ICSE Board
Class X Economics
Board Paper – 2014 Solution

SECTION A

Answer 1

a) Methods to increase land productivity:
   i. Farmers need to use high-yielding variety of seeds, adequate amount of chemicals or bio-fertilisers and pesticides, and improved agricultural implements such as power tillers or tractors. Thus, the scientific process of cultivation will help to increase the yield of crops per hectare.
   ii. The productivity of land is largely determined by its natural qualities. In agriculture, some properties of the soil would be more suitable for the cultivation of wheat than for the cultivation of rice. Farmers need to identify the soil suitable for crop cultivation. Thus, cultivation in suitable soil also increases land productivity.

b) Price elasticity of demand:
   Price elasticity of demand measures the responsiveness of quantity demanded for any good due to one percent change in the price of that good.
   Percentage method to calculate the price elasticity of demand for good is as follows:
   e_p = Percentage change in the demand for the good/Percentage change in the price of the good

c) Sunk capital and floating capital:
   i. Sunk capital is the one which can only be put to a single use. It is also known as specialised capital. It always remains in a fixed place. For example, a printing machine.
   ii. Floating capital is the capital which can be used in alternative lines of production. It is also called free capital. For example, steel, wood, raw materials etc.

d) Two reasons for consumer exploitation in India:
   i. Consumers buy a wide range of goods without making adequate initiative to know consumer rights.
   ii. Due to illiteracy, consumers may not challenge the quality and quantity of goods supplied by the seller, even the goods and services provided by them are not satisfactory.

   Hence, consumers are exploited by providing false statements about the quality of the product and cheat consumers by falsely representing old goods as new goods in the market.

e) Entrepreneur and organiser:
   i. An entrepreneur is a person who carries the risk of business and coordinates the activities of all the other factors of production.
   ii. An organiser performs only the function of organisation but does not perform the other functions of an entrepreneur.

Answer 2

a) Two factors affecting the market demand of a commodity:
   i. Pattern of income distribution: If the income distribution moves in favour of the poor people, the demand for commodities would increase among those people. On the other hand, if most of the national income is concentrated with rich people, the demand for luxury goods would increase among those people. So, the pattern of income distribution affects the market demand of a commodity.
   ii. Climatic condition: During the winter season, the demand for woollen clothes increases. During the summer season, the demand for cotton clothes increases. Hence, the climatic condition affects the market demand of a commodity.

b) Factors determining the supply of labour:
   i. Population: The most important factor affecting the supply of labour in a country is its population. A larger population with necessary skills to perform physical or mental work will increase supply of labour to the market.
   ii. Age structure: The total population of an economy is not considered supply of labour. Supply of labour depends on the age structure of the population. Legally, age is determined to work and not work. Child labour is prohibited by law. Salaried people have to retire after attaining a certain age. Hence, only a certain age group of people is considered supply of people.

c) 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.

d) A tax is said to be progressive when the rate of tax increases with the increase in tax payer's income. Under this system, the tax liability increases not only in absolute terms but the proportion of income tax also increases. Rich people pay higher average income tax than the poor people. Hence, it reduces the income inequalities among the rich and poor groups of people.

e) Differences between tax and fee:
   i. 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.
   ii. A fee is not a compulsory payment towards the Government. There will not be any legal punishment against the non-payment of a fee. For example, if the admission fee is not paid, then the student will not be admitted into school. Tax is a compulsory payment made by people to the Government.

Answer 3

a) Two reasons for an increase in public expenditure in modern days:
   i. Public expenditure tends to increase with the expansion of administrative machinery, maximising social and economic welfare, providing salary and other benefits such as old-age pension, sickness benefits, accident benefits, free education to industrial workers etc.
   ii. Public expenditure tends to increase with the huge interest payments on market borrowings.

b) Limited legal tender and unlimited legal tender:
   i. The rupee notes of higher denominations are considered unlimited legal tender because they can be used for settling claims relating to high-value transactions. For example, 100/500/1000 rupee notes.
   ii. Coins of smaller denominations are considered limited legal tender because they are acceptable only for meeting financial transactions of lower value. For example, 1/2/5 rupee coins for satisfying the smaller requirement.

c) Labour specialising in the production of a particular good or service is called simple division of labour. Division of labour increases the efficiency of labour in productivity.

d) COPRA - Consumer Protection Act, 1986. Consumer grievances and complaints against traders are checked at three levels. They are National Consumer Commission at the national level, State Consumer Commission at the state level and District Forum at the district level. They provide relief and compensation to affected consumers. Currently, there are more than 500 district courts functioning in the three-tier system of India.

e) Two contingent functions of money:
   i. Assisting production decisions: The main objective of any producer is to maximise their profit. So, producers have to decide the amount of factors of production to be used in production. They have to make factor payments to those factors of production in terms of money. Thus, the money-prices of those factors help the producer to take necessary decisions.
   ii. Assisting consumption decisions: The main objective of any consumer is to satisfy their wants through the consumption of goods. However, the consumption of the consumer depends on the income level and money-prices of the commodities in the market. Thus, the income of the consumer and money-prices of the commodities influence the consumption decision of individuals.

