



केन्द्रीय विद्यालय संगठन / KENDRIYA VIDYALAYA SANGATHAN
हैदराबाद संभाग / HYDERABAD REGION

QUESTION BANK OF MULTIPLE-CHOICE QUESTIONS 2021-22

CLASS XII ECONOMICS

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ECONOMICS (Code No.030)
TERM- 1 CURRICULUM

TERM – 1 MCQ Based Question Paper Theory : 40Marks Time:90Minutes	Marks	Periods
PART A: Introductory of Macroeconomics		
1. Money and Banking	6	8
2. Government Budget and the Economy	6	15
3. Balance of Payments	6	7
Sub TOTAL	18	30
PART B: Indian Economic Development		
4.Development Experience (1947-1990) and Economics Reforms since 1991 i) Indian Economy on the eve of Independence ii) Indian Economy (1950-1990) iii) Liberalisation, Privatisation and Globalzation : An Appraisal	12	28
5.Current Challenges facing Indian Economy: i) Poverty ii) Human Capital Formation iii) Rural development	10	17
Sub Total	22	45
TOTAL	40	75
Project work (Part 1): 10 Marks		

Students would prepare only ONE project in the entire academic session, which is divided into 2 terms i.e. Term 1 and Term 2

TOPIC: Money and Banking

Sub-Topic : Money

1. Which of the following is typical character of the barter system?
- A common medium of exchange
 - Double coincidence of wants
 - A common unit of account
 - A standard for deferred payments

Answer: b

2. Money which is accepted as a medium of exchange because of the trust between the payer and the payee is called:
- Full bodied money
 - Credit money
 - Fiat money
 - Fiduciary money

Answer: d

3. Money that is issued by the authority of the government is called:
- Full bodied money
 - Credit money
 - Fiat money
 - Fiduciary money

Answer: c

4. Supply of money is a:
- Flow variable
 - Stock variable
 - Real flow
 - None of these

Answer: b

5. Which of the following systems is followed by reserve bank of India for issuing currency?
- Proportionate system
 - Simple deposit system
 - Minimum reserve system
 - Fixed fiduciary issue system

Answer: c

6. Demand deposit include
- Saving account deposits and fixed deposits
 - Saving account deposits and current account deposits
 - Current account deposits and fixed deposits
 - All types of deposits

Answer: b

7. Money is defined as:
- Commonly accepted measure of value
 - A store of value
 - A standard of deferred payments
 - All of these

Answer: d

8. Component of money supply
- Coins
 - Paper currency
 - Demand deposits
 - All of these

Answer: d

9. The maximum limit to accept payments in coins
- 500
 - 1000
 - 250
 - None of these

Answer: d

10. High powered money includes:
- Currency and demand deposits
 - Demand deposits and saving deposits
 - Currency held by public and cash reserves with banks
 - None of these

Answer: d

Assertion (A) and Reason (R) type questions:

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

Assertion(A) There are two components of money supply, currency held by the public and net demand deposits held by the commercial banks.

Reason(R) Money supply is a stock variable and refers to the stock of money held by public in spendable form i.e., money supply refers to the stock of money in circulation in an economy.

- a. Both (A) and (R) are true and (R) is the correct explanation of (A)
- b. Both (A) and (R) are true and (R) are true and (R) is not the correct explanation of (A)
- c. (A) is true but (R) is false
- d. (A) is false but (R) is true

Answer: a

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

Assertion(A): Anything will be called money, if the law of country proclaims it to be money. It will be commonly accepted measure of value as it will be endowed with legal tender power (limited and unlimited). Thus “money is what the law says it is”.

Reason(R): limited legal transfer money can be accepted up to a certain maximum limit. For example, in India, coins up to rs1000 only (as per coinage bill, august 2011) can be accepted legally in payment. All currency notes have unlimited legal tender.

- a. Both (A) and (R) are true and (R) is the correct explanation of (A)
- b. Both (A) and (R) are true and (R) are true and (R) is not the correct explanation of (A)
- c. (A) is true but (R) is false
- d. (A) is false but (R) is true

Answer: a

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

Assertion(A) Money is an asset and can be stored in future money helps people to transfer their purchasing power from present use to future use.

Reason (R) Money is a way to store wealth because it is commonly accepted measure of value and easy to store money

- a. Both (A) and (R) are true and (R) is the correct explanation of (A)
- b. Both (A) and (R) are true and (R) are true and (R) is not the correct explanation of (A)
- c. (A) is true but (R) is false
- d. (A) is false but (R) is true

Answer: a

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

Assertion (A) Money is also called bearer of options

Reason(R) Money commonly accepted measure of value money helps in buying selling of goods and services

- a. Both (A) and (R) are true and (R) is the correct explanation of (A)
- b. Both (A) and (R) are true and (R) are true and (R) is not the correct explanation of (A)

d. (A) is false but (R) is true

Answer: a

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

Assertion(A) higher the legal reserve ratio, lower will be the credit creation and lower the legal reserve ratio, higher will be the credit creation.

Reason(R) money/ deposit multiplier is a multiple by which total deposits increase due to primary deposit. It refers to the amount by which the initial deposits multiply into a larger amount of final deposits.

Money multiplier= $1/(LRR/RDR)$ (LRR=legal reserve ratio RDR=reserve deposits ratio)

a. Both (A) and (R) are true and (R) is the correct explanation of (A)

b. Both (A) and (R) are true and (R) are true and (R) is not the correct explanation of (A)

c. (A) is true but (R) is false

d. (A) is false but (R) is true

Answer: a

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

Assertion(A) to boost the falling demand in the economy, reserve bank of India recently reduced repo rate and bank rate.

Reason(R) decrease in repo rate and bank rate causes decrease in rate of interest which leads to rise in demand of credit because in the rate of interest which leads to rise in demand of credit because of which more money flows into the system, purchasing power of people increases. Thus aggregate demand rises and deficient demand is corrected.

a. Both (A) and (R) are true and (R) is the correct explanation of (A)

b. Both (A) and (R) are true and (R) are true and (R) is not the correct explanation of (A)

c. (A) is true but (R) is false

d. (A) is false but (R) is true

Answer: a

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

Assertion(A) A margin is the difference between market value of the security offered by the borrower against the loan and the amount of loan granted

Reason(R) The discount fixed by RBI on the assets mortgaged as security to the commercial bank example: margin requirement is 20% the bank is allowed to give loan up to 80%

a. Both (A) and (R) are true and (R) is the correct explanation of (A)

b. Both (A) and (R) are true and (R) are true and (R) is not the correct explanation of (A)

c. (A) is true but (R) is false

d. (A) is false but (R) is true

Answer: a

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

Assertion(A) legal reserve ratio determines the limit to create credit by the commercial banks

Reason(R) the credit created by commercial banks are called derivative deposits a bank cannot lead more than primary deposits

- a. Both (A) and (R) are true and (R) is the correct explanation of (A)
- b. Both (A) and (R) are true and (R) are true and (R) is not the correct explanation of (A)
- c. (A) is true but (R) is false
- d. (A) is false but (R) is true

Answer: a

Case Based Questions –CBQ

Read the following article and answer the questions given below:

India's total Money Supply (M3) stood at ₹17804885 crores as on October 23rd 2020, recording a rise of 11.60% over the same time last year. Currency with the public stood at ₹2619612, up 21.2% over the year.

Demand deposits with banks were up 10% at ₹1625734 crores. Time deposits with banks were also up 10% at ₹13518822 crores. The bank credit to commercial sector rose 5.2% on year to ₹10999604 crores.

Money supply in the economy has increased over the months. We can look at money supply from the component side and the sources side. One of the ways of measuring money supply is M3, which is a sum of the currency with the public, the demand deposits with the banking system, which include current deposits and savings deposits, the time deposits with the banking system, such as fixed deposits, recurring deposits, and other deposits of RBI. The currency with the public has grown by more than 21% since June and so have bank deposits. This has led to M3 growing by over 12% since June.

Heightened uncertainty in India caused by the coronavirus pandemic has led to a surge in currency in circulation as people hoard cash or park money in accessible deposits to safeguard themselves against salary cuts or job losses.

Foreign money continuously keeps coming into India, leading to an increase in demand for the rupee against the dollar. To prevent the rupee from appreciating, RBI sold rupees and bought dollars, adding to the increase in M3.

19. Money supply in the economy has increased over 5 months since June due to:

- a. Public holding cash for transaction and precautionary

- b. Inflow of foreign exchange
- c. Uncertainty caused by corona virus pandemic
- d. All of these

Answer: d

20. Sum of currency with public, demand deposits and time deposits with banks is _____ measure of money supply.

- a. M1
- b. M2
- c. M3
- d. None of the above

Answer: c

21. ____ and ____ are the components of money supply.

- a. Currency held with public, fixed deposits
- b. Currency held with public, demand deposits
- c. Coins, paper currency
- d. Goods, services

Answer: b

22. Money supply refers to the total _____ of money in circulation in the economy which can be directly used for transactions.

- a. Stock
- b. Flow
- c. Depreciation
- d. Value

Answer: a

Read the following article and answer the questions given below:

Demonetisation was a new initiative taken by the Government of India in November 2016 to tackle the problem of corruption, black money, terrorism and circulation of fake currency in the economy. Old currency notes of Rs 500, and Rs 1000 were no longer legal tender. New currency notes in the denomination of Rs 500 and Rs 2000 were launched. The public were advised to deposit old currency notes in their bank account till 31 December 2016 without any declaration and upto 31 March 2017 with the RBI with declaration

Further to avoid a complete breakdown and cash crunch, notes government had allowed exchange of Rs 4000 old currency the by new currency per person and per day. Further till 12 December 2016, old currency notes were acceptable as legal tender at petrol pumps, government hospitals and for payment of government dues, like taxes, power bills, etc.

