ICSE Board
Class X Economics
Sample Paper - 3

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 market demand? [2]
b) Mention any three sources of public borrowing. [2]
c) What is meant by food adulteration? [2]
d) How do commercial banks create credit money?
e) What is cash reserve ratio?

Question 2

a) What are normal goods? [2]
b) What are the essential differences between a tax and a fee? [2]
c) What are the harmful effects of food adulteration on human health? [2]
d) Explain any two types of credit facilities provided by a commercial bank. [2]
e) What is the difference between CRR and SLR? [2]

Question 3

a) Name any two determinants of demand. [2]
b) Distinguish between direct and indirect tax. [2]
c) Mention any three arguments for raising consumer awareness in India. [2]
d) Give any two arguments in favour of privatisation of commercial banks. [2]
e) What is meant by productive mechanism? [2]

Question 4

a) What are the effects of change in quantity demand and change in demand? [2]

b) How does proportional tax differ from progressive tax? [2]

c) What is the expansion of COPRA and RTI? Give any two features of COPRA, 1986. [2]

d) Explain the term credit multiplier. [2]

e) What is productivity of land? Distinguish between average and marginal productivity of land. [2]

SECTION B (40 Marks)

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

Question 5

a) What are the rights of consumers? Explain any of the two rights stated in the Consumers Protection Act. [5]

b) Define public finance. Give any four differences between public and private finance. [5]

Question 6

a) What are the effects of inflation on various groups of society? [5]

b) Define supply. Give any three determinants of supply. [5]

Question 7

a) What is inflation? Distinguish between demand-pull and cost-push inflation? Explain the effects of inflation on investors. [5]

b) Assume the price elasticity of demand for a good is equal to one. When the price is Rs 5, the demand in the market is 200 units. What is the quantity demanded if the price falls to Rs 2? [5]

Question 8

a) Show the different degrees of elasticity of demand with the help of a diagram. [5]

b) Discuss the concepts of impact and incidence of taxation. [5]

Question 9

a) Differentiate between the movement along the supply curve and shift of the supply curve. [5]

b) Explain the geometric method of measuring the price elasticity of demand? [5]

Question 10

a) Define law of demand. Give any two applications of the concept of elasticity of demand. [5]

b) Explain any three characteristics of land. State two functions of land as a factor of production. [5]

Solution

SECTION A

Answer 1

a) Market demand is the horizontal summation of the individual demand in the market. It indicates various quantities of a good which all consumers in the market are willing to buy at different possible prices of a good at a point of time.

b) Three sources of public borrowings:

i. An individual may purchase government bonds and other types of securities.
ii. Banks may also purchase government bonds. Banks are forced to hold government securities in a certain proportion to their deposits.
iii. The Government can raise external loans from international agencies such as the International Monetary Fund, the World Bank etc.

c) Food adulteration means the mixing of extraneous material of an inferior quality with superior quality material. We can define food adulteration as the presence of adulterants in food items which should not be contained for legal or other reasons.

d) Commercial banks do create money even though they cannot print money. Money is created by providing credit to the public. Cheques issued against a bank deposit are used as money in the market. The bank creates an imaginary deposit in the borrower's name when a person approaches a bank for a loan. It enables the borrower to draw cheques on this deposit. Thus, commercial banks create money.

e) 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 to the Act in 1962, the central bank can vary the CRR between 3 and 15 percent of total deposits of commercial banks.

Answer 2

a) Normal goods are those goods that the demand for which increases as the income of the consumer rises. There is a positive relationship between income and demand.

b) A fee is imposed for a specific reason. For instance, the school management imposes a fee for school admission of a student. Tax has no specific reason. Sales tax is imposed on a commodity without stating any special benefit on purchase of a commodity.
A fee is not a compulsory payment towards the Government. There is no legal punishment against the non-payment of a fee. It is paid by any person or organisation when it receives any specific service from any service provider. Tax is a compulsory payment to be made by the taxpayer to the Government without expecting any equivalent return.

c) Every human being consumes food to survive in this world. Foods from out may contain sawdust, dangerous dye, soap stone, aluminium foil etc. Contaminated food items and drinks are mostly sources of infectious diseases. Adulterated food is hazardous to our health. It may cause viral diseases, skin diseases, serious health problems, such as cancer and paralysis, or sometimes even death.

d) Credit facilities provided by commercial banks:

i. Cash credit: The commercial banks allow the borrower to withdraw up to a certain amount on a given security which constitutes stocks of goods and bills receivable from others. Interest is paid by the borrower only on the actual amount withdrawn from the bank.

