Delhi Public School, Howrah

PERIODIC TEST III - (2025-2026)

Class-XII

Care must be taken not to write anything on the question paper. All the questions must be attempted in the correct sequence.

SUBJECT: ECONOMICS (CODE-030)

Time Allowed - 3 Hours **Maximum Marks - 80**

General Instructions:

1. This question paper contains two sections:
   Section A – Macro Economics
   Section B – Indian Economic Development
2. This paper contains 20 Multiple Choice Questions type questions of 1 mark each.
3. This paper contains 4 Short Answer Questions type questions of 3 marks each to be answered in 60 to 80 words.
4. This paper contains 6 Short Answer Questions type questions of 4 marks each to be answered in 80 to 100 words.
5. This paper contains 4 Long Answer Questions type questions of 6 marks each to be answered in 100 to 150 words.

PART -A

MACROECONOMICS

1. Read the following statements-Assertion (A) and Reason (R). Choose one of the correct alternatives given below. 1

   Assertion (A): A high fiscal deficit is always a sign of a sound fiscal policy and economic health.
   Reason (R): Fiscal deficit measures the total borrowing requirements of the government.
   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.

2. "The economy of Inland experienced a significant current account deficit in the last fiscal year. The value of its currency in the flexible exchange rate system has been depreciating rapidly. The Central Bank of Inland is considering intervention to manage the situation." 1
   What does the term 'depreciating rapidly' in a flexible exchange rate system mean for Inland's currency?
   A. It can buy more foreign goods with the same amount of domestic currency.
   B. The value of the currency is being fixed by the Central Bank.
   C. More domestic currency is needed to buy one unit of foreign currency.
   D. The price of Inland's exports has increased in the international market.

3. The value of Average Propensity to Consume (APC) can be greater than one when_____. 1
   A. Consumption is equal to income (C=Y).
   B. Consumption is less than income (C<Y).
   C. Consumption is greater than income (C>Y).
   D. Income is zero (Y=0).

4. "Apex Bank, a commercial bank in the country of Econoville, received a primary deposit of ₹1,00,000 from a new customer. The Central Bank of Econoville mandates a Legal Reserve Ratio (LRR) of 20% for all commercial banks. Apex Bank decides to lend out the maximum possible amount based on this deposit." 1
   What is the maximum amount Apex Bank is legally required to keep as reserves from the initial deposit?
   A. ₹20,000
   B. ₹80,000
   C. ₹1,00,000
   D. ₹4,00,000

5. Which of the following correctly arranges the countries by economic size (As of 2025, the global ranking by nominal GDP) from largest to smallest? 1

A. China > United States > Japan > Germany > India
B. United States > China > Japan > Germany > India
C. United States > China > Germany > Japan > India
D. China > United States > Germany > Japan > India

6. Read the following statements carefully: 1
Statement 1: During inflation, the government should adopt a policy of budget surplus.
Statement 2: A budget surplus decreases aggregate demand in the economy, helping to control price rise.
In light of the given statements, choose the correct option from the following:
A. Statement 1 is true and Statement 2 is false.
B. Statement 1 is false and Statement 2 is true.
C. Both Statements 1 and 2 are true.
D. Both Statements 1 and 2 are false.

7. If an individual saves money from their current income to buy a house five years later, which function of money is being utilized in this scenario? 1
A. Medium of exchange
B. Store of value
C. Unit of account
D. Transfer of value

8. During a period of a persistent current account deficit, the Central Bank might intervene in the foreign exchange market. What is a likely action it would take? 1
A. Sell foreign currency in the open market.
B. Buy foreign currency in the open market.
C. Increase the supply of domestic currency abroad.
D. Decrease domestic interest rates.

9. "The following transactions are recorded in the Balance of Payments statement of India for a given period. 1
1. An Indian company received a loan of ₹10,000 crores from a US-based multinational bank.
2. An Indian resident paid ₹500 crores for medical treatment in Singapore.
3. The Government of India provided a grant of ₹2,000 crores to Nepal for flood relief.
4. An American software firm invested ₹8,000 crores to set up a new R&D centre in Bengaluru.
5. An Indian citizen working in Dubai sent ₹1,500 crores to his family in Delhi."
Which of the above transactions are recorded in the Capital Account of India's BOP?
A. 1 and 2
B. 1 and 4
C. 3 and 5
D. 2 and 4

10. Read the following statements-Assertion (A) and Reason (R). Choose one of the correct alternatives given below. 1
Assertion (A): The value of the investment multiplier is 4 if the Marginal Propensity to Consume (MPC) is 0.75.
Reason (R): The formula for the investment multiplier is $k = 1/(1-MPC)$.
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.