This move received both appreciation and criticism. There was long

queues outside banks and ATM booths. The shortage of currency in circulation had an adverse impact on the economic activities. However, things improved with time and normalcy returned.

This move has had positive impact also. It improved tax compliance as a large number of people were brought in the tax ambit. The savings of an individual were channelized into the formal financial system. As a result, banks have more resources at their disposal which can be used to provide more loans at lower interest rates. It is a demonstration of State's decision to put a curb on black money, showing that tax evasion will no longer be tolerated. Tax evasion will result in financial penalty and social condemnation. Tax compliance will improve and corruption will decrease. Demonetisation could also help tax administration in another way, by shifting transactions out of the cash economy into the formal payment system. Households and firms have begun to shift from cash to electronic payment

technologies.

23. Demonetisation announced for the purpose of
- To tackle the problem of corruption
 - To tackle the problem of Black money
 - To tackle the problem of terrorism
 - All of the above

Answer: d

24. Which currency notes have been demonetised
- Rs 500
 - Rs 1000
 - both (a) and (b)
 - none of the above

Answer: c

25. positive impacts of demonetisation
- large number of people was brought in the tax ambit
 - savings are channelized into the formal financial system
 - Both(a) and (b)
 - None of the above

Answer: c

26. Criticism on demonetisation
- Long queues outside banks and ATM centres
 - Shortage of the currency in circulation
 - Both (a) and (b)
 - None of the above

Answer: c

Read the following article and answer the questions given below:

The Reserve Bank of India unexpectedly cut its key deposit rate on Friday, for the second time in three weeks, to discourage banks from parking idle funds with it and spur lending instead, to revive a flagging economy amid the coronavirus lockdown.

This week, Prime Minister Narendra Modi extended until May 3 a lockdown of the population of 1.3 billion as India's tally of infections exceeded 10,000, despite the three-week shutdown ordered from March 24.

The RBI cut its reverse repo rate by 25 basis points (bps) to 3.75% with immediate effect, Governor Shaktikanta Das told a video conference. The rate had already been cut by 90 bps on March 27.

"The surplus liquidity in the banking system has risen significantly in the wake of government spending and the various liquidity enhancing measures undertaken by the RBI," he added.

"In order to encourage banks to deploy these surplus funds in investments and loans in productive sectors of the economy, it has been decided to reduce the fixed-rate reverse repo rate."

27. The reserve bank of India lowered reverse repo rate to discourage banks from parking idle funds with _____.

- a. RBI
- b. Commercial banks
- c. Cooperative banks
- d. NABARD

Answer: a

28. RBI's measure of reduction in reverse repo rate is done to enable commercial banks ____.

- a. To use the surplus funds for investment
- b. To grant loans for productive purposes
- c. To widen economic and financial landscape
- d. All of these

Answer: d

29. Reverse repo rate is _____ to correct excess demand.

- a. Decreased
- b. increased
- c. Constant
- d. Flexible

Answer: b

30. When reverse repo rate is reduced, it _____

- a. Discourage the commercial banks to park their surplus funds with RBI
- b. Encourage the commercial banks to park their surplus funds with RBI

- c. Both (a) and (b)
 - d. Neither (a) or (b)
- Answer: a

Prepared by Dr.Madhusudhan,PGT(Econ)
KV,PICKET

Sub-Topic : Banking

Multiple Choice Questions

1. Commercial banks create money by way of: [1]

- (a) Fixed deposits (b) Demand deposits (c) Treasury bills (d) Bill of exchange

(Answer: b)

2. Which of the following is not concerned with banking organization? [1]

- (a) Bank rate (b) Fiscal deficit (c) Credit creation (d) Cash reserve ratio

(Answer: b)

3. Central Bank is an open bank of the country that: [1]

- (a) Controls the entire banking system of the country
(b) Issues currency
(c) Acts as a banker to the government
(d) All of these

(Answer: d)

4. CRR in India is fixed by: [1]

- (a) The commercial banks (b) the government (c) the RBI (d) the RBI and commercial banks

(Answer: c)

5. Reserve reposit: [1]

- (a) Generates interest income (b) is increased to control inflation (c) is not a policy rate

(d) Both (a) and (b)

(Answer: d)

6. In India, the central bank is_____ [1]

(a) Federal Reserve System (b) Federal System (c) Reserve Bank of India (d) Both (a) and (b)

(Answer: c)

7. Open market operations as an instrument of credit control are performed by: [1]

(a) The central bank of the country
(b) The commercial bank of the country
(c) Both (a) and (b)
(d) None of these

(Answer: a)

8. As an advisor to the government central bank frames policies to regulate the: [1]

(a) Money market (b) Capital Market (c) Financial and Capital market (d) none of these

(Answer: a)

9. Formula to calculate money multiplier_____ [1]

(a) $1/CRR$ (b) $1/SLR$ (c) $1/CRR * 1/SLR$ (d) $1/SLR * \text{time deposits}$

(Answer: d)

10. Credit cards issued by the banks are_____ [1]

(a) Encourage consumer spending (b) Increase aggregate demand the economy (c) Increase in aggregate supply (d) both (a) and (b)

(Answer: d)

Money and Banking
Assertion and Reasoning Questions

1. Read the following statements Assertion (A) and Reason (R). Choose the correct alternatives given below. [1]

Assertion (A): Higher the legal reserve ratio lowers the credit creation and lower the reserve ratio higher will be the credit creation.

Reason (R): Money/Deposit multiplier is a multiple by which total deposits increases due to primary deposits. It refers to the amount by which the initial deposits multiply into a large amount of the deposits.

Money multiplier = $1/LRR/RDR$

(LRR= Legal reserve ratio, Reserve Deposit ratio)

Alternatives:

- (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 and Reason (R) is the not 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

(Answer: a)

2. Read the following statements Assertion (A) and Reason (R). Choose the correct alternatives given below. [1]

Assertion (A): To boost the falling demand in the economy. Reserve bank of India recently reduced repo rate and bank rate.

Reason (R): Decrease in repo rate and bank rate causes decreases in the rate of interest which leads to rise demand of credit because of which more money flows into the economy, Purchasing power of people increases. Thus aggregate demand rises and deficient demand is corrected.

Alternatives:

- (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 and Reason (R) is the not 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

(Answer: a)

3. Read the following statements Assertion (A) and Reason (R). Choose the correct alternatives given below. [1]

Assertion (A): There are two components of money supply currency held by the public and the demand deposits held by the commercial banks.

Reason (R): Money supply is a stock variable and refers to the stock of money held by the public in spendable forms i.e money supply refers to the stock of money in circulation in an economy.

Alternatives:

- (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 and Reason (R) is the not 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

(Answer: a)

4. Read the following statements Assertion (A) and Reason (R). Choose the correct alternatives given below. [1]

Assertion (A): Anything will be called money if the law of country proclaims it to be money. It will be commonly accepted measure of value as it will be endowed with legal tender power (Limited and unlimited). Thus “money is what the law says it is”

Reason (R): Limited legal tender money can be accepted up to a certain limit. For example in India, coins up to Rs1000 only (as per coinage bill, August 2011) can be accepted legally in payment. All currency notes have unlimited legal tender.

Alternatives:

- (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 and Reason (R) is the not 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

(Answer: a)

5. Read the following statements Assertion (A) and Reason (R). Choose the correct alternatives given below. [1]

Assertion (A): Central bank of a country has the exclusive right (monopoly right) of issuing currency notes (except one rupee note/coin) and central bank has the complete power to the money supply and credit in the country.

Reason (R): Central bank can use only quantitative method to control credit.

Alternatives:

- (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 and Reason (R) is the not 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

(Answer: b)

6. Read the following statements Assertion (A) and Reason (R). Choose the correct alternatives given below. [1]

Assertion (A): Money supply is a flow concept.

Reason (R): Money Supply always measured at a particular point of time

Alternatives:

- (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 and Reason (R) is the not 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

(Answer: C)

7. Read the following statements Assertion (A) and Reason (R). Choose the correct alternatives given below. [1]

Assertion (A): Central bank acts as a banker to the government as a custodian of cash reserves.

Reason (R): The central bank acts as a clearing house for transfer and settlement of mutual claims of commercial banks.

Alternatives:

- (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 and Reason (R) is the not 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

(Answer: b)

8. Read the following statements Assertion (A) and Reason (R). Choose the correct alternatives given below.

[1]

Assertion (A): The reserve bank of India had in March 2020 offered a three months moratorium on loans enabling borrowers to defer repayment on EMI and other loans.

Reason (R): The loan moratorium was aimed at providing borrowers relief aimed the economic impact of the covid-19 pandemic.

Alternatives:

(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 and Reason (R) is the not 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

(Answer: a)

9. Read the following statements Assertion (A) and Reason (R). Choose the correct alternatives given below.

[1]

Assertion (A): Central Bank is the Lender of the last Resort.

Reason (R): It is ready to lend to banks, when bank faced severe crises. If Central bank refuses, there is no option for the banks but to shutdown.

Alternatives:

(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 and Reason (R) is the not 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

(Answer: b)

10. Read the following statements Assertion (A) and Reason (R). Choose the correct alternatives given below. [1]

Assertion (A): Currency held by public is a monetary liability of central bank

Reason (R): Central bank controls credit, whereas commercial banks create credit with currency held by public.

Alternatives:

(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 and Reason (R) is the not 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

(Answer: d)

Case Based Questions

Read the following article and answer the questions given below:

The reserve bank of India unexpectedly cut its key deposit rate for the second time in three weeks, to discourage banks from parking idle funds with it and spur lending instead, to revive a flagging economy amid the corona virus lockdown.