ii. Overdraft facilities: Under the overdraft facilities, an account holder can withdraw money in excess of the amount deposited with the bank. But the borrower will pay interest on excess amount withdrawn from the bank.

e) Cash reserve ratio means the minimum percentage of a bank's total deposits necessary to be kept with the central bank. The central bank can vary the CRR between 3 and 15 percent.
Statutory liquidity ratio (SLR) means that every bank needs to maintain a fixed percentage of its assets such as in the form of cash in hand or in other banks, gold and approved securities with the central bank. The central bank can vary the SLR between 20 and 40 percent.

Answer 3

a) Two determinants of demand:

i. Price of the commodity: The money income of the consumer and the increase in the price of the commodity reduce the purchasing power of the consumer and *vice versa*. Thus, the consumer purchases less of a commodity with an increase in its price.

ii. Income of the consumer: An increase in the individual income, other things remaining the same, would mean an increase in the purchasing power of the consumer. Thus, the consumer can purchase commodities with increased income.

b) Direct taxes: The tax burden cannot be shifted to any other individual or firm by the taxpayer. It is progressive because the tax rate increases with an increase in income slabs. The impact and incidence of tax fall on the same person.
Indirect taxes: The tax burden can be shifted by the taxpayer. It is regressive because the common people bear this tax burden. The producer bears the impact and incidence of tax on the consumer.

c) Consumer consciousness towards their rights and duties in India is very important in the following three cases:

i. To improve the market conditions which provide consumers with greater choice at lower prices.

ii. To reduce the incidences of consumer's exploitation by the sellers in the market place.

iii. To help consumers to transform from 'passive' consumers to 'active' consumers.

d) Arguments in favour of privatisation of commercial banks:

i. A commercial bank has the freedom to take decisions regarding loan advancement and the ability to choose the sector with higher returns and recoverability.

ii. They are free to design various innovative deposit schemes to attract depositors.

e) Productive mechanism means the mechanism or the system which determines the production of various goods and services in the economy.

Answer 4

a) Change in quantity demanded: Change in quantity demanded means the movements along the demand curve, i.e. extension of demand caused by decrease in price of the same good and contraction of demand caused by increase in price of the same good.
Change in demand: Change in demand means the shifts in the demand curve, i.e. decrease in demand or backward shift in the demand curve caused by change in factors other than price of the good and increase in demand or forward shift in the demand curve caused by change in factors other than the price of the good.

b) Proportional tax is the tax rate which is constant irrespective of the increase in income. All tax payers pay an equal proportion of income in the form of taxes.
Progressive tax is the tax rate which increases with the increase in income. There is a different rate of tax at every income slab.

c) The Consumer Protection Act (COPRA), 1986, and the Right to Information Act (RTI), 2005.
Two features of COPRA, 1986:

i. The Consumer Protection Act, 1986, applies to all goods and services.
ii. This Act led to the provision for setting up a three-tier system known as consumer courts at national, state and district levels. National Consumer Commission at the national level, State Consumer Commission at the state level and District Forum at the district level.

d) The total amount of deposit created by the banking system as a whole is a multiple of the initial increase in the primary deposit, called the credit multiplier. For example, when the increase in the primary deposit is Rs 400 and the total deposit created by all the commercial banks is Rs 2000, then the credit multiplier is 2000/400 = 5.

e) The productivity of land means the capacity of a piece of land to produce a crop.
The average productivity of land means the output obtained from land divided by the area of land, say output per acre or per hectare of land.
The marginal productivity of land means the increase in the output obtained from land when the area of land used increases by one unit, say by one acre.

SECTION B

Answer 5

a) Rights of consumers:

Rights of consumers are right to safety, right to choose, right to be heard, right to seek redressal, right to consumer education and right to be informed.

i. Right to be informed: An important component of consumer protection is the right to be informed. Adequate and accurate information about quality, quantity, purity, standard and the price of the goods and services must be provided to consumers. Nowadays, manufacturers provide detailed information about the contents of the product, its quantity, date of manufacturing, date of expiry, maximum retail price, precautions to be taken etc. on the label and package of the product. This information helps consumers in their buying decision and use of the product.

ii. Right to seek redressal: Consumers have been given the right to redress their grievances relating to the performance, grade, quality etc. of the goods and services. In case of any defect, the product must be repaired or replaced by the seller. The Consumer Protection Act has duly provided for a fair settlement of genuine grievances of consumers. It has also set up a proper mechanism for their redressal at the district, state and national levels.

b) 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.

