

ICSE 2023 EXAMINATION

Sample Question Paper-1

(Specimen Paper issued by CISCE Dated on 12 July, 2022)

ECONOMIC APPLICATIONS

Class-10

SOLVED

Time Allowed: 2 hours

Maximum Marks: 100

General Instructions:

1. Answer to this Paper must be written on the paper provided separately.
2. You will not be allowed to write during the first 15 minutes.
3. This time is to be spent in reading the question paper.
4. The time given at the head of this Paper is the time allowed for writing the answers.
5. Attempt all questions from Section A and any four questions from Section B.
6. The intended marks for questions or parts of questions are given in brackets [].

Section – A

(Attempt all questions from this Section)

Question 1.

Choose the correct answer and write the correct option.

[20]

- (i) If tea and coffee are substitutes, then an increase in the price of tea will cause:
- (a) An increase in the price of coffee (b) A decrease in the demand for coffee.
(c) An increase in the demand for tea (d) An increase in the demand for coffee
- (ii) Which of the following goods will be considered a suitable example for composite demand?
- (a) Bricks (b) Tea
(c) Milk (d) Biscuits
- (iii) Which of the following types of capital can be used only for a specific purpose?
- (a) Floating capital (b) Money capital
(c) Debt capital (d) Sunk capital
- (iv) What will the following cause:

Price in (₹)	Quantity supplied in Kgs
10	15
20	40

- (a) An extension of supply curve. (b) A contraction of supply curve.
(c) A downward shift of supply curve. (d) An upward shift of supply curve.
- (v) Which of the following goods will be considered circulating capital?
- (a) Computers in the office. (b) The factory buildings.
(c) The furniture used by the workers. (d) Water used in the production process.
- (vi) Mobile phones usually have a _____ market.
- (a) Perfectly competitive (b) Monopolistically competitive
(c) Monopoly (d) Monopsony

- (vii) Interest is a factor income for:
- (a) Land (b) Labour
(c) Capital (d) Entrepreneur
- (viii) When a straight-line supply curve passes through the origin, the elasticity of supply will be:
- (a) Unitary elastic (b) Relatively elastic
(c) Relatively inelastic (d) Perfectly elastic
- (ix) Which of these taxes is most likely to be progressive?
- (a) Entertainment tax (b) Goods and services tax
(c) Property tax (d) Custom Duty
- (x) A change in the price of a good:
- (a) Shifts the good's supply curve but does not cause a movement along it.
(b) Does not shift the good's supply curve but causes a movement along it.
(c) Shifts the good's supply curve and also causes a movement along it.
(d) Neither shifts the good's supply curve nor causes a movement along it.
- (xi) Selling costs are absent in a perfectly competitive market because the goods sold are:
- (a) Substitutes (b) Heterogeneous
(c) Homogeneous (d) Luxuries
- (xii) To ensure that the citizens of the country have faith in the currency, the currency is issued by:
- (a) Commercial banks (b) Central Government
(c) Central Bank (d) Ministry of Finance
- (xiii) _____ taxes also referred to as Tax on honesty.
- (a) Progressive tax (b) Proportional tax
(c) Direct tax (d) Indirect Tax
- (xiv) Elasticity of supply is measured by:
- (a) $\frac{\Delta Q}{P} \times \frac{Q}{\Delta P}$ (b) $\frac{\Delta P}{P} \times \frac{Q}{\Delta Q}$
(c) $\frac{\Delta P}{\Delta Q} \times \frac{Q}{P}$ (d) $\frac{\Delta Q}{Q} \times \frac{P}{\Delta P}$
- (xv) The Central Bank instructs the Commercial Banks to keep more percentage of its time and demand deposits as liquid cash before lending money to investors. This is:
- (a) Increase in Bank rate.
(b) Increase in Cash Credit Ratio.
(c) Increase in Statutory Liquidity Ratio.
(d) Increase in Standard Liquidity Ratio.
- (xvi) The major objective of monetary policy is:
- (a) Employment generation (b) Maintaining foreign relations
(c) Price stability (d) Greater tax collection
- (xvii) Which of the following factors of production has a unique supply curve?
- (a) Land (b) Labour
(c) Capital (d) Entrepreneur
- (xviii) During inflation, the Central bank usually:
- (a) Decreases bank rate. (b) Decreases Cash Reserve Ratio.
(c) Increases bank rate. (d) Buys government securities.
- (xix) When the price elasticity of demand for a good equal:
- (a) 0, the demand curve is horizontal. (b) 1, the demand curve is vertical.
(c) 1, the demand curve is horizontal. (d) 0, the demand curve is vertical.
- (xx) When the general price level increases by 10% to 20% per annum, then it will be called:
- (a) Hyper inflation (b) Running inflation
(c) Walking inflation (d) Creeping inflation