This week, Prime Minister Narendra Modi extended until May 3 a lockdown of population of 1.3 billion as India's tally of infections exceeded 10000, despite the 3 week shutdown order from March 24.

The RBI cut its reverse repo rate by 25 basis points (bps) to 3.75 percent with immediate effect. Governor Shaktikanta Das told a video conference. The rate had already been cut by 90bps on March 27.

“The surplus liquidity in the banking system has risen significantly in the wake of government spending and the various liquidity enhancing measures undertaken by the RBI”. He added. “In order to encourage banks to deploy these surplus funds in investments and loans in productive sectors of the economy, it has been decided to reduce the fixed-rate reverse repo rate”.

(Source: Business Today, April 17 2020)

Questions:

1. The Reserve Bank of India lowered reverse repo rate to discourage banks from parking idle funds with _____ (RBI/Commercial Banks) [1]

Ans:RBI

2. RBI's measure of reduction in reverse repo rate is done to enable commercial banks _____ [1]

- (a) To use the surplus funds for investment
- (b) To grant loans for productive purposes
- (c) To widen economic and financial land space
- (d) all of these

ANS: (d) all of these

3. Reverse repo rate is _____(increased/decreased) to correct excess demand [1]

ANS: increased

4. When reverse repo rate is reduced, it _____ [1]

- (a) Discourages the commercial banks to park their surplus funds with RBI
- (b) Encourages the commercial banks to park their surplus funds with RBI
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

ANS: (a) discourages the commercial banks to park their surplus funds with RBI

Read the following article and answer the questions given below:

India's total Money Supply (M3) stood at Rs 17804885 crore as on October 23rd 2020, recording a rise of 11.60% over the same time last year. Currency with the public stood at Rs 2619612, up 21.2% over the year. Demand deposits with banks were up 10% at Rs 1625734 crore. Time deposits with banks were also up 10% at Rs 13518822 crore. The bank credit to commercial sector rose 5.2% on year to Rs 10999604 crore.

Money supply in the economy has increased over the months. We can look at money supply from component side and sources side. One of the ways of measuring money supply is M3, which is sum of the currency with the public, the demand deposits with the banking system, which include current deposits and saving deposits, the time deposits with the banking system, such as fixed deposits and recurring deposits, and other deposits of RBI. The currency with the public has grown by more than 21% since June and so have bank deposits. This led to M3 growing by over 12% since June.

Heightened uncertainty in India caused by the corona virus pandemic has led to a surge in currency in circulation as people hoard cash or park money in accessible deposits to safeguard themselves against salary cut or job losses.

Foreign money continuously keeps coming to India, Leading to an increase in demand for the rupee against the dollar. To prevent rupee from appreciating, RBI sold rupees and bought dollars adding to the increase in M3.

Questions

1. Money supply in the economy has increased over 5 months since June due to: [1]
(a) Public holding cash for transaction and precautionary motive.
(b) Inflow of foreign exchange.
(c) Uncertainty caused by corona virus pandemic
(d) all of these

ANS: (d) all of these

2. Sum of currency with public, demand deposits and time deposits with the bank is _____
(M2/M3) Measure of money supply. [1]

(ANS: M3)

3. _____ and _____ are the components of money supply. [1]

ANS: Currency held by public, net demand deposits held by the commercial banks

4. Money supply refers to the total _____ (stock/flow) of money in circulation in the economy which can be directly used for transactions. [1]

(ANS: Stock)

Read the following article and answer the questions given below:

The Reserve Bank of India, cut repo rate to 4.4%, the lowest in at least 15 years. Also, it reduced the Cash Reserve Ratio (CRR) maintained by the banks for the first time in over seven years. CRR for all banks was cut by 100 basis points to release Rs 1.37 lakh crore across the banking system. RBI governor Dr. Shaktikanta Das predicted a big global recession and said India will not be immune. It all depends how India responds to the situation. Aggregate demand may weaken and ease core inflation

Questions:

1. Cut in Repo rate by RBI is likely to _____ (increase/decrease) the demand for goods and services in the economy. [1]

2. Decrease in Cash Reserve Ratio will lead to _____. [1]

(a) Fall in aggregate demand

(b) No change in aggregate demand

- (c) Rise in aggregate demand
- (d) Fall in general price level

3. The deficiency by which actual aggregate demand exceeds aggregate supply required to establish full employment equilibrium is known as _____ (Inflationary gap/deflationary gap) [1]

Answer : Inflationary gap

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CLASS 12 GOVERNMENT BUDGET AND THE ECONOMY

1. Primary deficit in a government budget will be zero, when.

- (A) Revenue deficit is zero
- (B) Net interest payment is zero
- (C) Fiscal deficit is zero
- (D) Fiscal deficit is equal to interest payment.

2. Which one of the following is not a capital expenditure?

- (A) Loans advanced by World Bank
- (B) Construction of school building
- (C) Repayment of loans
- (D) Tax receipts.

3. Disinvestment by government means

- (A) Selling of its fixed capital assets

(B) Selling of shares of Public enterprises held by it

- (C) Selling of its building
- (D) All of above.

4. Primary Deficit equals:

- (A) Borrowings
- (B) Interest payments
- (C) Borrowing less interest payments
- (D) Borrowing and Interest payments both

5. 'Subsidy received from World Bank' is a receipt of _____

- (A) Revenue nature
- (B) Capital nature
- (C) Development charges
- (D) None of these.

6. What is the nature of income tax in India?

- (A) Regressive
- (B) Proportional
- (C) Progressive
- (D) None of these.

7. 'Recovery of loans' is a receipt of which of the following nature _____

- (A) Revenue
- (B) Capital
- (C) Either of the two
- (D) Neither of two.

8. Which of following is a non-tax revenue receipt?

- (A) GST
- (B) Export duty
- (C) Development charges
- (D) Corporate tax.

CASE STUDY:1

Read the following article and answer the questions given below

India has scaled back expenditure, including on productive assets that aid economic growth, as the government is confronted with the risk of its budget deficit blowing out. Capital expenditure – the Money spent on creating, maintaining, or improving fixed assets like roads and factories- stood at 40% of the budgeted amount in the six months to September, down from 55.5% in the year-ago Period, data from the government's Controller General of Accounts show. The overall spending during the period was 49% of the budget aim compared to 53% last year. That's despite prime minister Narendra Modi's government outlining measures worth more than 21 trillion rupees (\$ 281 billion) to counter the economic and social fallout of the Covid-19 outbreak. A closer look at the numbers show the bulk of the spending was directed toward the poor and the farmers, with crucial sectors such as coal, power, shipping and steel receiving less than a third of their annual budget allocation. Spending on capital assets has so far trailed the so-called revenue expenditure that includes interest payments and overheads such as salaries, the data released last week showed.

Modi's government placed spending curbs on some ministries from April through December to manage its cash flow.

9. A reduction in capital expenditure i.e., the money spent on creating maintaining or improving fixed assets is done to reduce the risk of _____ deficit (revenue/budget). (Choose the correct alternative)

10. Allocation of resources in the budget in the six months to September 2020 is directed towards _____ (Choose the correct alternative)

- a) economic upliftment of the economy
- b) social upliftment of the economy
- c) (c)the poor and the farmers
- d) all of these

11. Capital expenditure refers to the estimated expenditure of the government in a fiscal year which _____ (reduces/increases) liabilities of the government. (Choose the correct alternative)

12. Identify which of the following statements is false: (Choose the correct alternative)

- a) The government can finance its budgetary deficit through borrowings, disinvestment and deficit financing
- b) Fiscal deficit equals borrowings
- c) Recovery of loans is a revenue receipt
- d) Interest on loans is a non-tax revenue receipt

CASE STUDY:2

Read the following article and answer the questions given below

In the year 2016-17, the government of Philippines had a budget deficit of \$ 7 billion. Its revenue from direct and indirect taxes was not adequate to finance its spending. The Philippine government spent its deficit on infrastructure and education which will help to boost economic growth and will reduce unemployment. Government continued its deficit budget strategy in the year 2017-2018 also. It helped in raising consumer's confidence. Indeed, in an international survey it was claimed that consumer confidence in Philippines ranked highest in the world.

Average household disposable income in Philippines during 2016 was \$ 6000 with S 5000 being spent on consumption. Thus, budget deficit proved to be biggest boon for Philippines economic growth.

Besides wages in 2016 varied between different sectors. Wages in tertiary and manufacturing sector Were higher than primary sector. It resulted a fall of Workers in primary sectors. Moreover, the proportion of workers in public sector was also on decline.

Central Bank of Philippines has reduced its bank rate in order to reduce rate of interest. It helped consumers to buy more cars and other consumer durable goods. A fall in rate of interest was also encouraging producers to invest more tor capital formation and economic growth of the country. It has also resulted in fluctuations in the rate of inflation in different sectors of the economy.

- a) Excess expenditure
- b) Less revenue from taxes
- c) Increase in public expenditure
- d) All of these.

14. Government expenditure on infrastructure and education helped in raising _____

15. Fiscal deficit proved to be a _____ (boon/ bane) for Philippines economy.

16. During the year 2016-17, budget deficit in Philippines was to the extent of _____

- a) \$ 7 Billions
- b) S 10 Billion
- c) \$ 70 Billions
- d) None of these

CASE STUDY:3

Read the following article and answer the questions given below

Public expenditure has a typical nature of its spending Government plans its annual pending first and then its financing is planned. Whatever excess of annual expenditure is found over annual financing is known as 'Revenue deficit'. Such a deficit does not create any borrowing burden upon the economy. But when Capital expenditure is in excess of Capital receipts, it creates the burden of borrowing upon the economic system. Technically it is known as fiscal deficit. A constant rise in fiscal deficit is worry some for Economists as it becomes inflationary and creates unequal distribution of income. Economists, therefore set a maximum limit of 3% of GDP as fiscal deficits for the developing countries.