Differences between public and private finance:

i. For private finance, individuals adjust the spending pattern according to their income level. However, for public finance, the Government determines the size of expenditure which it has spent on different segments and adjusts income to expenditure.

ii. Private individuals try to maximise their profits, whereas the public authorities are motivated by the welfare of society.

iii. An individual spends less than his income to maintain surplus budget. But the Government prefers to have deficit budget, especially financing of economic development.

iv. Private finance transactions are maintained secretly, whereas the public finance transactions are open to everyone in society.

Answer 6

a) Effects of inflation on various groups of society:

i. Effects of inflation on investors:

Different kinds of investors are affected differently by inflation. An investor may invest in bonds and debentures which yield a fixed rate of interest or in real estate or equities (shares) whose returns (dividends) rise and fall with profits earned by the companies concerned. When prices rise, the returns on equities go up on account of the rise in profits, while the bond and debenture holders gain nothing as their income remains fixed. By the same logic, holders will lose during depression, while the debenture and bond holders gain.

ii. Effects of inflation on fixed income groups and borrowers:

Fixed income groups: People who receive a fixed income are hit the hardest. People who live on past savings, fixed interest or rent, pensions, salaries etc., suffer during periods or rising price as their incomes remain fixed.

Borrowers: Debtors repay creditors with interest at some future date. Changes in price level affect them differently at different time periods. During inflation when the prices rise and the real value of money goes down, the debtors pay back less in real terms than what they had borrowed and thus to that extent they are gainers.

iii. Effects of inflation on production:

When hyperinflation occurs in the economy due to uncertainty, there is a negative effect in production. Therefore, hyperinflation is harmful to the economy. It disrupts the price system, reduces saving and capital accumulation, discourages foreign capital, encourages hoarding, reduces volume of production and causes a decrease in quality.

b) The supply of a commodity is defined as the quantity of the commodity which producers desire to sell to consumers. Thus, supply is a desired flow. It indicates how much firms are willing to sell per period of time and not how much they actually sell.

Factors determining the supply:

i. Price of the product: When there is an increase in the price of the product and if it is more than the marginal cost of production, it enables the firm to earn more profit by selling at a higher price. Hence, there is an increase in the supply of product.

ii. The prices of the factors of production: Given the other factors, if the prices of the factors of production increase, there is decline in the profit of the firm. Hence, the firm would reduce the quantity of supply at the current price level.

iii. Technological condition: Technological improvement in production enables the firm to increase the supply at the current price level.

Answer 7

a) Meaning of inflation:

Inflation is defined as a sustained increase in the aggregate price level. It refers to a state of rising prices and not a state of high prices.

Differences between demand-pull and cost-push inflation:

Demand-pull inflation: 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. Increase in population, income etc. are the factors of demand-pull inflation.

Cost-push inflation: An increase in the general price level in the economy due to an increase in the average cost of production is called cost-push inflation. Increase in the cost of wage rate and increase in the prices of raw materials are the factors of cost-push inflation.

Effects of inflation on investors:

Different kinds of investors are affected differently by inflation. An investor may invest in bonds and debentures which yield a fixed rate of interest or in real estate or equities (shares) whose returns (dividends) rise and fall with profits earned by the companies concerned. When prices rise, the returns on equities go up on account of the rise in profits, while the bond and debenture holders gain nothing as their income remains fixed. By the same logic, holders will lose during depression, while the debenture and bond holders gain.

b) If the price elasticity of demand for a good is unitary, then the total expenditure on that good remains unchanged with a change in the price of that good.

When the price of a good is Rs 5,

Total expenditure = Rs 5 * 200 units = Rs 1000

When the price decreases to Rs 2, the total expenditure remains unchanged.