Question 2

- (i) State two differences between an entrepreneur and labour. [2]
- (ii) Draw a neat diagram to show the extension of a supply. [2]

- (iii) Explain the effect of inflation on the fixed income group. [2]
- (iv) Give two advantages of payment by cheques. [2]
- (v) Define efficiency of labour. [2]

Question 3

- (i) Demand is solely determined by price. Is the statement true or false? Give a reason for your answer. [2]
- (ii) Mention one important difference between a tax and a subsidy. [2]
- (iii) What are time deposits? Why are they called so? [2]
- (iv) Draw a neat labelled diagram showing degressive taxation. [2]
- (v) Explain price discrimination. [2]

Section – B

(Attempt **any four** questions from this Section)

Question 4

- (i) Define land. Explain any three characteristics of land. [7]
- (ii) Define price elasticity of supply. With the help of diagrams explain the following: [8]
- (a) Relatively elastic supply curve
- (b) Relatively inelastic supply curve
- (c) Unitary elastic supply curve.

Question 5

- (i) (a) What do you understand by a perfectly competitive market? [7]
- (b) Discuss any three important features of such a market.
- (ii) Explain four exceptions to the Law of Demand. [8]

Question 6

- (i) (a) What is Disinvestment? [7]
- (b) Give two probable reason as to why the government want 'disinvest'.
- (c) Explain two arguments against disinvestment.
- (ii) Explain any four important functions of an entrepreneur. [8]

Question 7

- (i) (a) What is a tax? [7]
- (b) State two objectives of taxation.
- (c) Explain two ways in which direct tax is better than indirect tax.
- (ii) (a) What are demand deposits? [8]
- (b) Explain the different kinds of demand deposits.
- (c) State two ways in which demand deposits are different from term deposits.

Question 8

- (i) Define money. Explain the following functions of money: [7]
- (a) Measure of value
- (b) Transfer of value
- (c) Standard of deferred payment.
- (ii) (a) What is a Public Sector? [8]
- (b) Give two examples of Public Sector in India.
- (c) What are the different types of Public Sector found in India?

Question 9

- (i) (a) What do you understand by monetary policy? [7]
- (b) What is repo rate? How is it used to control inflation?
- (c) Name two other quantitative tools of credit control.
- (ii) (a) What do you understand by supply? How does it differ from stock? [8]
- (b) What does the Law of Supply state? List two assumptions of this Law.
- (c) Explain two factors affecting supply other than price.

SOLUTIONS

Sample Question Paper-1

ECONOMIC APPLICATIONS

Section – A

1. (i) **Option (D) is correct.**

Explanation: As the price of tea increases, the demand for tea would decrease. This would enable some of the consumers to switch over the substitute, that is, the coffee and hence demand for coffee would increase.

(ii) **Option (A) is correct.**

Explanation: Bricks can be used to construct multiple things like buildings, bridges, dams, etc. Whereas tea, milk and biscuits are used only as a food in general sense.

(iii) **Option (D) is correct.**

Explanation: Sunk capital refers to the category of capital that have a single use in the production of a specific commodity.

(iv) **Option (A) is correct.**

Explanation: A rise in the price of a commodity leads to increase in quantity supplied of a commodity, it is known as expansion/extension of supply.

(v) **Option (D) is correct.**

Explanation: Circulating capital is the capital consumed in the production process as fuel, power, and raw materials. Water is used as a raw material.

(vi) **Option (A) is correct.**

Explanation: As there are many companies selling the mobile phones in the market, they compete with each other. As a result, the market becomes perfectly competitive.

(vii) **Option (C) is correct.**

Explanation: The reward for capital is interest.

(viii) **Option (A) is correct.**

Explanation: If a straight-line supply curve passes through the origin, the price elasticity of supply is equal to unity.

