

ICSE SEMESTER 2 EXAMINATION

SAMPLE PAPER - 2

ECONOMICS

Maximum Marks: 40

Time allowed: One and a half hours

Answers to this Paper must be written on the paper provided separately.

You will not be allowed to write during the first 10 minutes.

This time is to be spent in reading the question paper.

The time given at the head of this Paper is the time allowed for writing the answers.

Attempt **all** questions from **Section A** and **any three** questions from **Section B**.

SECTION A

(Attempt **all** questions)

Section-A (Attempt all questions)

Question 1.

Choose the correct answers to the questions from the given options. (Do not copy the question, write the correct answer only.)

- (i) Which inflation is considered healthy for economy?
 - (a) Creeping inflation
 - (b) Walking inflation
 - (c) Running inflation
 - (d) Hyper inflation
- (ii) In this deposit account, an account holder has to deposit certain fixed amount every month for a specified period:
 - (a) Fixed deposit account
 - (b) Current account
 - (c) Savings bank account
 - (d) Recurring deposit account
- (iii) RTI stands for:
 - (a) Referred True Instance
 - (b) Right to Information
 - (c) Reliance Transport Insurance
 - (d) Rural Trust of India
- (iv) Which of them is considered to be the banker to the government?
 - (a) Central Bank of India
 - (b) Dena Bank
 - (c) Reserve Bank of India
 - (d) Federal Bank
- (v) The formula of Credit Multiplier is:
 - (a) $1/R$
 - (b) R/P
 - (c) $R/1$
 - (d) P/R
- (vi) This is not a function of a Central Bank:
 - (a) Maintaining law and order
 - (b) Issue of notes
 - (c) Government's bank
 - (d) Managing exchange rate
- (vii) Under demonetisation, the Indian Government cancelled the legal tender status of the notes of:
 - (a) ₹ 500
 - (b) ₹ 1000
 - (c) ₹ 2000
 - (d) Both a. and b.
- (viii) When the government acquires the unclaimed property or assets of dissolved trusts, then it is known as:
 - (a) Fee
 - (b) Special assessment
 - (c) Gift
 - (d) Escheat

- (ix) PDS stands for:
- | | |
|-------------------------------------|---------------------------------|
| (a) People's Department of Security | (c) Priority Department Section |
| (b) Public Distribution System | (d) Poverty Dissolution Scheme |
- (x) When the rate of tax decreases as the slab of income increases, then such tax is known as:
- | | |
|----------------------|-------------------|
| (a) Proportional tax | (c) Natural Tax |
| (b) Regressive Tax | (d) Excellent tax |

Section-B (Attempt any three questions)

Question 2.

- What do you understand by public expenditure?
- Who is a consumer?
- What are the causes of rise in public expenditure?
- Write three ways of consumer protection.

Question 3.

- What is suppressed inflation?
- Write about the following:

(a) Specific taxes	(b) Ad-valorem taxes
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- Write three differences between Central Bank and Commercial Bank.
- Explain the agency functions of a Commercial Bank.

Question 4.

- What is clearing house function of RBI?
- Write about the following:

(a) Industrial Banks	(b) Agricultural Banks
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- Differentiate between public and private finance.
- Explain the functional classification of public expenditure.

Question 5.

- What is the relationship between value of money and price level?
- Write about the following:

(a) AGMARK	(b) The Bureau of Indian Standards (BIS)
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- What are the merits of indirect taxes?
- Write any three causes of demand pull inflation.

Question 6.

- Write about the following:

(a) Compulsory Debts	(b) Unproductive Debts
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- What is tax?
- What are the characteristics of good tax system?
- Explain the circumstances which lead to food adulteration.



Section-A

Answer 1.

- (i) (a) Creeping inflation

Explanation :

Creeping or crawling inflation remains in the limit of 2-3 percent annual inflation which is considered healthy for the economy as it gives additional inducement to businessmen to invest.

- (ii) (d) Recurring deposit account

Explanation :

In Recurring deposit account, an account holder has to deposit certain fixed amount every month for a specified period.

- (iii) (b) Right to Information

Explanation :

RTI stands for Right to Information.

- (iv) (c) Reserve Bank of India

Explanation :

Reserve Bank of India is considered to be the banker to the government.

- (v) (a) $1/R$

Explanation :

The formula of Credit Multiplier is $1/R$. R stands for cash reserve ratio.