We must note that the borrowing requirement of the government includes interest obligation on accumulated debts. To obtain an estimate of borrowing on account of current expenditures exceeding revenues, we need to calculate what has been called the primary deficit. It is simply fiscal deficit minus interest payment. The main goal of calculating primary deficit is to focus on present fiscal-imbalances.

7. Which of following is the benefits of fiscal deficit
- a) creates inflationary pressure
 - b) promotes capital formation
 - c) creates borrowing burden
 - d) none of these

18. Primary deficit fiscal deficit (is

19. What is present percentage of fiscal deficit in India?

20. Which of following is the demerit of fiscal deficit?

- a) Inflationary
- b) Creates inequalities of distribution of income
- c) Promotes borrowing burden
- d) All of these.

Answers

1. (D) Fiscal deficit is equal to interest payment.

2. (D) Tax receipts.

3. (D) All of above.

4. (C) Borrowing less interest payments

5. (A) Revenue nature
6. (C) Progressive
7. (B) Capital
8. (C) Development charges
9. Budget
10. (d) all of these
11. reduces
12. (c) Recovery of loans is a revenue receipt.
13. d) All of these.
14. Consumer confidence.
15. Boon
16. (a) \$ 7 Billion.
17. (b) promotes capital formation
18. Interest payment
19. 3.5% of GDP
20. (d) All of these

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**CHAPTER: GOVERNMENT BUDGET AND ECONOMY.
ASSERTION AND REASONING QUESTIONS**

Read the following statements Assertion (A) and Reason (R) .Choose one of the correct alternative given below:

1. Assertion: The government uses fiscal instruments to improve the distribution of income

Reason: Lower taxes can be imposed on rich people and higher taxes can be imposed on poor people.

- A.) Both A and R are true and R is the correct explanation of A.
- B.) Both A and R are true but R is not the correct explanation of A.
- C.) A is true but R is false.
- D.) A is false but R is true.

Answer: C

2. Assertion: Equitable distribution of income is a way to social justice

Reason: Monetary policy uses the instruments of taxes and subsidy to establish equitable Distribution

A.) Both A and R are true and R is the correct explanation of A.

B.) Both A and R are true but R is not the correct explanation of A.

C.) A is true but R is false.

D.) A is false but R is true.

Answer: C

3. Assertion: Budget is used as an instrument to combat deflation and inflation

Reason: Budget plays a vital role in establishing economic stability

A.) Both A and R are true and R is the correct explanation of A.

B.) Both A and R are true but R is not the correct explanation of A.

C.) A is true but R is false.

D.) A is false but R is true.

Answer: A

4. Assertion: Budget is used as an instrument an economic stability

Reason : Budget controls the level of aggregate demand

A.) Both A and R are true and R is the correct explanation of A.

B.) Both A and R are true but R is not the correct explanation of A.

C.) A is true but R is false.

D.) A is false but R is true.

Answer: C

5. Assertion: Government initiative to increase the level of aggregate of demand by increasing money supply in the economy

Reason : Government increase the taxation and reduced the public expenditure during the pandemic

A.) Both A and R are true and R is the correct explanation of A.

B.) Both A and R are true but R is not the correct explanation of A.

C.) A is true but R is false.

D.) A is false but R is true.

Answer: C

6. Assertion: International prices of crude oil are continuously falling

Reason : India subsidises domestic consumers of petroleum products

A.) Both A and R are true and R is the correct explanation of A.

B.) Both A and R are true but R is not the correct explanation of A.

C.) A is true but R is false.

D.) A is false but R is true.

Answer: A

7. Assertion: Continuation of covid -19 pandemic will affect union budget

Reason: The Revenue expenditure of government increases

A.) Both A and R are true and R is the correct explanation of A.

B.) Both A and R are true but R is not the correct explanation of A.

C.) A is true but R is false.

D.) A is false but R is true.

Answer: B

8. Assertion: In the process of development , construction of dams ,new schools new plants, and repayment of loans is essential

Reason: Capital expenditure creates the assets of the government and causes reduction in the liabilities of the government

- A.) Both A and R are true and R is the correct explanation of A.
- B.) Both A and R are true but R is not the correct explanation of A.
- C.) A is true but R is false.
- D.) A is false but R is true.

Answer: A

9. Assertion: High Fiscal deficit throws a country into the debt trap and enhances foreign dependence.

Reason: Fiscal discipline of any country establishes the credibility of country's creditworthiness.

- A.) Both A and R are true and R is the correct explanation of A.
- B.) Both A and R are true but R is not the correct explanation of A.
- C.) A is true but R is false.
- D.) A is false but R is true.

Answer: A

10. Assertion: Budget is presented every year in lok sabha by finance minister of India

Reason: Monetary policy of India is prepared every quarter by the RBI

- A.) Both A and R are true and R is the correct explanation of A.
- B.) Both A and R are true but R is not the correct explanation of A.
- C.) A is true but R is false.
- D.) A is false but R is true.

Answer: B

11. Assertion: Dividends on Investments made by government is revenue receipt

Reason: Capital receipt adds to the assets of the government

- A.) Both A and R are true and R is the correct explanation of A.
- B.) Both A and R are true but R is not the correct explanation of A.
- C.) A is true but R is false.
- D.) A is false but R is true.

Answer: A

12. Assertion: Taxes reforms helped Indian economy to meet the fiscal target.

Reason: The government plans a significant cut in its expenditure and aiming at better tax Compliance.

- A.) Both A and R are true and R is the correct explanation of A.
- B.) Both A and R are true but R is not the correct explanation of A.
- C.) A is true but R is false.
- D.) A is false but R is true.

Answer: A

13. Assertion: Borrowing from the rest of the world is a capital receipt

Reason: Revenue receipt either creates liability or reduces the assets

- A.) Both A and R are true and R is the correct explanation of A.
- B.) Both A and R are true but R is not the correct explanation of A.

- C.) A is true but R is false.
 - D.) A is false but R is true.
- Answer: C

14. Assertion: Fines and penalties are a source of nontax revenue for the government
Reason: A fine of Rs 500 was imposed on not wearing a mask.

- A.) Both A and R are true and R is the correct explanation of A.
- B.) Both A and R are true but R is not the correct explanation of A.
- C.) A is true but R is false.
- D.) A is false but R is true.

Answer: A

15. Assertion: Highway and road works are announced in Kerala ,Tamilnadu and Westbengal in budget 2021.

Reason: Such announcement will increase the revenue expenditure of the government

- A.) Both A and R are true and R is the correct explanation of A.
- B.) Both A and R are true but R is not the correct explanation of A.
- C.) A is true but R is false.
- D.) A is false but R is true.

Answer: C

16. Assertion: Income tax is great source of the revenue of the government

Reason: Income tax is a direct tax and the burden can be shifted.

- A.) Both A and R are true and R is the correct explanation of A.
- B.) Both A and R are true but R is not the correct explanation of A.
- C.) A is true but R is false.
- D.) A is false but R is true.

Answer: C

17. Assertion: Fiscal deficit shows a better position of the government expenditure in Comparison to budget deficit

Reason: Fiscal deficit means borrowings of the government.

- A.) Both A and R are true and R is the correct explanation of A.
- B.) Both A and R are true but R is not the correct explanation of A.
- C.) A is true but R is false.
- D.) A is false but R is true.

Answer: A

18. Assertion: Strategic sale of Air India and IDBI to be completed in the fiscal year

Reason: Strategic sale leads to loss of Revenue to the government.

- A.) Both A and R are true and R is the correct explanation of A.
- B.) Both A and R are true but R is not the correct explanation of A.
- C.) A is true but R is false.
- D.) A is false but R is true.

Answer: C

19. Assertion: The Government may borrow from RBI against its securities to meet the fiscal deficit

Reason: Borrowing from public is better than deficit financing because it does not increase the money supply..

- A.) Both A and R are true and R is the correct explanation of A.
- B.) Both A and R are true but R is not the correct explanation of A.
- C.) A is true but R is false.
- D.) A is false but R is true.

Answer: A

20. .Assertion: Fiscal deficit may rise but primary deficit may or may not rise
Reason: No relation between fiscal deficit and primary deficit
- A.) Both A and R are true and R is the correct explanation of A.
 - B.) Both A and R are true but R is not the correct explanation of A.
 - C.) A is true but R is false.
 - D.) A is false but R is true.

Answer: C

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chapter : Balance of Payments

Case based questions

After reading following Report/Case study give answers from question no. 1 to 3.

India, which uses 80% of imported crude oil for its requirements, imports around 10% of its crude oil requirement from Iran, the third largest supplier after Saudi Arabia and Iraq.

An agreement had been signed by the Indian and Iranian government on 2 November 2018 for oil payment in rupees and 50% of those funds had been earmarked for exports," according to an Indian government document reviewed by Reuters.

Oil payments are being made in rupees only as against earlier arrangements where there was a ratio of 45% rupees and 55% euros, the document said.

Q.1) _____ is the second largest traded currency on the forex market.

- A. US dollar
- B. Indian Rupees
- C. Euro
- D. Yen

Ans : C

Q.2) What is the impact of India-Iran contract of payment of oil in rupees?

- A. Forex reserve increase in India
- B. Forex reserve decrease in India
- C. Depreciation of rupee
- D. Both A and C

Ans : A

Q.3) Which of the following is / are benefits of India-Iran agreement to India?

- A. Strengthening rupee in international market
- B. Help to boost trade with Iran
- C. Both A and B
- D. None of these

Ans: C

After reading following Report/Case study give answers from question no. 4 to 6.

The rupee declined 18 paise to close at 74.36 against the US dollar on Wednesday, tracking strengthening American currency in the overseas market and higher crude prices. However, a strong rally in domestic equities and unabated foreign fund inflows restricted the slide of the domestic unit, forex traders said.