(ix) **Option (C) is correct.**

Explanation: A tax system that is progressive applies higher tax rates to higher levels of income. Property tax depends upon the size of the property and its nature. It is a direct tax.

(x) **Option (B) is correct.**

Explanation: A change in price would never cause a shift in the supply curve. It will only move along the curve.

(xi) **Option (C) is correct.**

Explanation: Under perfect competition, most of the goods produced by different firms have same or similar characteristics, structure or composition. Hence, they are homogeneous.

(xii) **Option (C) is correct.**

Explanation: It is one of the basic functions of the Central Bank to issue the currency notes of the country in order to maintain the faith of the citizens.

(xiii) **Option (C) is correct.**

Explanation: Direct taxes such as income tax, corporation tax and property tax are to be declared by the individuals and firms and based on that, the tax is to be paid. However, if they hide it from tax authorities, there can be tax evasion and not tax on honesty.

(xiv) **Option (D) is correct.**

Explanation: The price elasticity of supply = percentage (%) change in quantity supplied divided by percentage (%) change in price.

(xv) **Option (C) is correct.**

Explanation: The Central Bank instructs to increase the Statutory Liquidity Ratio before lending more money to investors.

(xvi) **Option (C) is correct.**

Explanation: One of the major objectives of monetary policy is to maintain price stability.

(xvii) **Option (A) is correct.**

Explanation: Land has a unique supply curve as it is free gift of nature and is not determined by human beings.

(xviii) **Option (C) is correct.**

Explanation: The increase in bank rate by the central bank increases the cost of funds to the commercial banks which in turn is passed on to their customers. High rate of interest reduces demand for loan and thus the quantity of credit. Bank rate is increased to control inflation in an economy.

(xix) **Option (D) is correct.**

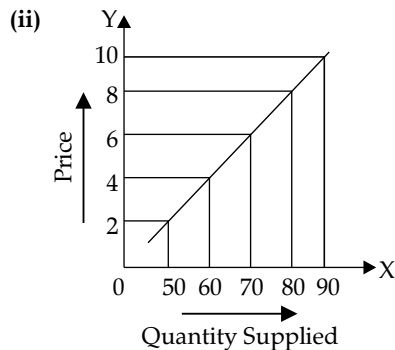
Explanation: When the price elasticity of demand for a good equal to 0 and the demand curve is vertical.

(xx) **Option (B) is correct.**

Explanation: Running inflation is the situation of inflation when the rate of inflation is between 10% to 20%.

2. (i) (a) Entrepreneurship involves risk-bearing but 'labour' does not bear risk.
 (b) Entrepreneur has to have innovative ability, labour may or may not have this ability.
 (c) The reward for entrepreneurship arises in the form of profits but the price of labour is wage rate.

(Any two)



(iii) The money income of the fixed income groups, the real income i.e., the purchasing power of money income falls during inflation. Hence inflation adversely affects this group of people.

(iv) (a) Money can be withdrawn by cheques without any restriction on the amount or number of withdrawals made.

(b) Cheque prove to be legal evidence in case of any disputes between the cheque issuer and the cheque receiver.

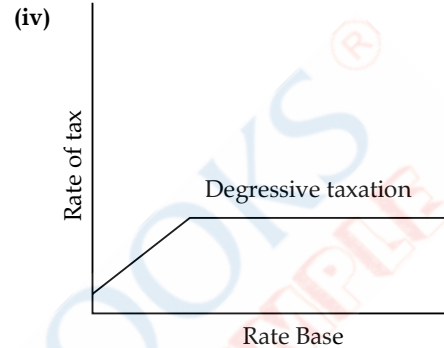
(v) Efficiency of labour is a relative term and is measured by comparing the productive capacities both quantitatively and qualitatively of all the workers or all the categories of workers.

3. (i) The given statement is false. Demand is not solely dependent on price as there are other non-price factors as well. Some of the examples are – income of the consumer, taste and fashion, price of related goods, and expectation of Change in the Price in Future.

(ii) Taxes are financial levies imposed on an individual and corporation by the government and mandatory in nature. On the other hand, subsidies are benefits that the government will provide to individuals and corporations in the form of cash inflow or tax reduction.