11. Clarify the concept of 'Official Reserve Transactions' and their role in the BOP statement. 3

12A Mr. Rajiv is a retired school teacher. He gets a monthly pension from the government. He has also invested in shares of a company and earns dividend income from them. Recently, he also received ₹50,000 as a gift from his friend on his birthday. Classify each source of Mr. Rajiv's income by giving valid reasons. 3

OR

12B Are remittances included in GDP or GNP? Why?

13A Analyse how the Union Budget 2025 aims to stimulate household consumption and investment through direct tax reforms. 4

OR

13B The Fiscal Deficit for FY 2025-26 is estimated to be 4.4% of GDP, a reduction from the revised estimate of 4.8% for the previous year. What does this trend indicate about the government's fiscal policy stance?

14. When planned saving is greater than planned investment (S > I), what happens in the economy according to the AD-AS model? 4

15. a. Why are time deposits (Fixed Deposits) excluded from the M1 measure of money supply, even though they represent significant financial value? 2

b. How do "demand deposits" constitute money when they are essentially a form of debt owed by commercial banks to their customers? 2

16. The economy of Greenoville is a closed economy (no foreign trade). The government maintains a fixed level of expenditure, and investment is entirely private. The economy is currently in a stable state but operating below full capacity due to recent low business confidence. 6

Key Economic Data for Greenoville:	
Marginal Propensity to Consume (MPC)	0.9
Current National Income Level (Y):	₹2,000 crores
Full Employment Income Level (Yf):	₹3,000 crores
Government Expenditure (G):	₹400 crores
Autonomous Investment (I):	₹300 crores

a. Based on the given data, calculate the value of the investment multiplier (k) for Greenoville.
b. Does Greenoville currently have an inflationary gap or a deflationary gap? Justify your answer with a calculation.
c. To bring the economy to the full employment level, the Finance Minister decides to increase government expenditure. Calculate the necessary increase in government expenditure (ΔG).
d. Alternatively, if the Central Bank of Greenoville wants to solve this problem using monetary policy tools, suggest one appropriate measure and explain how it works.

17A In an open economy model with households, firms, and the government, explain the impact of the following events on the national income and circular flow of income: 3

a. A significant increase in government spending on infrastructure projects (e.g., new highways).
b. A global recession causing a sharp decrease in exports. 3

OR

17B Describe Nominal GDP and Real GDP. Why is Real GDP considered a better indicator of a country's economic growth and the economic welfare of its citizens than Nominal GDP? 2 4

PART-B

INDIAN ECONOMIC DEVELOPMENT

18. "In 1991, India faced a severe economic crisis characterized by a high fiscal deficit, a Balance of Payments crisis, and high inflation. In response, the government initiated a new set of economic reforms under the New Economic Policy (NEP), focusing on Liberalisation, Privatisation, and Globalisation (LPG). These policies aimed to move the economy towards a market-oriented system." 1

The immediate reason for the implementation of the New Economic Policy (NEP) in 1991 was:

A. The need to join the World Trade Organisation (WTO).
B. Political pressure from domestic industrialists to open the economy.
C. A severe foreign exchange crisis and a Balance of Payments problem.
D. The collapse of the Soviet Union, India's major trading partner.

19 Read the following statements-Assertion (A) and Reason (R). Choose one of the correct alternatives given below. 1

Assertion (A): The occupational structure of India on the eve of independence showed balanced growth across all sectors.

Reason (R): The majority of the workforce (around 72%) was engaged in agriculture, while the industrial and service sectors accounted for only a small proportion.

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

20. Choose the correctly matched pair from the following: 1

Column I		Column I
a. Demographic Transition	i	Export of raw materials, import of finished goods
b. Occupational Structure	ii	TISCO in 1907 was a key development
c. Foreign Trade	iii	Year of Great Divide was 1921
d. Industrial Sector	iv	Predominance of primary sector workforce (72%)

A. a-i, b-ii, c-iii, d-iv
B. a-ii, b-i, c-iv, d-iii
C. a-iii, b-iv, c-i, d-ii
D. a-iv, b-iii, c-ii, d-i

21. On the eve of Independence, India's demographic profile showed: 1
A. High literacy rates and low infant mortality rates.
B. High birth rates, high death rates, and low life expectancy.
C. Low birth rates and low death rates.
D. High female literacy rates compared to male literacy rates.

22. Read the following statements-Assertion (A) and Reason (R). Choose one of the correct alternatives given below. 1

Assertion (A): India's trade policy up to 1990 focused heavily on 'import substitution' rather than 'export promotion'.