At the interbank foreign exchange market, the local currency opened on a weak note at 74.24 and swung between the day's high of 74.18 and low of 74.50 to the US dollar.

The rupee finally settled at 74.36 against the greenback, down 18 paise over its last close. "Indian rupee depreciated amid strong dollar and surge in crude oil prices. Further, rupee slipped on worries over a slowdown in global economic recovery due to resurgence in COVID-19 cases. "India CPI data is likely to show that inflation remained above the Reserve Bank of India medium- term target range of 2-6 per cent. India's Industrial Production data forecasted to show factory output contracted for 7 consecutive month," Mukadam said.

Source: www.economictimes.com

Q.4) The rupee declined 18 paise means _____ of rupee.

- A. Depreciation
- B. Appreciation
- C. Devaluation
- D. Revaluation

Ans : A

Q.5) _____ is the system of floating exchange rate with the occasional intervention by the RBI to influence the float or manage the float.

- A. Managed Floating

- C. Both (a) & (b)
- D. None of the above

Ans: C

Q.6) What is the full form of CPI?

- A. Current Price Index
- B. Crude Price Index
- C. Consumer Price Index
- D. None of the above

Ans: C

After reading following Report/Case study give answers from question no. 7 to 10.

India's trade deficit with China dips to \$48.66 billion in 2019-20. In 2018-19, Exports to China in the last financial year stood at \$18.9 billion, and the trade deficit stood at \$53.56 billion. Chinese FDI has dipped to \$163.78 million in 2019-20 from \$229 million in the previous fiscal.

Q.7) What does "Trade Deficit" mean?

- A. The value of exports of goods and services is more than the value of imports of goods and services.
- B. The value of imports of merchandise is more than the value of exports of merchandise.
- C. Negative balance on account of trade in goods, services and transfers.
- D. Foreign exchange payments on account of invisible items are in excess over the receipts of invisible items.

Ans : B

Q.8) "India's trade deficit with China dips to \$48.66 billion in 2019-20." _____ in imports from China has caused this.

- A. Increase
- B. Decrease
- C. No change
- D. None of the above

Ans : B

Q.9) How much was the Imports of goods from China in 2018-19?

- A. \$53.56 billion
- B. \$34.66 billion
- C. \$48.66 billion
- D. \$72.46 billion

Ans : D

Q.10) “Chinese FDI has dipped to \$163.78 million in 2019-20 from \$229 million in the previous fiscal.”
What will be its impact on BOP position of India?

- A. Favourable BOP position
- B. Adverse BOP position
- C. BOP equilibrium
- D. None of the above

Ans : A

Assertion and reasoning questions from Question no.11-20

Q.11) Assertion (A): Appreciation of domestic currency means a rise in the price of domestic currency.

Reason (R): Appreciation leads to increase in Exports.

- 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 and 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.

Ans. C

Q.12) Assertion (A): Current account records receipt and payment of foreign exchange on account of such transactions which do not impact asset liability status of a country in relation to rest of the world.

Reason (R): Capital account records receipts and payments of such transactions which cause an impact on asset liability status of a country in relation to rest of the world .

- 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 and 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.

Ans : B

Q.13) Assertion (A): Balance of payment may improve better.

Reason (R): ‘Make in India’ will increase inflow of foreign exchange.

- 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 and Reason (R) is not the correct explanation of Assertion (A).

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

Ans : A

Q.14) Assertion (A): Managed floating exchange rate system is also called as 'Dirty floating'.

Reason (R): Clean floating rate is influenced by the intervention of the central bank in the foreign exchange market.

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 and 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.

Ans : A

Q.15) Assertion (A): Buying foreign goods is expenditure from our country and it becomes the income of that foreign country.

Reason (R): The purchase of foreign goods or imports decreases the domestic demand for goods and services in our country.

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 and 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.

Ans : A

Q.16) Assertion (A): Balance of Payments may be adversely affected.

Reason (R): Import of pulses is leading to outflow of foreign exchange.

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 and 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.

Ans : A

Q. 17) Assertion (A) : A country always tries to balance the BOP i.e balance in current account equals to balance in capital account.

Reasoning (R) : Balance BOP indicates stable economic relation with rest of the world

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 and 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.

Ans : A

Q.18) Assertion (A) : Services trade includes both factor and non factor income.

Reasoning (R) : Invisibles include services, transfers, flows of income that take place between different countries.

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 and 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.

Ans : B

Q.19) Assertion (A) : If an Indian buys a UK car company, it enters capital account transactions as a debit item

Reasoning (R) : Sale of assets like sale of share of an Indian company to a Chinese customer is a credit item on the capital account.

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 and 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.

Ans : B

Q.20) Assertion (A) : Rent received by an Indian real estate company from google in New York would be recorded on credit side of capital account.

Reasoning (R) : Capital account of BOP records all those transactions between residents of a country and rest of the world which causes a change in the assets or liabilities of the residents of the country or its 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 and 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.

Ans : d

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**CLASS XII (TERM I) ECONOMICS
DEVELOPMENT EXPERIENCE OF INDIAN
ECONOMY (1947-90)**

Topics:
i) Indian Economy on the eve of Independence
ii) Economic Planning
iii) Agriculture
iv) Industrial Development
v) Foreign Trade Policy

Multiple Choice Questions:

- 1) Which industry faced a major set back during the colonial rule?
 - a) Cement
 - b) Handicraft
 - c) Paper
 - d) Iron & Steel
- 2) More than half of the India's foreign trade was restricted to:
 - a) China
 - b) Korea
 - c) Britain
 - d) Sri Lanka
- 3) Match the following options and choose the correct alternative:

Column A	Column B
A) Planning Commission	i) 1966-67
B) Indian Railway was started	ii) 1881
C) Green Revolution	iii) 1950
D) First Census	iv) 1853

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

4) _____ refers to taxes levied on imported goods. (Quotas/Tariff)

5) To protect goods in India from imports, Government made use of:

- a) Quotas
- b) Tariffs
- c) Both a & b
- d) Neither a nor b

6) Which of the following is not a goal of five years plan?

- a. Growth
- b. Land Reforms
- c) Equity
- d) Modernization

7) State whether following is true or false:

The first stage of demographic transition was called after 1921.

8) ----- was the India economist who estimated national income and per capita income during British rule.

9) Karve committee focused on the development of _____.

- a) Cottage industries
- b) Small scale industries
- c. large scale industries
- d) All of these

10) The second plan programme of industrialization was based on the ----- model

Case Based Questions:

Read the following paragraph and answer the questions 11-14

Before the colonial period, India was exporting manufactured goods in the European and American countries. Under colonial rule India was reduced to a supplier of raw materials like silk, jute, cotton, indigo, wool and sugar etc. and importer of finished goods made in the factories of Britain. Additionally, the opening of Suez Canal increased the control of Britishers over India's foreign trade. The remaining volume of foreign trade was allowed with a handful of countries like China, Sri Lanka, and Iran. India was a large exporter in the colonial period. However, it did not affect country' economy. Commodities like food grains, clothes, kerosene hit the country hard with its scarcity. Ironically, this export surplus never made its way to India. It was used to make payments for an office setup in Britain, war expenses of England and import of invisible items. It resulted in the decline in foreign trade of India.

Questions:

11. How did the opening of the Suez Canal help the Britishers?
12. The export surplus was used for the development of Indian industry (True/False).
13. Name the countries with which India had foreign Trade.
14. What is the reason of shortage of food grains in India?

Read the following passage and answer the questions 15-18

Industrial policy resolution 1956 was the clear declaration of the government on the leading role of public sector in the process of industrialization. This resolution laid the roadmap of second five-year plan also. In IPR-1956, industries were classified into three categories. Public sector was given primary role in the industrial development of the country. Industries in the private sector could be established only through a license from the government. Main idea of industrial licensing was to encourage industries in the backward regions of the country. Private sector was offered many types of industrial concessions for establishing industries in backward regions like tax holidays and subsidized power supply.

Karve committee (1955) also focused on the role of small-scale industries to achieve the goal of industrial development. As far as possible, domestic industries were protected from the foreign competition.

Protection was provided through: heavy imports tariffs and by fixing import quotas.

11. Rapid industrialization was the objective of which five-year plan?
12. Which sector was given primary role on the process of industrial development of the country?
13. What is the objective of licensing policy?
14. How domestic industries were protected from foreign competition?

Read the following passage and answer the questions 19-22 For overall economic development of the country government needs to focus on the development of agriculture sector as 49% of the population is engaged in primary sector.

Green revolution was one such initiative taken by the government which has increased the production of food grains like wheat and rice. Green revolution was possible due to the use of HYV seeds, irrigation facilities and fertilizers. This made India not only self-reliant but also helped it to become an exporter of food grains. But effects of Green Revolution were more prominent in few states like Punjab, Haryana and Tamil Nadu. It was widened the gap between rich and poor in the ruler India.

15. Identify the element which is not related with green revolution.
 - a) Improved seeds
 - b) Fertilizers
 - c) New strategy for agriculture
 - d) Increase in population
16. Use of _____ promoted in green revolution
(HYV/HVY/Organic) seeds were

17. Green revolution was comparatively more successful in which states?
18. Indian economy is marching towards progress but there is a need of improvement in _____ (primary/secondary/tertiary) sector.

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

Assertion (A) During the British rule, India saw huge drain of wealth.
Reason (R) India generated large export surplus during colonial period.

- a) Both Assertion and Reason are true and Reason is correct explanation of the Assertion.
- b) Both Assertion and Reason are true but Reason is not correct explanation of the Assertion.
- c) Assertion is true but Reason is false.
- d) Assertion is false but reason is true.