(iii) Under this account money is deposited for a fixed period and the rate of interest is relatively

higher than other accounts depending on the tenure of the fixed deposit. This type of deposit account allows the deposit to be made of an amount for a specified period. This period of deposit may range from 15 days to three years or more during which no withdrawal is allowed. However, on request, the depositor can encash the amount before its maturity. In that case, banks give lower interest than what was agreed upon.



(v) Having considerable control over the market on account of being single seller with no entry of other firms, the monopolist can exercise policy of price discrimination, it means that the monopolist can sell different quantities of the same product to a consumer at different price or same quantity to different consumers at different prices by adjudging the standard of living of the consumer.

Section – B

4. (i) Land refers to all kinds of natural resources available to man above and below the surface of earth, e.g. mineral resources, land surface, climatic condition, water bodies, etc.

Factors which determine productivity of land:

- (i) Fertility of land
- (ii) Proper use of land
- (iii) Location of land
- (iv) Improvement on land
- (v) Ability organizer
- (vi) Land ownership laws
- (vii) Availability of efficient labour
- (viii) Irrigation potentials
- (ix) Availability of capital

(Any six of the above mentioned should be explained clearly)

Detailed answer:

Land refers to a natural resource that can be utilized to produce income. It is a useful factor of production but is available in limited quantity. The factors affecting the productivity of land are:

(i) **Fertility of Land:** The productivity of land is determined by its natural qualities and its fertility. A flat and levelled land is comparatively

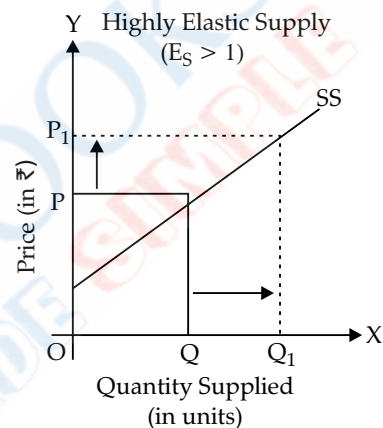
more productive than the unlevelled one. Agricultural productivity can be improved by proper and extensive use of manure and fertilizers along with adoption of mechanized farming.

- (ii) **Proper Use of Land:** The productivity of land is directly related to its proper utilization. For example, a piece of land situated in the heart of city is more suitable for construction of a house or a market place. If this piece of land is put for farming or agricultural use, its productivity will almost be negligible.
- (iii) **Location of Land:** The location of 'Land' affects its productivity to a great extent. For example, the location of land near the market or bus station will result in economy of transportation charges and overall productivity from this point of view will naturally be higher. Similarly, for better agricultural productivity, its location near water resources is desirable.
- (iv) **Improvements on Land:** The permanent improvements done on land like construction of irrigation channels, hedging of fields or the construction of dams, etc., have positive effects on the productivity of land.
- (v) **Ability of Organizer:** Land is a passive factor of production and so it is essential to combine it with other active factors, in correct proportion to achieve the optimum productivity. In order to accomplish it, an able organizer will successfully handle and combine the passive and the active factors in right proportions so as to achieve greater productivity. The competence and ability of an organizer will directly affect the overall productivity of land.
- (vi) **Land Ownership Laws:** The 'Land Ownership Laws' prevailing in a country have a significant influence on the productivity of 'Land'. When a full ownership is conferred, the owner takes more interest in its development. For example, a cultivator possessing full ownership rights on land, does more hard work and the productivity automatically improves.
- (vii) **Availability of Efficient Labour:** The productivity of land depends on the availability of efficient labour as land alone cannot produce anything without the efficient labour. If the labour is efficient, trained and capable to adopt modern techniques, only then he can make the proper use of land.
- (viii) **Irrigation Potentials:** Productivity of land is considerably influenced by the availability of irrigation potentials. The land which has rich irrigation potentials will be more productive. Artificial means of irrigation, i.e., wells, tube wells, canals tanks, etc. help to maintain the adequate supply of water.
- (ix) **Availability of Capital:** Capital is the fundamental factor that affects the productivity

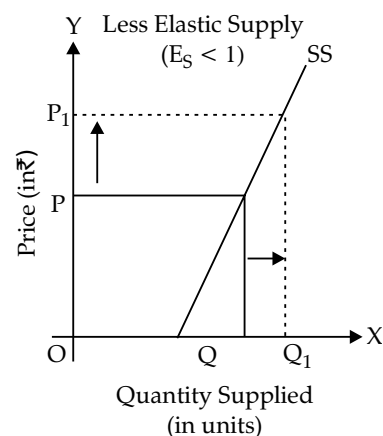
of land. The productivity of land can be maximized with the help of improved seeds, chemical fertilizers and machines. To fulfil all these requirements sufficient capital should be available. (Any six)

- (ii) Price elasticity of supply is the ratio of percentage change in quantity supplied over the percentage change in price.