Answer 4

a) The central bank acts as a 'Banker' to the Government and it performs the following functions:

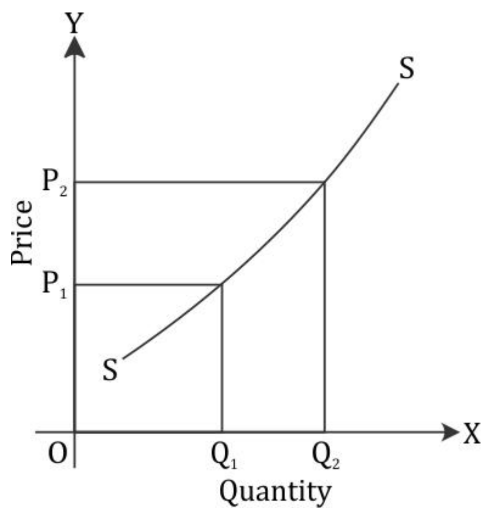
   i. It receives deposits from the Government and collects cheques and drafts deposited in the government account.
   ii. It makes purchases and sales of government securities.
   iii. It provides cash to the Government as required for payment of salaries and wages to their staff and other disbursements.
   iv. It makes payments on behalf of the Government.

b) International Monetary Fund and World Bank are the two sources of external debt.

c) Differences between tax on income and tax on commodity:

   i. 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. According to the ability of the taxpayers, these taxes are levied.
   ii. 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) Supply curve



e) The bandwagon effect is an exception to the law of demand. The consumer's demand for a commodity gets influenced by the taste and preference of the social class to which the consumer belongs. If a businessman prefers to play golf as a fashionable game among successful businessman, then the price of a golf ball increases in the market. Here, the businessman may increase the demand for golf balls in order to show that he is a successful businessman.

SECTION II

Answer 5

a) Land is defined to include not only the surface of the Earth but also all the other gifts of nature.

Four 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. Primary factor of production: Land is a basic factor of production because it cannot produce anything by itself.

iv. Land has alternative uses: Land can be used for alternative uses such as cultivation, dairy or poultry-farming, rearing of livestock, building of houses, play ground etc.

b) Efficiency of labour means the productive capacity of a worker. It indicates the ability of the worker to do more work or better work during a given period of time.

Factors influencing the efficiency of labour:

i. Ability and willingness of the workers to work and to learn skills depend on the health of a worker and therefore on the wage rate and the standard of living. The improvement in standard of living leads to an improvement in health through better nourishment. It also depends on the average age of any labour.

ii. Literacy is perhaps the first priority to improve the efficiency of labour. Adequate provisions for imparting training to the workers will improve the efficiency of labour.

iii. Climatic differences affect the efficiency of labour in production. The hot and humid climate of most of the states of India is a factor which deprives the people to work hard and the ability to display high efficiency.

iv. A healthy and conducive work environment increases the level of efficiency. The facilities available in the work place determine the labour efficiency to a great extent.

Answer 6

a) Capital formation:

Capital formation means the creation of capital. A change in the stock of any capital during a particular period of time is called capital formation.

Three important stages of capital formation:

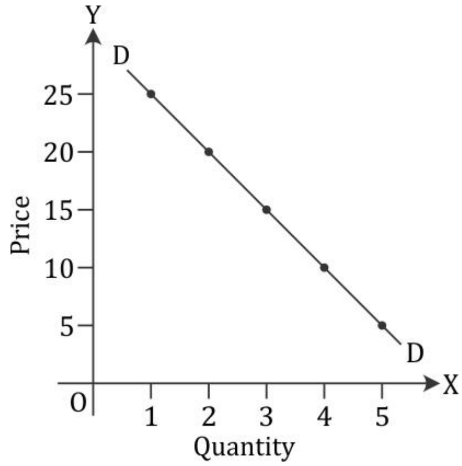
i. Creation of saving: Savings are transformed into capital. If an individual does not save money, then there cannot be any capital formation, even other conditions are favourable for capital formation.