Reason (R): The goal was to protect domestic industries from foreign competition and achieve self-reliance in the production of a wide range of goods.

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. Both Assertion (A) and Reason (R) is false.
D. Assertion (A) is false but Reason (R) is true.

23. The term used to describe the pre-independence foreign trade where trade was largely restricted to Britain, and India acted as a net exporter of raw materials, is: 1
A. Trade liberalization
B. Trade surplus
C. Monopoly control of trade
D. Bilateral trade agreement

24. The Industrial Policy Resolution of 1956 (IPR 1956) aimed to _____. 1
A. Promote private sector monopoly in key industries.
B. Reduce the role of the public sector in industrial development.
C. Provide a dominant role for the public sector in the process of industrialisation.
D. Encourage free entry of foreign companies into the Indian market.

25. A major reform under 'Globalisation' was the introduction of a flexible exchange rate system for the Indian Rupee. How did this impact foreign trade policy? 1
A. The government fixed a higher value for the rupee against the dollar.
B. The rupee's value was left to be determined by market forces (demand and supply of forex).
C. The policy focused on increasing tariffs on all imports.
D. The government banned the import of capital goods.

26. A policy measure NOT associated with the 1991 reforms is _____. 1
   A. MRTP Act abolished, replaced by the Competition Act.
   B. FERA replaced by FEMA (Foreign Exchange Management Act).
   C. Nationalisation of private commercial banks.
   D. Reduction in import duties on industrial goods.

27. The National Bank for Agricultural and Rural Development (NABARD), the apex body for rural financing, was set up in: 1
   A. 1969
   B. 1980
   C. 1982
   D. 1991

28. Explain the role of micro-credit programs in meeting the credit requirements of the rural poor. 3

29A Evaluate the shift in the role of the government from 'controller' to 'facilitator' as a result of the 1991 reforms. Provide examples from the industrial and financial sectors. 3

OR

29B "The 1991 economic reforms were a necessary evil for the Indian economy." Critically evaluate this statement, providing arguments for both the necessity of the reforms and the negative consequences they brought.

30. Discuss the role of the state in the early development phase of all three nations (India, Pakistan, and China). How did China's approach change to effectively leverage market forces while maintaining state control, a path India and Pakistan struggled to replicate? 4

31. Interpret the following picture by explaining its impact in economic development. 4



32A "While assessing human development indicators, one also has to consider the 'liberty indicators'." Critically analyze the human development experience of India, China, and Pakistan from the perspective of both standard HDI indicators and 'liberty' (political freedom) indicators. 4

OR

32B Study the table below showing the sectoral contribution to GDP (Gross Domestic Product) for India, China, and Pakistan, and answer the questions that follow:

Country	Agriculture (%)	Industry (%)	Services (%)
India	18	30	52
China	7	41	52
Pakistan	24	19	57

   a. Which country demonstrates a development pattern that aligns with the classical structural transformation theory (agriculture -> industry -> services)? Justify your answer. 1

   b. Analyze the employment scenario implied by the agricultural data for India and Pakistan. (Assume a large proportion of the workforce is still in agriculture for both countries). 1

2

c. Compare and contrast India and Pakistan's structural change in GDP contribution. What unique aspect of India's growth is highlighted here?

33. "Casualisation of the workforce refers to the trend where the proportion of casual wage labourers increases relative to regular salaried employees." Analyze the primary reasons behind this trend in India and its consequences. 6

34A India has made considerable progress in expanding access to education since independence, but serious challenges remain. Discuss the main problems of human capital formation in India and suggest measures to overcome them.

OR

34B "EduNation is a developing country aspiring to achieve rapid economic growth. The government has traditionally spent 3% of its GDP on education and 1.5% on health. This has resulted in high dropout rates in rural areas, significant malnutrition among children, and a prevalence of preventable diseases due to poor sanitation and limited access to primary healthcare centers. A recent economic survey found that highly skilled professionals in the medical and engineering fields often migrate to developed countries for better opportunities, a phenomenon known as 'brain drain'." 6

a. Identify two key sources of human capital formation mentioned in the case study that are being underutilized by the government of EduNation.
b. The migration of skilled professionals (brain drain) is a challenge for EduNation. Analyze the impact of this 'brain drain' on the process of human capital formation within the country.
c. Differentiate between 'human capital' and 'human development' based on the objectives implied by the government's low spending priorities in the case study.
d. Suggest two specific policy measures that the government of EduNation could take to improve human capital formation in the health and education sectors, aiming to address the issues highlighted in the case.