- (a) **Highly or Relative or More than Unitary Elastic Supply ($E_S > 1$):** When the percentage change in quantity supplied of a commodity is greater than the percentage change in price, supply of a commodity is said to be more than unitary elastic. Supply curve shoots from Y-axis.



- (b) **Relatively or Less than Unitary Inelastic Supply ($E_S < 1$):** When the percentage change in quantity supplied of a commodity is less than the percentage change in price, supply of a commodity is said to be less than unitary elastic. Supply curve shoots from X-axis.



- (c) **Unitary Elastic Supply ($E_S = 1$):** When the percentage change in quantity supplied of a commodity is equal to the percentage change in price, supply of a commodity is said to be unitary elastic. Supply curve shoots from origin.

5. (i) (a) It is a form of market in which there are very large number of buyers and sellers of a homogeneous product. The firm is a Price Taker.

Example: Vegetable market, fruit market, etc.

- (b) Features of Market

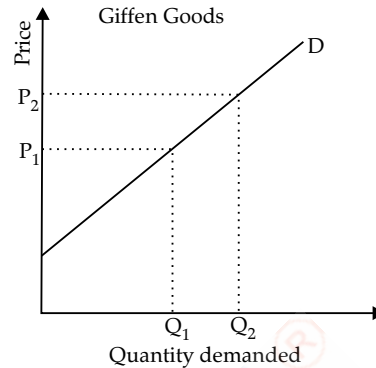
- **Large number of buyers and sellers:** There are a large number of buyers and sellers in the market.
- **Homogeneous product:** The firms sell homogeneous product with no differentiation with respect to the quality.
- **Perfect knowledge of market:** Both the sellers and buyers have perfect knowledge of the market.
- **Free entry and exit of firms:** The firms are free to exit and enter the market at any time.
- **Perfect mobility of factors of production:** The labour and capital can freely move from one place to another without any restrictions.
- **Absence of selling and transportation cost:** The concept of selling cost and the cost in transporting goods is absent. (Any three)

- (ii) The law of demand states that, other things remaining the same, the quantity demanded of a commodity is inversely related to its price. If the price of a commodity falls, the quantity demanded of it will rise, and if the price of the commodity rises, its quantity demanded will decline.

Exceptions:

- (i) **Giffen Goods:** These are special kind of inferior goods on which the consumer spends a large part of his income and their demand rises with an increase in price and demand falls with decrease in price. For example, in our country, it is often seen that when price of coarse cereals like jowar and bajra falls, the consumers have a tendency to spend less on them and shift over to superior cereals like wheat and rice. This phenomenon, popularly known as 'Giffen's Paradox' was first observed by Sir Robert Giffen.

A Giffen goods is a goods for which demand increases as the price increases and falls when the price decreases. A Giffen goods has an upward-sloping demand curve, which is contrary to the fundamental law of demand which states that quantity demanded for a product falls as the price increases, resulting in a downward slope for the demand curve. A Giffen goods is typically an inferior product that does not have easily available substitutes, as a result of which the income effect dominates the substitution effect.