- (vi) (a) Maintaining law and order

Explanation :

Maintaining law and order is the function of Police and a Central Bank.

- (vii) (d) Both (a) and (b)

Explanation :

Under demonetization, the Indian Government cancelled the legal tender status of ₹ 500 and ₹ 1000 notes.

- (viii) (d) Escheat

Explanation :

When the government acquires the unclaimed property or assets of dissolved trusts, then it is known as Escheat.

- (ix) (b) Public Distribution System

Explanation :

The full form of PDS is Public Distribution System.

- (x) (b) Regressive Tax

Explanation :

When the rate of tax decreases as the slab of income increases, then such tax is known as Regressive Tax.

Answer 2.

- (i) Public expenditure refers to the expenditure incurred by the public authorities such as central government, state government or local government to satisfy those common wants which the people in their individual capacities are unable to satisfy efficiently. Public expenditure thus tends to satisfy collective social wants.
- (ii) A person who has indicated his or her willingness to obtain goods and/or services from a supplier with the intention of paying for them is termed as consumer.
- (iii) The main reasons for the increase in public expenditure are as follows :
 1. **Developmental Work:** Modern State has to take up developmental work in addition to their primary functions of administration and defense. For example, the Central and State Governments

in India perform a large variety of developmental functions. The rise in developmental work is the primary cause of rise in public debt.

2. **Rise in Price Level:** As a result of the rise in price-level, the public expenditure has gone up everywhere. The reason is that the Government also has to buy goods and services from the market even if their prices are higher.
3. **Greater Expenditure on Internal and External Security:** Government has to spend today more and more on the maintenance of internal and external security which results into rise in public expenditure.

(iv) The three ways of consumer protection are:

1. **Self-regulation by Business:** Business community can help to achieve protection and satisfaction of consumers through disciplining their own self by adopting higher ethical standards. The trade associations and chambers of commerce may regulate the unfair trade practices used by some businessmen.
2. **Consumer Self Help:** Consumer may make efforts to know about his own rights. He should not allow the shrewd businessmen to cheat him.
3. **Legislative Regulations:** Consumer associations, consumer rights, Consumer Protection Act, consumer protection councils are the laws and bodies which help to regulate consumer protection.

Answer 3.

- (i) Suppressed inflation refers to a situation when there exist inflationary pressures in the economy but prices are controlled by certain administrative measures, such as price-control and rationing. The increase in prices is suppressed here. The controls ensued by the government on the prices of essential commodities in times of war is an example of suppressed inflation.
- (ii) (a) **Specific Taxes:** Taxes which are levied on the basis of units or weight, length and capacity are called specific taxes.
- (b) **Ad valorem Taxes:** When the taxes are levied on the basis of value of commodities irrespective of their size, length and weight etc., they are called ad-valorem taxes.
- (iii) Following are the three differences between central bank and commercial bank:

Central Bank		Commercial Bank	
1.	The Central Bank is the apex monetary institution which has been specially empowered to exercise control over the banking system of the country.	1.	A commercial bank is a constituent unit of the banking system.
2.	The Central Bank does not operate with a profit motive.	2.	A commercial bank is normally guided by profit motive.
3.	The Central Bank has the monopoly of issuing notes.	3.	A commercial bank does not enjoy such right.

- (iv) Apart from the functions of accepting deposits and providing loans, the commercial banks also render additional services to their customers and act as agents of the customers in such functions. The services so rendered are termed as 'agency functions' of the bank, some of which are as below :
 1. **Collection and Making Payments for Credit Instruments :** The bank collects the payment of the bills of exchange, promissory notes, cheques, etc., on behalf of its customers.
 2. **Collection of Dividend :** The bank collects the dividends and interests on shares and debentures as per the instructions of its customers.
 3. **Remittance of Funds :** The banks also transfer funds from one branch of the bank to another according to the instructions of the customers.

Answer 4.

- (i) The Reserve Bank of India provides a clearing house facility to the commercial banks by settling the claims of various banks on each other, by adjusting the book entries. All the commercial banks have accounts with Reserve Bank of India and the RBI also holds the cash reserves of the commercial banks as such and makes clearing adjustments accordingly by means of debits and credits.
- (ii) (a) **Industrial Banks** : They generally extend long term loans to industries. In addition, they also help industrial firms to sell their debentures and shares.
- (b) **Agricultural Banks** : They fulfill the needs of credit of the farmers by providing loans to buy seeds, fertilizers, etc., or to purchase land for further improvements of land.
- (iii) Following are the points of differences between Public and Private Finance:

		Public Finance	Private Finance
1.	Adjustment of Income and Expenditure	A government first prepares an estimate of expenditure and then means to raise that sum.	The individual first estimates income and adjust his expenditure to his income.
2.	Deficit Financing	The government can print new notes to meet her expenditure.	An individual cannot do so.
3.	Different Objectives	The objective of government expenditure is to maximize social benefit.	The objective of private expenditure is to maximize personal utility of profit.

