

ICSE Board
Class X Economics
Board Paper – 2016

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) Define a direct tax. Give two examples. [2]
- b) State any two differences between an entrepreneur and other factors of production. [2]
- c) How does money help in maximising utility? [2]
- d) Explain two rights of a consumer. [2]
- e) Mention one way by which the Government can reduce the inequalities of income and wealth in an economy. [2]

Question 2

- a) What is meant by contraction in demand? [2]
- b) Mention two ways by which producers benefit from division of labour. [2]
- c) Mention the degree of price elasticity of demand for the following goods:
(i) cosmetics (ii) medicine (iii) school uniform (iv) air conditioners [2]
- d) Explain briefly two factors affecting the productivity of land. [2]
- e) A special virtue of indirect taxes is that, they sometimes help in social reforms. Explain. [2]

Question 3

- a) Define bank rate. [2]
- b) Mention two causes of increase in public expenditure in recent times. [2]

- c) Complete the following demand schedule: [2]

Price (in Rs)	Quantity of mangoes demanded (in kgs)
350.00	2
300.00	
250.00	
200.00	
150.00	
100.00	

- d) Draw a perfectly inelastic supply curve [2]
e) Explain one cause for low capital formation in India [2]

Question 4

- a) What is the impact of the level of technology on supply? [2]
b) Define creeping inflation. Why is it considered good for an economy? [2]
c) Mention two differences between fixed deposits and demand deposits. [2]
d) What is meant by a degressive tax system? [2]
e) Define simple division of labour. [2]

SECTION B (40 Marks)

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

Question 5

- a) Define demand. Explain clearly two factors which determine demand. [5]
b) Explain four important characteristics of labour as a factor of production. [5]

Question 6

- a) Define public expenditure. Explain two ways by which it promotes economic development. [5]
b) What is meant by efficiency of labour? Explain three causes of low efficiency of labour in India. [5]

Question 7

- a) With the help of a diagram explain the meaning of increase in supply and decrease in supply. [5]
b) What is meant by consumer awareness? Explain briefly four ways by which consumers are exploited [5]

Question 8

- a) Define money. Explain the primary functions of money. [5]
b) Mention five differences between a direct tax and an indirect tax. [5]

Question 9

- a) Explain briefly the five agency functions of a commercial bank. [5]
- b) Define capital. Differentiate the following with examples: [5]
 - (i) Real capital and debt capital
 - (ii) Money capital and sunk capital

Question 10

- a) What is meant by price elasticity of supply? Explain three factors which determine elasticity of supply. [5]
- b) Explain the following: [5]
 - (i) Internal debt and external debt
 - (ii) Productive debt and unproductive debt

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Solution

SECTION A

Answer 1

- a) A tax is a compulsory payment imposed on persons or companies by the government to meet the expenditure incurred on providing common benefits to the people. Income tax and wealth tax are examples of direct tax.
- b) Entrepreneur and other factors of production:
 - 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 entrepreneur earns profit with his innovative ideas, efficiencies and willingness to take risks. Hence, an entrepreneur is the only factor of production which earns a profit.
- c) Money enables consumers in making payments for goods and services of their needs. It provides freedom of choice of consumption. On the basis of prices of various goods and services, consumers are able to allocate their income in such a way so that they can derive maximum utility from their consumption.
- d) Rights of consumers:
 - i. Right to be informed: Adequate and accurate information about the quality, quantity, purity, standard and price of goods and services must be provided to consumers. This information helps consumers while making the decision to buy and use a product.
 - ii. Right to seek redressal: Consumers have been given the right to redress their grievances relating to the performance, grade and quality of goods and services. 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.
- e) Revenue policy is one of the two measures undertaken by the government to reduce income inequality in an economy. The progressive and proportional system of taxation helps in reducing the gap between the rich and the poor.

Answer 2

- a) Other things being the same, when the demand for a product falls as a result of rise in its price, it is termed contraction in demand. There will be an upward movement along the same demand curve.
- b) Benefits of producers from division of labour:
 - i. Division of labour increases the efficiency of labour. The worker becomes more specialised if he/she is entrusted with only a part of the work in the process of production.

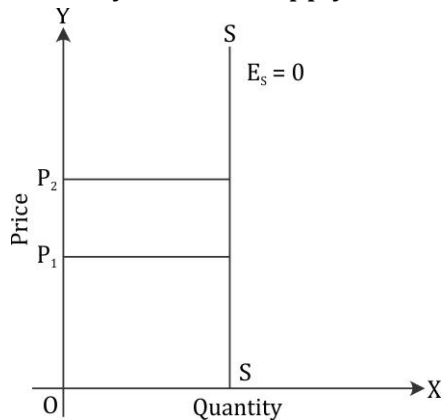
- ii. When the efficiency of labour increases, it increases the quantity and quality of production. Hence, the producer gets an opportunity to raise his/her income, thus improving the standard of living.
- c) Degree of price elasticity of demand:
 - i. Cosmetics: Relatively elastic demand
 - ii. Medicine: Perfectly inelastic demand
 - iii. School uniform: Relatively inelastic demand
 - iv. Air conditioners: Relatively elastic demand
- d) Factors affecting the productivity of land:
 - i. The use of high-yielding variety of seeds, adequate amount of chemicals, biofertilisers and pesticides, and improved agricultural implements such as power tillers or tractors helps increase the yield of crops per hectare.
 - ii. The productivity of land is largely affected 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. Cultivation in suitable soil helps increase land productivity.
- e) Heavy indirect taxation on commodities such as wine and opium serves a great social purpose. It helps check their consumption and saves society from their harmful effects.