- (ii) **Status Symbol Goods:** The exception relates to certain prestige goods which are used as status symbols. For example, diamonds, gold, antique paintings, etc. are bought due to the prestige they confer upon the possessor. These are wanted by the rich persons for prestige and distinction. The higher the price, the higher will be the demand for such goods.
- (iii) **Fear of Shortage:** If the consumers expect a shortage or scarcity of a particular commodity in the near future, then they would start buying more and more of that commodity in the current period even if their prices are rising. The consumers demand more due to fear of further rise in prices. For example, during emergencies like war, famines, etc. consumers demand goods even at higher prices due to fear of shortage and general insecurity.
- (iv) **Ignorance:** Consumers may buy more of a commodity at a higher price when they are ignorant of the prevailing prices of the commodity in the market.
- (v) **Fashion Related Goods:** Goods related to fashion do not follow the law of demand and their demand increases even with a rise in their prices. For example, if any particular type of dress is in fashion, then demand for such dress will increase even if its price is rising.
- (vi) **Necessities of Life:** Another exception occurs in the use of such commodities, which become necessities of life due to their constant use. For example, commodities like rice, wheat, salt, medicines, etc. are purchased even if their prices increase.
- (vii) **Change in Weather:** With change in season/ weather, demand for certain commodities also changes, irrespective of any change in their prices. For example, demand for umbrellas increases in rainy season even with an increase in their prices.
- (viii) **Conspicuous Consumption:** This exception to the law of demand is associated with the doctrine propounded by Thorstein Veblen. A few goods like diamonds etc. are purchased by the rich and wealthy sections of the society. The prices of these goods are so high that they are beyond the reach of the common

man. The higher the price of the diamond the higher the prestige value of it. So when price of these goods falls, the consumers think that the prestige value of these goods comes down. So quantity demanded of these goods falls with fall in their price. So the law of demand does not hold good here.

- (ix) **Bandwagon effect:** Bandwagon effect refers to the desire or demand for a good by a person who wants to be in style because possession of a good is in fashion and therefore many others have it. Thus, in a bandwagon effect, the quantity demanded of a good that an individual buy increases in response to the increase in the quantity purchased by other individuals.
- (x) **Snob effect:** Snob effect refers to the desire to possess a unique commodity having a prestige value. The snob effect is described as a situation where the demand for a certain goods by individuals of a higher income level is inversely related to its demand by those of a lower income level. The demand curve will have a positive slope, rather than the typical negatively sloped demand curve of normal goods. This situation is derived by the desire to own unusual, expensive or unique goods. These goods usually have a high economic value, but low practical value. The less of an item available, the higher its snob value. Examples of the snob effect are rare works of art, especially designed sport cars, especially designed clothing made to order, very expensive luxury cars.
- (xi) **Veblen goods:** These are types of luxury goods for which the quantity demanded increases as the price increases, an obvious opposition of the law of demand. Consumers actually prefer more of the goods as its price rises, and the result is an upward sloping demand curve. **(Any four)**

6. (i) (a) Disinvestment refers to the dilution of stake (claims) of the government in the equity of public sector undertaking so as to transfer the ownership rights to private hands.
- (b) • The government can spend the money from the sale of these companies to cover its deficit.
• The sale of the shares of these companies will increase the revenue of the government.
• Public sector suffering from red tape in decision making and do not enjoy sufficient autonomy. Private sector enjoys greater autonomy and therefore take decisions faster. **(Any two)**
- (c) • **Issues of Regulating Monopolies:** The private sector can manipulate their

monopoly and neglect social costs. Privatization of certain state industries such as water and electricity regulators may create only single monopolies.

- **Public Interest:** The profit motive should not be the primary objective for the industry which performs an important public service, e.g., health care, education, and public transport.
 - **Accountability:** The public does not have any control or administration of private companies. Privatization has a bad effect on accountability because Investors retain full authority to do anything. **(Any two)**
- (ii) An entrepreneur is the fourth factor of production. In earlier stages of economic development, it had no separate identity, but it was a part of the enterprise. Later, the entrepreneur emerged as a factor of production that unites the other factors of production in a meaningful manner. According to Prof. BENHAM, "The term entrepreneur means the person or a group of persons controlling the policy of a firm.

The functions of the entrepreneur are:

- (i) **Risk-Bearing:** Risk-bearing function is the most important function of an entrepreneur. There is no other factor of production except the entrepreneur, who bears risk of the business. The risk is caused by uncertainties attached to production, investment and profits. Another big risk is of technological obsolescence and frequent changes in government policies. The entrepreneur has to calculate all these risks, and then plan the organization of various factors of production in different proportions.
- (ii) **Decision making Functions:** Decision making is an important function of an entrepreneur. He has to take several decisions regarding his business. These decisions may be as follows:
- (a) Selection of the commodity to be produced.
 - (b) Selection of design and quality of the product.
 - (c) Selection of the location of the plant.
 - (d) Decision regarding scale of production.
 - (e) Selection of techniques of production to be employed in the business. (i.e., Choice between labour intensive and capital-intensive techniques of production).
- (iii) **Coordination and Supervision:** An entrepreneur not only brings different factors of production together, but also organises them. In this context, he performs the following functions:
- (a) He has to make provision for labour from different places.
 - (b) He has to purchase machines, tools raw materials, etc. to start production.