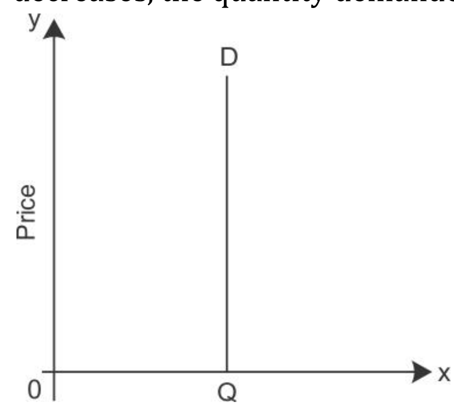
Therefore, Rs 1000 = 2 * Y, where Y is the changed quantity

Y = 1000/2 = 500 units

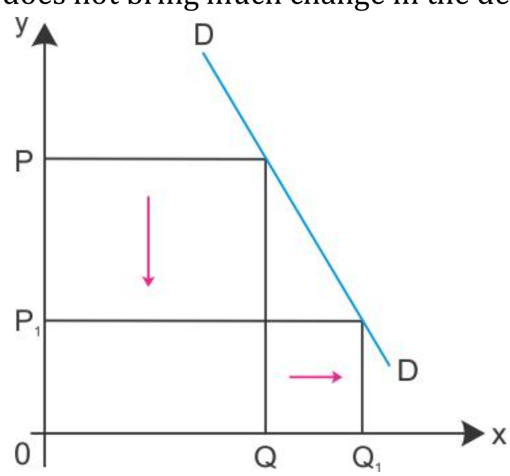
Answer 8

a) Degrees of elasticity of demand:

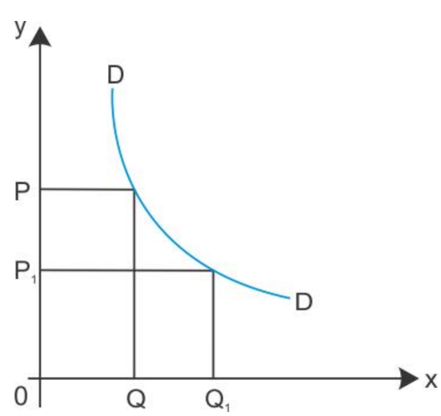
i. Perfectly inelastic demand: The demand curve is parallel to the Y-axis. If the price increases or decreases, the quantity demanded is fixed.



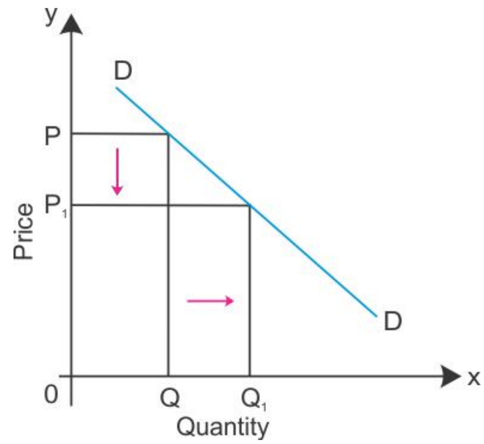
ii. Inelastic demand: The slope of an inelastic demand curve is steep when a large change in price does not bring much change in the demand.



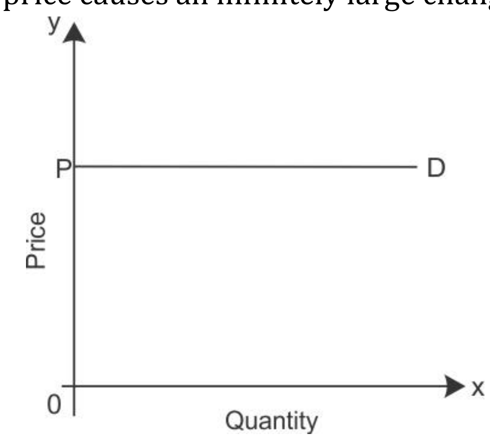
iii. Unit elastic demand: The demand curve is a rectangular hyperbola as it extends to both the axes. Percentage change in demand is equal to percentage change in price.



iv. Elastic demand: The demand curve is a flatter curve when percentage change in demand is much greater than percentage change in price.



v. Perfectly elastic demand curve: The demand curve is parallel to the X-axis. A small change in price causes an infinitely large change in the amount demanded.



b) Concepts of impact and incidence of taxation:

Tax imposes a burden on the taxpayer. Generally, the burden of tax falls on someone other than a person from whom the Government collects the tax. The impact of the tax falls on a person from whom the tax is first collected but not the burden of taxation. The burden of tax shifted to another person is called the incidence of taxation. Therefore, when the Government imposes a tax, a person or institution which bears the burden of tax at the first incidence is called the impact of tax. On the other hand, when the tax burden can be shifted to another person, the final point of the tax burden is called the incidence of tax.

Example:

For income tax, the tax burden cannot be shifted to any other person. The person on whom the Government imposed the tax must pay a part of her income as tax to the Government.