ii. Mobilisation of savings: Although with a high level of income, if a person holds savings in the form of cash instead of depositing in the bank, then the savings cannot be mobilised for investment. Hence, the savings must be mobilised from the savers. These functions are performed by financial and other institutions as well as the capital markets.

iii. Investment mobilised savings: The mobilised savings must be actually used by producers for investment. Money kept by the people in the banks must be lent out by the banks to producers for business investment such as purchase of machinery, raw materials etc.

b) Individual demand schedule and the demand curve are given below:

Price	Quantity
5	1
10	2
15	3
20	4
25	5



Answer 7

a) Supply:

The supply of a commodity is defined as the quantity of the commodity which the producers desire to sell to consumers. Thus, the 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.

Three reasons for the rightward shift of the supply curve:

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 excess profit by selling at a higher price. So, there is an increase in the supply of product which causes a rightward shift of the supply curve.

ii. Technological condition: Technological progress creates positive approach in the supply of a particular product. It decreases the cost per unit and increases the productivity of given factor inputs of production. This leads to making the production of a particular good more profitable. So, there is an increase in the supply of product which causes a rightward shift of the supply curve.

iii. Law of diminishing marginal utility: According to this law, as more units of the variable factor are employed, the addition made to total production falls, i.e. the cost of production increases. Thus, more quantity is supplied only at a higher price in order to cover the rise in cost of production.

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

Four types of public debt:

i. Internal and external debt:

Internal debt means government borrowings within the country. Individuals, banks, business firms and others are the various internal sources from which the Government borrows. The various instruments of internal debt include market loans, bonds, treasury bills, ways and means advances etc. Over the years, the internal debt of the Central Government has increased from Rs 1,54,004 crore in 1990–91 to Rs 23,37,682 crore in 2009–10.

External debt means the government borrowings from abroad. The external debts are multilateral borrowings, bilateral borrowings, loans from World Bank, Asian Development Bank etc. for various developmental programmes. Over the years, the external debt of the Central Government has increased from Rs 31,525 crore in 1990–91 to Rs 1,39,581 crore in 2009–10.

ii. Productive and unproductive debt:

A debt is called productive if the loan is financed for the projects which bring revenue to the Government; for example, irrigation, power projects etc. The productive debts are self-liquidating in nature; this means the principal amount and interest are normally paid out of the revenue generated from the projects to which the loans were used.

A debt is called unproductive if the loan is financed for war and other relief operations in case of emergency. Unproductive public loans are a net burden on the community. The Government will have to resort to additional taxation for their servicing and repayment.

iii. Redeemable and irredeemable debt:

A redeemable debt is one the Government repays after a fixed period of time. When the Government borrows money from the public, they sell securities to the public. They pay the interest at regular intervals. When the debt matures, the public surrenders the security to the Government and receives the principal along with the interest amount anything due to them. Banks and other institutions are the holders of government securities.

Irredeemable debts are the loans for which no promise is made by the Government regarding their exact date of repayment. Such debt has no maturity period. The Government may pay interest regularly. Normally, the Government does not resort to such borrowings.

iv. Convertible and inconvertible debt:

The Government takes a loan for a specified time period at a specified interest rate, but if after some time, the Government notices that there has been a fall in the market interest rate, it converts the old loan into a new loan at the lower interest rate, called a convertible loan. If it cannot be converted, it is called an inconvertible loan.

Answer 8

a) A commercial bank is defined as a financial institution which provides services such as accepting deposits, giving business loans, mortgage lending and basic investment products such as savings account and certificates of deposit.

A commercial bank mobilises deposits from the public by accepting the following deposits:

i. Fixed deposits are accepted for a specific period of time which carries interest at relatively high rates. According to the maturity period, the rate of interest varies. If the deposited money is withdrawn before the expiry of the specified period, the interest will not be paid.

ii. Demand deposits are those deposits which can be withdrawn at any time by the depositors by cheque. It has no interest rate.

iii. Savings deposits are those deposits on the withdrawal of which a bank places certain restrictions. Cheque facility is provided to the depositors. It is generally held by households who have idle cash for a short period.

iv. Recurring deposits are those deposits under which the account money is deposited in monthly instalments for a fixed period of time. It carries a high rate of interest.

b) Five advantages of division of labour:

i. Increases the efficiency of labour:
The worker becomes more specialised if a worker is entrusted with only a part of work in the process of production. Increase in the efficiency of labour leads to an increase in the quantity and quality of production. It also enables the producer to produce goods at a low cost of production.

ii. Rise in profits:
Increase in the quantity and improvement in the quality of output are important aspects of division of labour. It brings greater profit to the producer in the market.

iii. Large-scale production:
Large-scale production is feasible with the division of labour. A manufacturing company with a reasonable number of workers can produce more through division of labour.

iv. Lower prices of outputs:
Due to division of labour, reduced average costs of the products will lead to reduced prices of the outputs in the market. Hence, consumers are benefitted.

v. Rise in national income:
Due to division of labour, there is a rise in the volume of production of goods which lead to an increase in the total value of all goods and services. The national income also increases with the increase in the national product.