- (c) He coordinates different factors of production in proper combination, so that cost of production may be reduced to the minimum level.
- (d) He organises the labour. Different workers are given jobs according to their qualification and ability.
- (iv) **Distributive Functions:** The entrepreneur has to decide the reward that each factor of production should get. Entrepreneur must ensure the proper utilisation of resources and effective contribution of these resources in production.
- (v) **Innovative Function:** Innovation is considered as an important function of an entrepreneur. Practical application of an invention is called innovation. The entrepreneur has to choose profitable innovations and apply them to earn more and more profits. A progressive entrepreneur always takes a lead in introducing a new product or new technique of production.
- (Any three)
7. (i) (a) Tax is a compulsory contribution by an individual, household or a firm to the government without receiving anything in return
- (b) • Raising revenues
• Equal distribution of income
• Regulation
• Higher growth. (Any two)
- (c) • **Equity:** Direct taxes are based on the principle of ability to pay (or principle of progression). So the burden of a direct tax is equitably distributed on different people and institutions. They fall more heavily on the rich than on the poor.
- **Certainty:** Direct taxes are certain. The tax-payer knows how much tax is due from him and when and, so, he can adjust his income and expenditure. The government also know fairly well the amount of revenues coming to it in the form of income and expenditure.
- **Elasticity:** Another merit of direct taxes is that they are based on the canon of elasticity. These taxes are elastic in nature as the government revenue can be increased by raising the tax rates in times of crisis. Moreover, the yield from direct taxes goes up automatically with increase in income of the people.
- **Civic Consciousness:** Direct taxes create a spirit of civic responsibility amongst the tax-payers. Since the tax-payers provide the funds from their own pockets to the government they take keen interest in seeing that these funds are properly utilised. This public awareness plays an important role in checking the wastage of public expenditure.
- **Reduction in Inequalities:** As direct taxes are progressive in nature, rich people are subjected to higher rates of taxation, while the poor are exempted from direct taxes. Hence, these taxes help in removing inequalities of income. (Any two)
- (ii) (a) Demand deposits are those which can be withdrawn by the depositor any time by means of cheques. No interest is paid on such deposits rather depositors have to pay something to the bank for services rendered by it. e.g., current account operated by businessmen.
- (b) **Methods adopted by Commercial Banks to mobilise funds from the public:**
- **Fixed Deposit Account:** In such deposits, the deposited amount can be withdrawn only after the period of time agreed upon by the bank and the depositor. The interest rates are higher in case of such deposits.
- **Current Account Deposits:** The depositor can withdraw money from such accounts at any time. Usually, no interest is paid by the bank on such deposits, but the bank charges for the services rendered on maintaining such deposits. In some cases, the bank provides overdraft facility also to the depositor. The deposits are mainly kept by traders and industrialists who are required to make large payments through banks.
- **Savings Account Deposits:** This kind of account is opened by banks with the objective of collecting small savings from the people having small earnings and money deposits in small amounts as they like or have the opportunity. But withdrawals are allowed only once or twice a week. However, the rate of interest is less than that on fixed deposits.
- **Cumulative or Recurring Account:** In case of such deposits an account holder has to deposit certain fixed amount every month for a specified period. The amount accumulated with interest (cumulative deposits) is paid to the depositor after that specified period.
- (c) • In the case of Demand deposits money can be withdrawn by cheques without any restriction on the amount or number of withdrawals made. These are payable on demand while term deposits are not payable, they do not

enjoy cheque facility. Money deposited cannot be withdrawn before the maturity of the period for which the deposit is made.

- Demand deposits are not eligible to receive any interest. Whereas, term deposits are subject to the higher rate of interest.
- Government maintains control of the money under fiat monetary system in case of term deposits. Whereas, in case of demand deposits, no government intervention can be seen. **(Any two)**

8. (i) Money is anything which is generally accepted as a means of exchange, a measure and store of value and which also acts as standard of deferred payments.