Answer 3

- a) Bank rate is the rate at which the central bank provides credit to commercial banks. An increase or decrease in the bank rate leads to an increase or decrease in the market rate of interest, thereby the cost of credit changes in the market. During inflation, an increase in the bank rate increases the cost of capital which reduces the flow of credit.
- b) Two causes for the growth of public expenditure in India:
 - i. Public expenditure tends to increase with the expansion of administrative machinery, maximisation of social and economic welfare, providing of salary and other benefits such as old-age pension, sickness benefits, accident benefits and free education to industrial workers.
 - ii. Public expenditure tends to increase with the huge interest payments on market borrowings.
- c) Demand schedule:

Price (in Rs)	Quantity of mangoes demanded (in kgs)
350.00	2
300.00	3
250.00	4
200.00	5
150.00	6
100.00	7

d) Perfectly inelastic supply curve:



e) Because of poverty, poor people are unable to save more than a negligible part of their earnings. Hence, the low rate of savings leads to a low rate of capital formation in the Indian economy.

Answer 4

- a) If producers make use of improved and advanced technology in their process of production, their cost of production will reduce. This enables the firm to increase the supply at the current price level.
- b) Creeping inflation is inflation where the price level increases at a very slow rate of 2–2.5% per annum. This is regarded as safe and essential for growth because it keeps the economy away from stagnation.
- c) Differences between demand deposits and fixed deposits:
 - i. Interest rate on demand deposits is very low, whereas fixed deposits carry a higher interest rate.
 - ii. Demand deposits can be withdrawn at any time, whereas fixed deposits can be withdrawn only after the expiry of a specific period.
- d) Degressive tax means the rate of tax which increases up to a certain limit after which a uniform rate is charged. This system is a mixture of proportional tax and progressive tax. The absolute amount of tax collection falls with an increase in income.
- e) Division of labour is a system whereby the operations necessary to make a finished product are so minutely divided that each worker performs one or at the most only a few operations.

SECTION B

Answer 5

- a) Demand means the quantity of a commodity or service which the consumer is willing to buy at a given price and at a given time.
Two determinants of demand:
 - i. Price of the commodity: With constant money income of the consumer and an increase in the price of a commodity, the purchasing power of the consumer

- reduces and *vice versa*. Thus, the consumer purchases less of a commodity with an increase in its price.
- ii. Income of the consumer: Other things remaining constant, an increase in the individual income would mean an increase in the purchasing power of the consumer. Thus, the consumer can purchase commodities with an increased income.
- b) Characteristics of labour as a factor of production:
- i. Labour is perishable which cannot be stored. If a worker does not work on a particular day, her/his labour is wasted. The labourer has to sell his labour immediately, irrespective of the prices paid in terms of wages. Hence, labour has a weak bargaining power.
 - ii. Labour is an active factor of production. Without labour, other factors of production such as land and capital cannot produce anything. Labour is a living organism which requires sympathetic treatment.
 - iii. Labour cannot be separated from the labourer, because the labourer will have to be present at a workplace where work is going on. The worker and the service rendered by a worker go together. She/he cannot sell labour like land and capital.
 - iv. Labour can improve its efficiency by investing capital on worker's education and training.

Answer 6

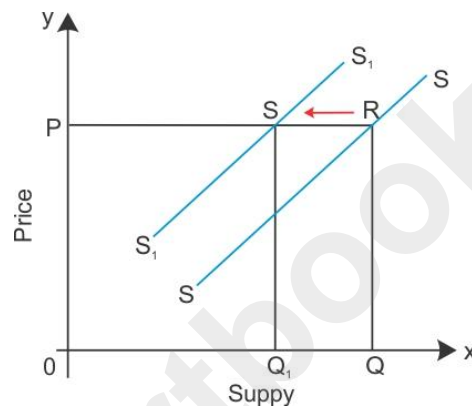
- a) Public expenditure is the expenditure incurred by the government of any nation. Any government incurs a large amount of expenditure for the welfare of the nation for activities such as development of roadways, education, irrigation systems and to maintain law and order.
- Public expenditure promotes the economic development of a nation as follows:
- i. Public expenditure on infrastructural development improves the production efficiency of industries and increases employment opportunities.
 - ii. It encourages private enterprises by initialising state-owned financial and banking institutions to provide cheap credits.
- 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.
- Causes of low efficiency of labour:
- i. Lack of education and inadequate provisions for imparting training to workers does not improve the efficiency of labour.
 - ii. Climatic differences affect the efficiency of labour in production. The hot and humid climate of most states of India is a factor which deprives people from working hard.