Let us consider sales tax. Here the Government imposes tax on the seller and collects tax from the seller. But the seller adds the sales tax to the price of the commodity in the market. The consumer has to pay a higher price for the commodity. Thus, the tax burden is shifted on the consumer.

Answer 9

a) Movement along the supply curve:

It means a change in quantity of a commodity supplied due to a change in the price of the commodity. Due to an increase in the price level, there is a movement from the left to the right along any supply curve. It indicates an increase, i.e. extension in the quantity supplied. Due to a decrease in the price level, there is a movement from the right to the left along any supply curve. It indicates a decrease, i.e. contraction in the quantity supplied, assuming that all other factors, except the price of the commodity, remain constant.

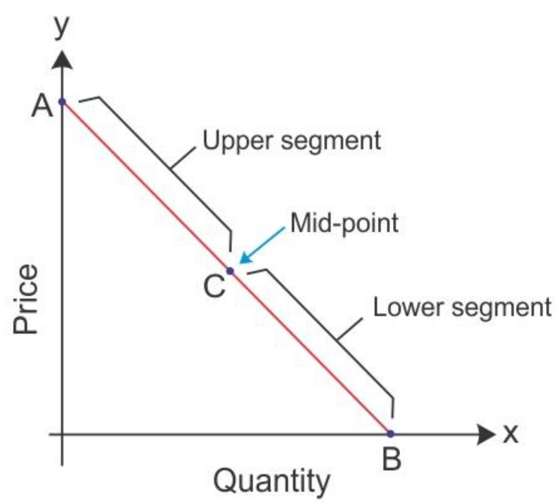
Shift of the supply curve:

It means either an increase or decrease in the supply of a commodity at a given price. When there is a leftward shift of the supply curve, it means a decrease in the supply of a commodity at a given price. Similarly, when there is a rightward shift of the supply curve, it means an increase in the supply of a commodity at a given price. Assume that all other factors such as input prices, technologies etc. are flexible.

b) The geometric method measures the price elasticity of demand at different points on the demand curve which is also known as the point method of measuring the price elasticity of demand.

Let us consider a figure given below, where AB is a demand curve. C is the specific point on the demand curve. It divides the demand curve into two segments as upper segment CA and lower segments CB. Elasticity of demand at point C is the ratio between lower segment and upper segment.

e_d = CB (lower segment from C) / CA (Upper segment from C)



The price elasticity of demand at different points on a straight line demand curve can be derived by this method.

i. Elasticity is zero at point B of the demand curve, where the demand curve touches the X-axis.

$e_d = 0/BA$

$e_d = 0$

ii. Elasticity is infinity at point A of the demand curve, where the demand curve touches the Y-axis.

$e_d = BA/0$

$e_d = 0$

iii. Elasticity is unity at the mid-point C of the demand curve, where the lower segment is equal to the upper segment of the demand curve.

$e_d = CB/CA$

$e_d = 1$

iv. Elasticity is greater than unity at any point (L) to the left of the mid-point of the demand curve.

$e_d = LB/LA$

$e_d > 1$

v. Elasticity is less than unity at any point (M) to the right of the mid-point of the demand curve.

$e_d = MB/MA$

$e_d < 1$

Answer 10

a) The law of demand states that other things remaining constant, quantity demanded for a good increases with a fall in price and diminishes when the price increases.

Two applications of the concept of elasticity of demand are

Price setting in the business sector: Generally, the producers regulate the price setting policies for the commodity produced on the basis of elasticity of demand. When the elasticity is low, they set the price at a high level and *vice versa*. As the elasticity of demand is low, consumers will not be able to reduce demand even with a price increase.

Wage bargaining: Trade unions demand high wage rates if the elasticity of demand for labour is low, especially for skilled labour.

b) Three characteristics of land:

i. Land is limited in supply: Supply of land is fixed as it is given by nature.
ii. Gifts of nature: Land is a gift of nature which does not have any cost of production. Land is readily available for any use. However, other agents of production are available at a cost.
iii. Land has alternative uses: Land can be used for alternative uses such as cultivation, dairy or poultry-farming, rearing of livestock, building of houses, playgrounds etc.

Two functions of land as a factor of production:

i. Determines agricultural production:
The supply of land resource determines the level of agricultural production in an economy. Nearly 43 percent of the land area of India is plain and suitable for crop cultivation.
ii. Industrial development:
Land resources of an economy help in the process of industrialisation. Raw materials for industry are obtained from land. Power is supplied by land to run industries.