Money performs the following functions:

(a) **Standard of Deferred Payment:** Money acts as a standard of deferred payment. It means payment to be made in future can be expressed in terms of money. This function of money has been derived from medium of exchange function of money. In modern economy, many transactions involve the deferred payment. It is possible to accept money as a standard of deferred payment because money has a general acceptability, and it can be expressed in definite and standardized units. For example, A lends ₹ 1,000 to B for a year. He knows well what he will receive after a year. On the other hand, A lends 1 kg rice to B for a year, it is not definite that he will receive back the rice of same quality as he lends out now.

(b) **Transfer of Value:** Money serves as a convenient mode of the transfer of value because of its general acceptability and the merit of liquidity. It helps to transfer the value of goods, services, assets, properties and also the income of the persons from one person to another.

(c) It helps in determining the value of goods and services in the economy. Money is taken as the common denominator while measuring the value of goods and services in the economy.

(ii) (a) A public sector enterprise may be defined as any commercial or industrial undertaking owned and managed by the government with a view to maximise social welfare and uphold the public interest.

(b) Indian Railways, All India Radio, All India Institute of Medical Sciences, Bharat Heavy Electricals Limited (BHEL), Bharat Petroleum Corporation Limited (BPCL), Coal India Limited (CIL), Gas Authority of India Limited (GAIL), Hindustan Petroleum Corporation Limited (HPCL), Indian Oil Corporation Limited (IOCL), National Thermal Power Corporation (NTPC)

(c) There are three different forms of organisation used for the public sector enterprises in India. These are (i) Departmental Undertaking; (ii) Statutory (or Public) Corporation, and (iii) Government Company.

9. (i) (a) Monetary policy refers to policy of the (RBI) government which has a direct impact on the volume and composition of money supply. These policies are implemented by the Central Bank on behalf of the government.

(b) Repo rate is the rate of interest at which the Central Bank gives short-period loan to the commercial banks against security pledged for the loan. When the repo rate increases, borrowing from RBI becomes more expensive. If RBI wants to make it more expensive for the banks to borrow money, it increases the repo rate similarly, if it wants to make it cheaper for banks to borrow money it reduces the repo rate. If the repo rate is increased, banks can't carry out their business at a profit whereas the very opposite happens when the repo rate is cut down. Generally, repo rates are cut down whenever the country needs to progress in banking and economy.

(c) **Credit can be controlled by the following:**

- Bank rate fixation and
- Changing Cash Reserve.

(ii) (a) Supply of a commodity refers to the quantity which a seller is ready to sell at a given price and at a given point of time.

The definition of supply comprises of:

- Willingness to sell at a given price;
- Quantity to be sold by the seller at the given price.

Supply and stock are not synonyms in economics. Stock refers to that quantity of goods which is available with the seller in the market at a particular point of time while supply refers to that quantity which the seller is ready to sell at a particular price and a particular point of time.

(b) The law of supply expresses the relationship between the price of a commodity and its supply. The law of supply states that, other things being constant, the quantity supplied varies directly with the price of the commodity. When price rises, the quantity supplied rises, and when price falls, the quantity supplied also falls.

Assumptions of Law of Supply:

- No change in the state of technology.
- No change in the price of factors of production.
- No change in the number of firms in the market.

- No change in the goals of the firm.
- No change in the seller's expectations regarding future prices.
- No change in the tax and subsidy policy of the commodity.
- No change in the price of other goods.

(Any two)

(c) **Factors affecting supply other than price are as follows:**

- **Change in the cost of production:** There are various production costs involved in the process of production of anything, e.g., wages, rent, price of raw materials etc. When factor price rises it costs more to produce the same quantity. So, increase in costs will affect the supply and the supply curve shift to the left.
- **Change in climate:** The weather e.g., storms, floods is especially important to

the supply of agricultural goods. A bad harvest will mean that the supply curve will shift to the left as less of the goods are supplied.

- **Technical progress:** Due to lack of technology a firm may supply less goods and the curve will shift to the left. Good technology may increase the supply of goods in the market.
- **Tax and subsidies:** If government increases the tax, it is equivalent to an increase in its costs of production. Therefore, this may decrease supply and shift the supply curve to the left.
- **Change in the prices of substitutes:** If the price of substitutes decreases the purchasing tendency of buyers will divert to those commodities and the supply of commodity will decrease.