- iii. Facilities available in the workplace determine labour efficiency to a great extent. Hence, an unhealthy or uncongenial work environment decreases the level of efficiency.

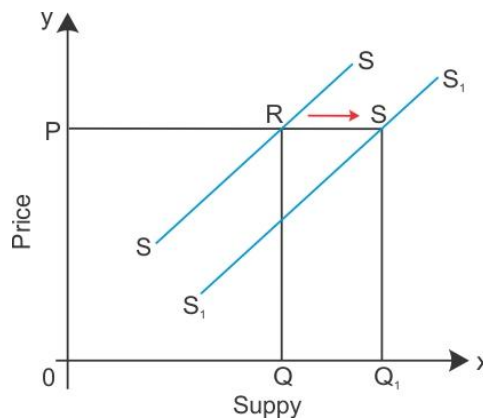
Answer 7

a) Meaning of increase and decrease in supply:

- i. Increase in supply: It is due to technological advancement, decrease in input prices, decrease in unit tax, decrease in prices of other related goods and the price of the good remaining constant. Hence, the decrease in the price of substitute goods will shift the supply curve to the right as given below.



- ii. Decrease in supply: It is due to an increase in input prices, increase in unit tax, increase in prices of related goods and the price of the good remaining constant. Hence, an increase in the price of substitute goods will shift the supply curve to the left.



b) Consumer awareness means consumer's consciousness towards their rights and duties in India. This helps reduce the incidences of consumer exploitation by the sellers in the marketplace.

Consumers are exploited in the following 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. Misleading advertisements, i.e. advertisements falsely claiming a product or service to be of superior quality, grade or standard.

Answer 8

a) Crowther defined money as ‘anything that is generally accepted as a means of exchange and at the same time acts as measure and store of value’.

Medium of exchange and measure of value are the two primary functions of money.

- i. 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 acts as an intermediate in the exchange process and is thus known as a medium of exchange. Anyone can exchange goods for money and buy commodities which are required for personal use.
- ii. Money is the measure of value. It is the monetary expression of the market value of goods and services.

b) Differences between direct taxes and indirect taxes:

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

Answer 9

a) Agency functions of a commercial bank:

- i. Commercial banks provide services such as collection and making payments on behalf of their customers such as insurance premiums and dividends.
- ii. They also help in transferring funds from one place to another in the form of cheques and drafts.
- iii. Trustee and executor: Banks preserve the wills of their customers and execute them after their death.
- iv. They also undertake purchase and sale of securities such as shares, stocks, bonds and debentures on behalf of their customers.

b) Capital is defined in the sense of physical capital which refers to reproducible or man-made durable goods used as inputs to produce other goods and services in the future.

i. Real capital and debt capital:

Real Capital	Debt Capital
Real capital refers to the physical stock of goods which are used as inputs in the production process.	Debt capital refers to invested funds and yield income which consists of titles to wealth such as shares, debentures and government promissory notes.

ii. Money capital and sunk capital:

Money Capital	Sunk Capital
Money capital is used to describe capital in terms of money. Money itself is not a means of production which can be used for buying capital goods such as raw materials and machines.	Sunk capital is one which can only be put to a single use which always remains in a fixed place.

Answer 10

a) Price elasticity of supply is a percentage change in the quantity supplied with respect to percentage change in the price of the commodity.

$$e_s = \text{Percentage change in quantity supplied} / \text{Percentage change in price}$$

Factors determining elasticity of supply:

- i. Chances of shifting from production: The size or degree of response depends on how easily producers can shift the production of another product to the one whose price has increased. When the producers can easily shift from one product to another, it means the supply would be more price elastic.
- ii. Length of time: Producers cannot shift the production immediately because of a change in price of other products within the short duration. However, it may be possible to do so over a period of time. Hence, supply tends to be relatively inelastic in the short run and relatively elastic in the long run.
- iii. Risk-taking: The elasticity of supply is determined based on the willingness of entrepreneurs to take risks. Supply is more elastic when entrepreneurs are willing to take risk and inelastic when they hesitate to take risk.

b) Internal debt and external debt:

Internal debt means the government's 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 and advances.

External debt means the government's borrowings from abroad. External debts are multilateral borrowings, bilateral borrowings, loans from the World Bank and the Asian Development Bank. It helps for various developmental programmes.

Productive and unproductive debt:

A debt is called productive if the loan is financed for projects which bring revenue to the government; for example, irrigation and power projects. 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 for which the loans were used.

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