption expenditure. Therefore, the excess demand decreases more than a given cut in public expenditure.
ii. Taxation: When excess demand is caused by private expenditure such as the expenditure by the households and firms, taxation of income is a more appropriate measure to control inflation. Taxation of income reduces the disposable income. As consumer demand is a function of disposable income, consumer demand decreases due to taxation. Thus, a well-designed taxation policy reduces aggregate demand and thereby it brings the inflation under control.
iii. Public borrowing: Borrowing by the Government to fund budget deficits uses idle money lying with banks and financial institutions for investment functions. When the Government borrows money from the market, it reduces the purchasing power of the public.

b) Public debt: When planned expenditure of the Government exceeds the total revenue of the Government, the Government needs to borrow money from individuals and organisations. This is called public debt.

Role of public debt in a nation:

i. To meet the budgetary deficit: The public debt is raised to bridge the gap between the public expenditure and the tax revenues of the Government. If the Government revenue from taxes and other sources are insufficient to meet the public expenditure, then the Government borrows money.
ii. To finance the development plans: The Government has to finance the developmental projects. In India, the Government has to play a significant role for the development plans of an economy. Hence, the Government borrows from the public to maintain the required funds.

iii. To build infrastructure: In a developing country like India, the basic infrastructure facilities are very important for the process of development. These investment plans are less attractive to private companies as their returns are minimal. Hence, the Government has to borrow money to invest in these projects.

Answer 8

a) Arguments in favour of privatisation of commercial banks:

i. Commercial banks have the freedom to take decisions regarding loan advancement and are able to choose sectors with higher returns and recoverability.
ii. They are free to design various innovative deposit schemes to attract depositors.
iii. A competitive environment will be created in the banking sector because these banks will face many other private foreign banks in the banking sector. Hence, each commercial bank will try to survive and evolve new methods to improve their efficiency.

Negative impacts of privatisation of commercial banks:

i. These banks would reduce the employment opportunities as the private bank functions would be directed by their profit motives.
ii. It may lead to concentration of monopoly power in the hands of private sector banks and increase in unequal distribution of income and wealth of the economy.
iii. If some of these banks are also merged with foreign banks and if restrictions on the movements of financial capital from one country to another country are withdrawn, then there will be no guarantee that the savings mobilised from the Indian economy would be recycled within India or abroad.

b) Differences between private and public debts:

i. The Government can avail frequently long-term loans, whereas the individual or private companies are unable to take long-term loans.
ii. Generally, the Government takes loans for the welfare of the people, whereas the individuals take loans to maximise their profits and satisfaction.
iii. The Government can avail loans at a low interest rate due to its credit worthiness, whereas the individual has to pay a high rate of interest due to the lender's risk in providing loans.
iv. The Government source of borrowing can be availed within the nation as well as abroad, whereas the individual loans are within the nation only.

Answer 9

a) Market demand for the good:

As the individual demand of each consumer is similar for 20 consumers, the market demand for the good can be calculated as follows:

Price	Individual demand	Market demand
10	18	18 * 20 = 360
8	20	20 * 20 = 400
4	24	24 * 20 = 480
2	28	28 * 20 = 560

b) Price elasticity of demand for a good is defined as the percentage change in demand for good divided by the percentage change in its price. Thus, the percentage method of calculating price elasticity of demand for a good is as follows:

e_p = Percentage change in the demand for the good/Percentage change in the price of the good

Price elasticity of demand is a pure number and it does not depend on the units in which price of the good and the quantity of the good are measured. Price elasticity of demand is a negative number as the demand for a good is negatively related to the price of a good.

i. At a particular price, the percentage change in demand for a good is less than the percentage change in price, and then the demand for the good is inelastic at that price.
   $e_p < 1$

ii. At a particular price, the percentage change in demand for a good is equal to the percentage change in price, and then the demand for the good is unitary elastic at that price.
   $e_p = 1$

iii. At a particular price, the percentage change in demand for a good is greater than the percentage change in price, and then the demand for the good is elastic at that price.
   $e_p > 1$

Answer 10

a) The total expenditure method is a method to measure the elasticity of demand. The changes in expenditure with a change in the price of a good are measured through this method. Three possible situations under this method:

i. If a rise or fall in the price of a good has no change in its total expenditure, then the elasticity of demand is unitary.

ii. If there is a fall in the price of a good, then the total expenditure increases, and if there is a rise in the price of a good, then the total expenditure decreases. The demand for this good is greater than unitary elastic.

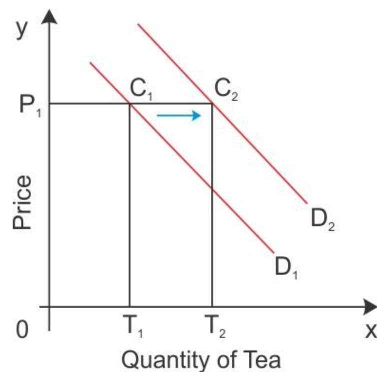
iii. If there is a fall in the price of a good, then the total expenditure decreases, and if there is a rise in the price of a good, then the total expenditure increases. The demand for this good is less than unitary elastic.

b) Demand for a commodity in relation to price of the substitute good:

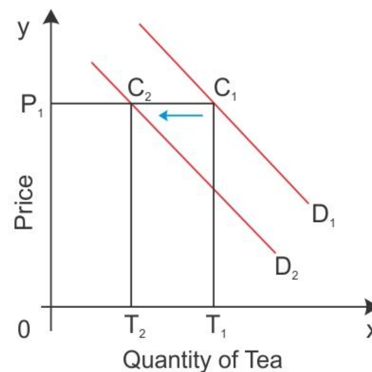
Assume tea and coffee as two substitute goods. D_1 is the demand curve for the demand of tea in Fig (a).

Increase in price of substitute good:

When the price of tea is OP_1, the quantity demanded is OT_1 as shown in Fig (a). If there is an increase in the price of substitute good coffee, the demand curve for tea shifts to the right. Now, the consumer is willing to buy P_1C_2 quantity of tea which is equal to OT_2. Greater the purchase of a commodity at its constant price points to a situation of increase or forward shift in the demand curve. The consumer demand curve shifts from D_1 to D_2, consuming more of tea even when its price is constant.



(a)



(b)

Decrease in price of substitute good:

When there is a decrease in the price of substitute good coffee, the demand curve for tea shifts to the left even when its price is constant. When the price of tea is OP_1, the quantity demanded is OT_1 as shown in Fig (b). Now, the consumer is willing to buy P_1C_2 quantity of tea which is equal to OT_2.Thus, the consumer shifts from D_1 to D_2, consuming less of tea even when the price of tea is constant. This is a situation of backward shift in the demand curve.