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

Assertion (A) The major policy initiatives like land reforms and green revolution helped India to become self -reliant in food grains productions
Reason (R) The proportion of people depending on agriculture did not decline as expected.

- a) Both Assertion and Reason are true and Reason is correct explanation of the Assertion.
- b) Both Assertion and Reason are true but Reason is not correct explanation of the Assertion.
- c) Assertion is true but Reason is false.
- d) Assertion is false but reason is true.

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

Assertion (A) Planning was seen as a way to give Indian economy a boost of investment and growth.
Reason (R) The British rule had left the Indian economy in a stagnant economy.

- a) Both Assertion and Reason are true and Reason is correct explanation of the Assertion.
- b) Both Assertion and Reason are true but Reason is not correct explanation of the Assertion.
- c) Assertion is true but Reason is false.
- d) Assertion is false but reason is true.

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

Assertion (A): To increase foreign trade, government should resort to reducing tariff rates, giving credit facilities to the exporters and provide them better infrastructural facilities.

Reason (R): Foreign Trade boost economy of the country.

- a) Both Assertion and Reason are true and Reason is correct explanation of the Assertion.
- b) Both Assertion and Reason are true but Reason is not correct explanation of the Assertion.
- c) Assertion is true but Reason is false.
- d) Assertion is false but reason is true.

Answer key:

1) Handicraft

2) Britain

3) d

4) Tariff

5) both a&b

6) Land reforms

7) False

8) V.K.R.V Rao/ Dadabhai Naoroji

9) small scale industries

10. P.C.Mahalanobis

11) Opening of suez canal increased the control of Britain over foreign trade of India.

12)False

13) Britain ,Sri Lanka, China and Iran.

14) There was shortage of food grains as farmers were forced to grow commercial crops like indigo and cotton etc.

15) Rapid industrialization was the objective of second five year plan.

16)Public sector.

17)Main objective of industrial licensing was to encourage industries in backward regions.

18) Protection to domestic industries was provided by increasing tariff rates and fixing import quotas

19) increase in population.

20)HYV seeds

21) Punjab, Haryana and Tamil Nadu

22) Primary sector

23) b

24) b

25) a

26) a

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TOPIC: ECONOMIC REFORMS

1. In which year new economic policy was initiated?

(a) 1999 (b) 1991 (c) 2000 (d) 2001

(Ans: b)

2. Which of the following is not an element of fiscal reforms?

- (a) Contraction of public sector
- (b) Disinvestment in public sector enterprises
- (c) Sale of Public sector's shares
- (d) Purchase of industrial shares by the government

(Ans: d)

3. _____ was the Indian Finance Minister in 1991, acknowledged for the capabilities to steer

away the economic crisis looming large on the erstwhile Indian Economy.

(Choose the correct alternative)

- (a) Dr. Subhramanian Swamy (b) Dr Manmohan Singh
(c) Pranab Mukherjee (d) Dr. Urjit Patel

(Ans: b)

4. Demonetisation is the _____ policy wherein the legal status of a currency unit is cancelled and

new one comes into circulation . (Choose the correct alternative)

- (a) Social
(b) Legal
(c) Economic
(d) Political

(Ans: c)

5. India announced the New Economic Policy after agreeing to the conditions of:

(Choose the correct alternative)

- (a) World Bank
(b) International Monetary Fund
(c) Reserve Bank of India
(d) Both (a) and (b)

(Ans: d)

6. In _____ (Fifth / **Seventh**) Five Year Plan, India emphasized on human capital formation.

(Ans: Seventh)

7. What was the one major proposal of new industrial policy (1991). (Choose the correct alternative)

- (a) NRI's will not be allowed for capital investment in India.
(b) Facility of FDI up to 51 percent in high priority industries.
(c) Import restrictions on technical knowhow for one year.
(d) Abolition of industrial licensing except for five industries.

(Ans: d)

8. Liberalisation of the economy under the new economic policy changed the role of RBI in the economy:

- (a) From a 'regulator' to a 'facilitator' of the financial sector
(b) from a 'controller' to a 'manager' of the government debt
(c) both (a) and (b)
(d) none of these

(Ans: a)

9. Which of the following is the strategy to promote globalization of the Indian economy?

- (a) Partially convertibility
- (b) Reduction in tariffs
- (c) Increase in equity limit of foreign investment
- (d) All of these

(Ans: d)

Assertion (A) and Reason (R) type questions:

1. Read the following statements – Assertion (A) and Reason (R). (Choose one of the correct

alternatives given below)

Assertion (A): Every year government fixes a target for disinvestment of Public Sector Enterprises).

Reason (R) : Disinvestment is an excellent tool for discarding the loss incurring Public Sector

Enterprises

Alternatives:

- (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 and 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.

(Ans: b)

2. Read the following statements – Assertion (A) and Reason (R). (Choose one of the correct

alternatives given below):

Assertion (A): GST consists of three components such as Central GST (CGST) , State GST (SGST) and Integrated GST (IGST).

Reason (R): Central GST (CGST) and State GST (SGST) will apply to all transactions goods and services.

Alternatives:

- (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 and 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.

(Ans: b)

3. Read the following statements – Assertion (A) and Reason (R). (Choose one of the correct alternatives given below):

Assertion (A): Privatisation process leads to a change in management with a change in ownership.

Reason (R): Change in management is not a necessary condition for the process of privatization.

Alternatives:

- (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 and 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.

(Ans: b)

4. Read the following statements – Assertion (A) and Reason (R). (Choose one of the correct alternatives given below):

Assertion (A): New Economic Policy (NEP), 1991 was focused on liberalization, privatization and globalization.

Reason (R): The policy was necessitated because of the crisis situation in the economy in 1991.

Alternatives:

- (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 and 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.

(Ans: a)

5. Read the following statements – Assertion (A) and Reason (R). (Choose one of the correct alternatives given below):

Assertion (A): Globalisation means integration of various economies of the world leading towards emergence of a cohesive global economy

Reason (R): For globalization, the important ingredient is to facilitate the migration of human resources.

Alternatives:

- (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 and 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.

(Ans: b)

6. Read the following statements – Assertion (A) and Reason (R). (Choose one of the correct alternatives given below):

Assertion (A): Under NEP, role of RBI shifted from that of facilitator to a regulator.

Reason (R): Now, market forces decide interest rate structure, volume and the pattern of investment.

Alternatives:

- (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 and 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.

(Ans: d)

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UNIT :- Current Challenges Facing Indian Economy (10 M)
Chapter :- POVERTY

1. Those who regularly move in and out of poverty like small farmers or seasonal workers are called:

- (a) Chronic poor (b) Occasionally poor
(c) Churning poor (d) None of these

Ans: (c)

2. Which organisation collects data on poverty in India

- (b) NSSO (b) CSO
(c) NITI Aayog (d) None of these

Ans: (a)

3. The planning Commission has defined the poverty line on the basis of recommended nutritional requirement of -----calories per person per day for rural areas .

- (a) 2100 (B)2200
(c) 2400 (d) 2000

Ans: (c)

4. MPCE stands for

- (a) Minimum per capita expenditure (b) Maximum Per Capita Expenditure
(c) Money Per Capita Expenditure (d) Monthly Per Capita Expenditure

Ans: (d)

5. In pre-independent India , he was the first to discuss the concept of poverty line

- (a) Dadabhai Naoroji (b) Gopal Krishna Gokhale
(c) A.K.Sen (d) Vinoba Bhave

Ans: (a)

6. Who introduced the concept of “Jail cost of Living “

- (c) Mahatma Gandhi (b) Dadabhai Naoroji
(c) Indira Gandhi (d) Manmohan Singh

Ans: (b)

7. -----refers to poverty of people , in comparison to other people , regions or nations

- (a) Absolute poverty (b) Relative poverty
(c) Both (a) & (b) (d) Neither (a) nor

(b) Ans: (b)

8. The minimum calorie consumption per person in urban area is ----- in defining poverty line

- (a) 2400 (b) 2250
(c) 2200 (d) 2100

Ans: (d)

9. The programme initiated by the government to improve food and nutritional level of poor was

- (a) Public distribution system (b) Integrated child development scheme
(c) Midday Meal Scheme (d) All of these

Ans: (d)

10. According to planning commission , the minimum Monthly Per Capita Consumption Expenditure (MPCE) in 20211-12 WAS fixed as Rs. _____ per person in rural area and Rs. _____ in urban area.

- (a) RS 800 per person in rural area & RS 900 in urban area
(b) RS 816 per person in rural area & RS 1000 in urban area
(c) RS 1000PER person in rural area & RS 1200 in urban area
(d) RS 810 per person in rural area & RS 950 in urban area

Ans: (b)

11. In which year , "National Food for Work Programme" was launched ?

- (a) 2008 (b) 2005
(c) 2004 (d) 2010

Ans: (c)

12. Approach followed by the government to reduce poverty in India

- (a) Growth oriented (b) Specific poverty alleviation programmes
(c) meeting the minimum needs of the poor (d) all of these

Ans: (d)

13. In April 2015, which of these schemes was launched by the prime minister Narendra Modi.

- (a) Make In India (b) Clean India Mission
(c) MGNREGA (d) Micro units development refinance agency bank (MUDRA BANK)

Ans: (d)

14. Under MGNREGA (Mahatma Gandhi National Rural Employment Guarantee ACT- 2005) work is offered for a minimum period of _____ days.