- (iv) On the functional basis, the public expenditure has been classified into following three groups:
- (a) **Protective expenditure** : This includes the expenditure incurred by the government on the purchase of arms and ammunitions, maintenance of army, police, administration of justice, and jails.
- (b) **Commercial expenditure** : This includes the expenditure incurred by the government on the commercial activities like the running of railways, roadways, construction of highways, etc., which are undertaken by the government in public interest.
- (c) **Developmental expenditure** : This includes the expenditure incurred by the government on social and economic development of the country like the expenditure made on providing education, health, recreation, public utility facilities to the community.

Answer 5.

- (i) The price level and the value of money have inverse relationship. The higher the price level, the smaller is the power of money to purchase and thus the value of money would be lower and with the lower price level the purchasing power would increase along with the increase in the value of money.
- (ii) (a) **AGMARK**: The term AGMARK is the amalgamation of two words, i.e., 'AG' to mean agriculture and 'MARK' for a certification mark. Hence 'AGMARK' is a certification mark employed on agricultural products in India, assuring that they conform to a set of standards laid down by Government.
- (b) **The Bureau of Indian Standards (BIS)**: The BIS is the national standard body of Indian Government. BIS works with the objectives of ensuring safe and reliable quality goods and minimising health hazards to consumers. BIS achieve these objectives by providing various kinds of certifications like ECOMARK and ISI on various categories of products.

- (iii) The various merits of indirect taxes are:
1. **Convenient:** Indirect taxes are mostly levied on commodities and are paid by consumers when they buy them in the market. The amount of the tax is included in the price of the commodity and the consumer pays the tax without experiencing its pinch.
 2. **Wide coverage:** Indirect taxes has wider coverage in the sense that they are paid by all the sections of the community at the time of making purchases of goods in the market; in the form of sales tax or customs duty.
 3. **No Possibility of Evasion:** No person can evade the indirect taxes, because they are collected in the form of higher prices of goods sold to the consumers.
- (iv) Following are the three causes of demand pull inflation:
1. **Increase in Income:** With the increased income of the people, their demand rises for the goods and services which results into the rise in the prices.
 2. **Hoarding of Black Money:** Black money means unaccounted money. It is created through tax-evasion. Such money is spent on non-productive activities like buying real estate, gold smuggling, luxurious living, etc. which are responsible for price-rise.
 3. **Increase in Population:** It is another major cause for rise in prices. Increase in population refers to increased demand of consumer goods which puts a pressure on existing supply of goods and services, thus resulting in inflation.

Answer 6.

- (i) (a) **Compulsory Debts:** When government borrows from people by using coercive methods, loans so raised are referred to as compulsory public debts.
 (b) **Unproductive Debts:** When government borrows for non-developmental purposes such as for maintaining public administration, armed forces, judiciary etc., such debt is known as unproductive debt. Such debt does not raise the productive capacity of the country but are taken to maintain it.
- (ii) Taxes are compulsory contributions, imposed by the government on its citizens, to meet its general expenses incurred for the common good, without any corresponding benefits to the tax payer.
- (iii) A good tax system should possess the following characteristics:
 1. It should ensure maximum social advantage. Fund of taxation should be used to finance public services.
 2. It should cause minimum aggregate sacrifice. In a good tax system, the allocation of taxes among tax-payers is made according to the ability to pay. It falls more heavily on the rich and less on the poor. It should be reasonably progressive so as to minimize the gap of inequality of income and wealth in the community, thereby ensuring their better distribution.
 3. The entire structure of the tax system should have built-in flexibility, so that changes are possible according to the changing conditions of a dynamic economy. It should be possible to add or withdraw a tax without destroying the entire system and its balancing effect.
- (iv) Circumstances leading to food adulteration are as follows:
 1. Greater demand for food items than supply.
 2. Temptation for quick gain by greedy traders.
 3. Lenient attitude of government officers towards enforcement of laws on food safety