Answer 9

a) 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.
Four causes of inflation are as follows:
   i. Public expenditure increases:
   Spending by the Government is an important part of total spending in any modern economy. It is a total spending which determines a total demand. Thus, government expenditure is an important determinant of aggregate demand. In the less-developed countries, government expenditure has shown an upward trend. In the beginning of the planning period in India, the amount of government spending has increased by leaps and bounds. This has created an inflationary situation in the economy.
   ii. Hoarding:
   Excess demand is artificially created by hoarders. They stockpile the goods and do not release to the market for sale. It leads to excess demand and inflation in the economy.
   iii. Genuine shortages:
   Sometimes, the shortages may not be artificial but genuine. Due to some reason, the factors of production are limited in supply and production is affected. Because supply is less than demand, prices rise.
   iv. Population growth:
   Growth of population will increase the total demand in the market. If the supply of goods and services does not keep pace with demand, the pressure of excess demand will create inflation.

b) Quantitative credit control is a measure used by the central bank to influence the total volume of credit in the banking system. The quantitative credit controls are as follows:
   i. Bank rate policy:
   Bank rate policy is used as the main instrument of monetary control during the period of inflation. When the central bank raises the bank rate, it is said to have adopted a dear money policy. The increase in bank rate increases the cost of borrowing which reduces commercial banks borrowing from the central bank. Consequently, the flow of money from commercial banks to the public gets reduced. Therefore, inflation is controlled to the extent it is caused by bank credit.
   ii. Cash reserve ratio (CRR):
   When controlling inflation, the central bank raises the CRR which reduces the lending capacity of commercial banks; consequently, the flow of money from commercial banks to the public decreases. In this process, it halts the rise in prices to the extent it is caused by bank credits to the public.
   iii. Open market operations:

Open market operations refer to the sale and purchase of government securities and bonds by the central bank. When controlling inflation, the central bank sells government securities to the public through the banks. This results in the transfer of a part of bank deposits to the central bank account and reduces credit creation capacity of commercial banks.

Answer 10

a) Consumers are exploited in the following five ways:

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.

b) Degree of elasticity of supply:

i. $E_p = \infty$

Supply is said to be infinite when $E_p = \infty$. Infinite elasticity of supply refers to a horizontal straight line supply curve which shows infinite supply corresponding to a particular price of the commodity. Figure (a) shows that quantity supplied is infinite when the price of the commodity is OS. It reduces to zero even when price is slightly reduced.

ii. $E_p > 1$

Supply is said to be elastic when $E_p > 1$. Elastic supply refers to a straight line, positively sloped supply curve from the Y-axis irrespective of the angle it makes. Figure (b) shows that quantity supplied is elastic, i.e. an increase in the price of the commodity from OP will lead to extension of supply.

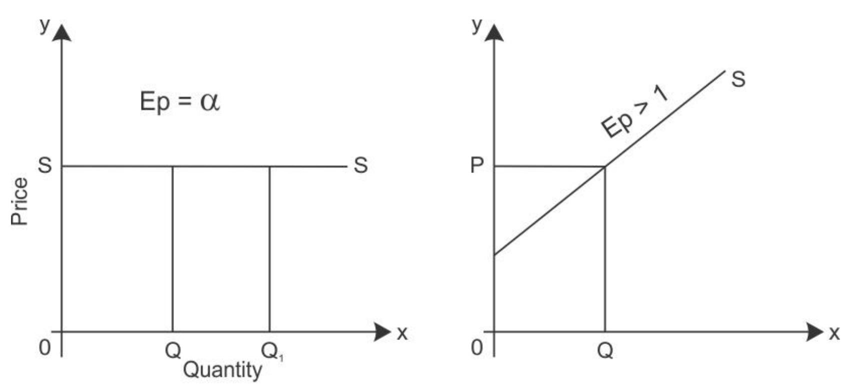


Fig. (a) Fig. (b)