- (a) 150 days (b) 100 days
(c) 200 days (d) 365

days Ans: (b)

15. The earlier ' Food for work programme ' has now been converted into
- (a) Minimum needs programme
 - (b) Integrated rural development Programme
 - (c)Mahatma Gandhi National rural employment programme
 - (d) PMRY

Ans: (c)

Read the following case study carefully and answer the questions 16 to 18 on the basis of the same :-

The reduction in poverty hasn't been impressive has also been pointed out by an assessment released in January 2020 by government think-tank NITI Aayog .Going by the states ' progress on poverty reduction ,India is far behind the 'zero poverty by 2030" States rather slipped in their efforts to reduce poverty in 2019 in comparison in 2018. The lapsing back of people climbing above the poverty line is the most important reason of chronic poverty. Poverty line is a cut -off point on the line of distribution, which usually divides the population of the country as poor and non -poor.

16. THE above paragraph relates to.

- (a) Chronic poor
- (b) churning poor
- (c) occasionally poor
- (d) transient poor

Ans: (a)

17. The ratio measures the number of poor below poverty line is known as

- (a) Head count ratio
- (b) Population count ratio
- (c)Poverty count ratio
- (d) None of these

Ans: (a)

18. POVERTY line separates (Choose the correct option)

- (a) Poor and non -poor
- (b) Rich and non-rich
- (c) Poor and weak
- (d) None of the above

Ans: (a)

19. Which amongst the following are the causes of poverty in India ?

- (a)Unemployment
- (b) Inequalities of Income
- (c) Low levels of economic development
- (d)All of these

Ans: (d)

20. READ the following statements-Assertion(A) and Reason (R) . Choose one of the correct alternatives given below :

Assertion (A) : Poverty is closely related to unemployment

Reason (R) : Unemployment compels indebtedness and reinforces poverty. Alternatives:

- (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 and 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

Ans: (a)

Read the following case study carefully and answer the questions 21 to 24 on the basis of the same :-

The most heated and debated topic not only in India but in entire world is to eradicate extreme poverty by 2030. Poverty is a socio-economic incident and it is closely related with disparity. Due to poverty, it becomes close to impossible to fulfill even the bare requirements of life viz; food, clothing, shelter, education and health in deprive section of society. From 1993-94 to 2011-12, national poverty estimates is reduced from 50.1% to 25.7% in rural areas on the contrary in urban areas, its rate of reduction is from 311.8% to 13.7% . In India, poverty rate is declined by 17.89% from 1993 to 2004 and further declined by 41.13% in a period of 2004-2011 (as per Tendulkar Committee estimates). As per SDG India Index Baseline report 2018, 21.92% of India's population was below poverty line in 2011. With an above backdrop, we focuses on the poverty alleviation programmes in India with special regard to Sustainable Development Goals.

21. When the number of poor is estimated as the proportion of people below the poverty line, it is known as _____ (Worker Population Ratio/ Head Count Ratio).

(Ans : Head Count Ratio)

22. The government's approach to poverty reduction was of _____ (three/Four) dimensions.
(Ans: three)

23. In August 2005, the Parliament of India passed the _____ (MNGREGA / Competition) Act to provide guaranteed wage employment to every household whose adult volunteer is to do unskilled manual for a minimum of 100 days in a year.

(Ans: MNGREGA)

24. 'Jail Cost of Living' was a criteria formulated by _____ (Amartya Sen / Dadabhai Naoroji) to determine the minimum daily food requirements of an adult in India.

(Ans: Dadabhai Naoroji)

TOPIC : HUMAN CAPITAL FORMATION

1. Economic growth requires-----
 - (A) Human capital
 - (B) Physical capital
 - (C) Both (a) and (b)
 - (D) Neither (a) nor (b)
2. Before introducing new technology, a firm provides the basic skills to the workers regarding its usage. This is which source of human capital formation.
 - (A) Study programme for adults
 - (B) On the Job training
 - (C) Expenditure on information
 - (D) Investment in education
3. The stock of skill and expertise of nation at a point of time is called:
 - (A) Human capital
 - (B) Human development
 - (C) Human capital formation
 - (D) Physical capital
4. -----is better indicator of development
 - (A) National output
 - (B) Per capita income (monetary)
 - (C) Real per capita income
 - (D) National income
5. Sources of Human capital formation:
 - (A) Investment in education
 - (B) Investment in Health
 - (C) Investment in on-the-job training
 - (D) All of these
6. From the following which is not a human capital formation:
 - (A) On-the job training
 - (B) Migration
 - (C) Investment in education
 - (D) None of the above
7. Expenditure on education is-----
 - (A) Wasteful
 - (B) Investment
 - (C) Skill
 - (D) Not required
8. Which of the following is the problem of human capital formation?
 - (A) Brain drain
 - (B) Raising population
 - (C) Low academic standards
 - (D) All of these
9. Human capital and Human development are-----
 - (A) Opposite concepts
 - (B) Different concepts
 - (C) Both mean the same
 - (D) Related concepts, but concepts are not identical
10. Human capital formation leads to:
 - (A) Efficient utilization of input
 - (B) Increase in GDP
 - (C) Increase in the stock of physical capital
 - (D) Both (a) and (b)

Answers

1	C	2	B	3	A	4	C	5	D
6	D	7	B	8	D	9	D	10	D

Case study-1

When we talk about economic growth, human capital is the main reason for accelerated growth and expansion for many countries, which provide investment in human capital. This gives the best advantages to these countries for providing the best situation for work and life. A significant advantage in generating a stable environment for growth is that the nation has the expanded high quality of human capital in fields like health, science, management, education and other fields. Here the main components of human capital are definitely human beings but presently, the principal component is creative an educated and enterprising person, with a high level of professionalism.

Questions:

- 1.refers to the stock of skill, ability, expertise, education and knowledge in a nation at a point of time.
 - (A) Human capital
 - (B) Physical capital
 - (C) Natural capital
 - (D) None of the above
2. Human capital increases-----
 - (A) Labour in market
 - (B) Labour in productivity
 - (C) Trained labour
 - (D) None of the above
3. Innovation leads -----
 - (A) Growth
 - (B) Development
 - (C) Production
 - (D) All of the above
4. The human capital in the economy manages the central portion of the ----- of the country (National Income/National wealth) Answers:
 1. (a) Human capital
 2. (b) Labour in productivity
 3. (d) All of the above
 4. National wealth

Case study-2

Traditionally, economic theory has given emphasis on physical capital accumulation as the most robust source of economic growth at least in the short run, with the exogenous technical progress being the long run determination of growth. The exogeneity of technological progress in the neoclassical growth model and the difficulty of explaining long-term economic growth have restricted the analytical capacity of the neoclassical model and its empirical verification.

Human capital theory suggests that individual and society derive economic benefits from investments in people. Education has consistently been emerged as prime human capital, but Becker and schulz have argued that health and nutritional expenditure is also part of human capital investment. This is because education is perceived to contribute to health and nutritional improvements.

Questions: Economic growth depends upon:

- (A) Development Physical capital
 - (B) Development human capital
 - (C) Development working capital
 - (D) All of these
2. Economic development depends upon which of the following components?
- (A) Development Physical capital
 - (B) Development human capital
 - (C) Development working capital
 - (D) None of these
3. Which of the following are type of on-job-training?
- (A) On Campus training
 - (B) Off campus training
 - (C) Both (a) and (b)
 - (D) None of these

Answers:

1. (d) all of these
2. (b) development of human capital
3. (c) Both (a) and (b)

Case study-3

You all may have heard of the term 'capital' in economics Adam smith defines capital as "That part of the man's stock which he expects to afford him revenue". Capital is one of the four factors of production- land, labour and entrepreneurship being the other three. There are many types of capital. However, for time being, we shall focus our discussion on two types of capital -physical capital and human capital. India is possessing a huge size of human resources. In order transform the liability of this huge size of population into assets adoption of various measures of human capital is very much essential.

The term human capital formation implies the development of abilities and skills among the population of country. In order to develop various sectors of the economy, the country should introduce manpower planning for the development of its human resources. It is from the 7th five year plan onward that we began to focus on Human Development.

Questions:

1. The----- capital is tangible and can be easily sold in the market (Human/physical)
2. Doctors, Engineers etc. are part of human ----- (Capital/Resource)
3. State any two sources of human capital.
(A) Migration
(B) Expenditure on education
(C) Both (a) and (b)
(D) None of these

Answers:

1. Physical
2. Capital
3. (c) Both 'a' and 'b'

Case study-4

Prime minister Narendra Modi interacted with leading economists of the country on charting the economic agenda in the post COVID world and highlighted government's commitment to developing world class infrastructure and the economic potential set to be unleashed by National optical fiber network.

He highlighted the faith shown by foreign investors in India's growth story with foreign direct investment growing by 11 percent between April and October, despite a global recession.

The participants stressed the importance of investing in public health and education, as a human capital would also likely emerge as driver of growth, especially in the knowledge economy going forward. They also stressed on labour intensive manufacturing given the success India has achieved in launching the PLI scheme in mobile manufacturing.

Questions:

1. capital refers to the stock of skill, ability, expertise, education and knowledge embodied in the people (human capital/physical capital)
2. Which one of the following is a major source of human capital in a country?
(A) Expenditure on education
(B) Expenditure on Infrastructure
(C) Expenditure on defense
(D) None of these
3. Why do we need to invest in human capital ----- ?
(A) Effective use in Physical capital
(B) Increase in Income
(C) Increase in productive capacity
(D) Both 'a' and 'c'

4. Which International organization recognized India as a knowledge economy in its report, Leveraging strengths and opportunities -----

- (A) World Bank
- (B) IMF
- (C) UNO
- (D) None of these

Answers:

- 1. Human capital
- 2. (a) Expenditure on education
- 3. Both 'a' and 'c'
- 4. (a) world Bank

ASSERTION & REASON

1. **ASSERTION (A):** According to human capital, human being are ends in themselves.
REASONING (R): Human capital considers education and health as means to increase labour productivity.

Alternatives:

- (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 and Reason (R) not is 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

Ans: (d) Assertion(A) is false but Reason (R) is true

2. **ASSERTION (A):** Gains of migration are greater than the migration, leading to human capital formation.

REASONING (R): Migration contributes to human capital formation as it facilitates utilization of inactive skills of people.

Alternatives:

- (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 and Reason (R) not is 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

Answer: (a) Both Assertion(A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

3. **ASSERTION (A):** Human capital of a nation is raised when skill and expertise of people rises.

REASONING (R): Raising population is an impediment to the process of human capital formation of India.

Alternatives:

- (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 and Reason (R) not is 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

Answer: (a)Both Assertion(A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

4. **ASSERTION (A):** cause and effect relation between Human capital and economic growth can be easily proved.

REASONING (R): Due to **measurement** problems, it is difficult to establish a relation of cause and effect from the of human capital (Education and health) to economic growth.

Alternatives:

- (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 and Reason (R) not is 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

Answer: (d) Assertion(A) is false but Reason (R) is true

5. **ASSERTION (A):** World bank, in its recent report, India and the knowledge economy.

REASONING (R): India would grow faster due to its strength in human capital formation.

Alternatives:

- (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 and Reason (R) not is 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

Answer: (b) Both Assertion(A) and Reason (R) are true and Reason (R) not is the correct explanation of Assertion (A)

6. **ASSERTION (A):** Improvement in education and health sectors and growth in real per capita Income in both developing and developed countries.

REASONING (R): Higher income causes building of high level of human capital .

Alternatives:

- (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 and Reason (R) not is 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

Answer: (a) Both Assertion(A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion(A)

7. **ASSERTION (A):** Skill India programme launched by the government is an attempt to increase human capital formation.

REASONING (R): Skill is an important element of human capital

Alternatives:

- (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 and Reason (R) not is 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

Answer: (a) Both Assertion(A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

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MCQs/Case based/Assertion & Reason questions

Topic: RURAL DEVELOPMENT

1. Which among the following is an initiative taken for the development of rural India?

- A. Human Capital Formation
- B. Land Reforms
- C. Poverty Alleviation
- D. All of these

Answer: (D) All of these

2. What was the growth rate of agricultural output during 2007-12?

- (A) 32% per annum
- (B) 6% per annum
- (C) 1.5% per annum
- (D) 5% per annum

Answer: (A) 32% per annum

3. When was the National Bank for Agricultural and Rural Development set up?

- (A) 1962
- (B) 1972
- (C) 1982
- (D) 1992

Answer: Answer: (C) 1982

4. Which of the following is an institutional source of rural credit?

- (A) Moneylenders
- (B) Regional Rural Banks
- (C) Traders
- (D) Landlords

Answer: (B) Regional Rural Banks

5. Which source of credit had emerged to fully integrate the formal credit system into the overall rural social and community development?

- (A) Self-help Groups
- (B) Regional Rural Banks
- (C) Commercial Banks
- (D) Land Development Banks

Answer: (A) Self-help Groups

6. Which among the following is a process that involves the assembling, storage, processing, transportation, packaging, grading, and distribution of different agricultural commodities across the country?

- (A) Agricultural Management
- (B) Agricultural Banking
- (C) Agricultural Diversification
- (D) Agricultural Marketing

Answer: (D) Agricultural Marketing

7. Which Indian state has been held as a success story in the efficient implementation of milk cooperatives?

- (A) Punjab
- (B) Gujarat
- (C) Uttar Pradesh
- (D) West Bengal

Answer: (B) Gujarat

8. What is the name of the vegetable and fruit market in Andhra Pradesh?

- (A) Apni Mandi
- (B) Hadapsar Mandi
- (C) Rythu Bazars
- (D) Uzhavar Sandies

Answer: (C) Rythu Bazars

9. How much do the “inland sources” contribute to the total fish production in India?

- (A) 64 percent
- (B) 39 percent
- (C) 50 percent
- (D) 75 percent

Answer: (A) 64 percent

10. Which status has been accorded to the retail chains and supermarkets for selling organic food?

- (A) Eco Status
- (B) Sustainable Status
- (C) Nutritional Status
- (D) Green Status

Answer: (D) Green Status

11. The problems faced in rural banking are

- (A) Insufficient rural credit
- (B) Growing overdue
- (C) Inadequate amount of sanction
- (D) All of these

Answer : (D) All of these

12. Name the state which is held as a success story in the efficient implementation of milk cooperatives.

- (A) Maharashtra
- (B) Jammu and Kashmir
- (C) Gujarat
- (D) Andhra Pradesh

Answer: (C) Gujarat

13. Why is the minimum support price fixed by the government ?

- (A) For the government's benefit
- (B) To safeguard the interest of farmers
- (C) To save the interest of consumers
- (D) None of these

Answer: (B) To safeguard the interest of farmers

14.:Blue revolution is associated with

- (A) Indigo cultivation
- (B) Poultry Farming
- (C) Fisheries
- (D) Availability of drinking water

Answer: (C) Fisheries

ASSERTION AND REASON QUESTIONS

15.Assertion : Rural economic development is essential for Indian Economic development .

Reason : Rural development creates opportunities in rural areas for education .

- 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 and Reason (R) is not the correct explanation of Assertion(A)
- C) Assertion (A) is true but Reason (R) is false.
- D) Assertion (A) s false but Reason (R) is true

Answer: (A)

16.Assertion:.Diversification of crops shifted from single cropping system to multiple'' cropping

Reason : It increases the risk of the market arised due to price fluctuation .

- 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 and Reason (R) is not the correct explanation of Assertion(A)
C) Assertion (A) is true but Reason (R) is false.
D) Assertion (A) s false but Reason (R) is true

Answer : (C)

17.. Assertion : Eong term credits are required for purchasing machinery and constructing fences etc.

Reason : These are taken for 12 months to 5 years.

- 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 and Reason (R) is not the correct explanation of Assertion(A)
C) Assertion (A) is true but Reason (R) is false.
D) Assertion (A) s false but Reason (R) is true

Answer : (C)

18..Assertion : Farmers were using primitive technology of production .

Reason : Farmers were unaware of the technology and were poor.

- 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 and Reason (R) is not the correct explanation of Assertion(A)

C) Assertion (A) is true but Reason (R) is false.
D) Assertion (A) s false but Reason (R) is true

Answer : (A)

19. Assertion : NABARD was set up to give loans to farmers.

Reason : It is an Apex body to coordinate all institutions involved in the rural financing system.

- 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 and Reason (R) is not the correct explanation of Assertion(A)
C) Assertion (A) is true but Reason (R) is false.
D) Assertion (A) s false but Reason (R) is true

Answer :(B)

20. Assertion : Role of Information Technology was essential in the Rural sector.

Reason : Farmers were interested in learning computers

- 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 and Reason (R) is not the correct explanation of Assertion(A)
- C) Assertion (A) is true but Reason (R) is false.
- D) Assertion (A) s false but Reason (R) is true

Answer :(B)

CASE STUDY / REPORT BASED QUESTIONS

CASE STUDY/REPORT : 1

The policy intervening rural credit has always been credit driven. This is even more pronounced in the Recent Interventions made by the state in the package announced for distressed farmers in doubling agricultural credit , providing subvention and putting an upper cap on interest rates for agricultural loans. Looking specifically at rural financial markets using some primary data, we argue that it is necessary to understand the Rural Financial markets from the demand side.

21. Mention any two sources of rural credit in India .

Answer: Institutional and non-institutional

22. What are the main institutional sources of rural credit in India?

Answer: Cooperative credit societies , SBI,Commercial Banks, Regional rural banks etc.

23.What are suggestive measures to overcome the problems of the marketing system in India.

Answer: MSP Policy, Regulated markets, Subsidised transport , etc.

24. Discuss the role of cooperatives in Rural Credit

Answer: Timely and rapid flow of credit,elimination of money lenders, provision of adequate credit.

CASE STUDY -2

The government is fast tracking the integration of e- National agricultural market (e NAM) with farmer producer organizations (FPO) and warehouses , which have been declared as market yards to provide end-to-end connectivity to farmers.

It will then connect these FPOs and warehouses with the transport aggregator mobile App KISAN RATH for seamless supply linkages to integrate and intra state buyers. The app brings together 5 lakh trucks and 20,000 tractors on a mobile platform for transporting farm produce to markets from Farm gate.

25. Define Agricultural marketing .

Answer: It includes gathering the produce after harvesting , processing ,grading, packaging for future sale.

26. What are the arrangements of agricultural marketing in India?

Answer: Govt. has organised mandis in the local areas and also now the latest farmer's bill is providing new opportunities to the farmers.

27. Highlight the problem of Distress sale in India.

Answer: When farmers are compelled to sell their produce immediately after the harvest, no matter how low the market price is.

CASE STUDY - 3

BILL ON CONTRACT FARMING

The farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Bill, 2020/Provisions:

- Farmers can enter into a contract with agribusiness firms ,processors , Wholesalers ,Exporters or large retailers for sale of future farming produce at a pre-agreed price .
- Marginal and small farmers , with land less than five hectares, to gain via aggregation and contract (Marginal and small farmers account for 86% of total farmers in India).
- To transfer the risk of market unpredictability from farmers to sponsors .
- To Enable farmers to access modern tech and get better inputs.
- To reduce the cost of marketing and boost farmer's income .
- Farmers can engage in direct marketing by eliminating intermediaries for full price realization . Effective dispute resolution mechanism with redressal timelines.

28. How will you relate the above with the general reforms in Agricultural marketing ?

Answer: It can be related to cooperative marketing societies . Removal of the role of intermediaries .

29.How will it affect substantial farming?

Answer: It will motivate the farmers to commercialize their produce for more benefits or profits.

30.Will the above give substantial rise in Acreage (area under cultivation)

Answer: Farmers will get the direct benefits of production ,so more land will be used for the same.

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