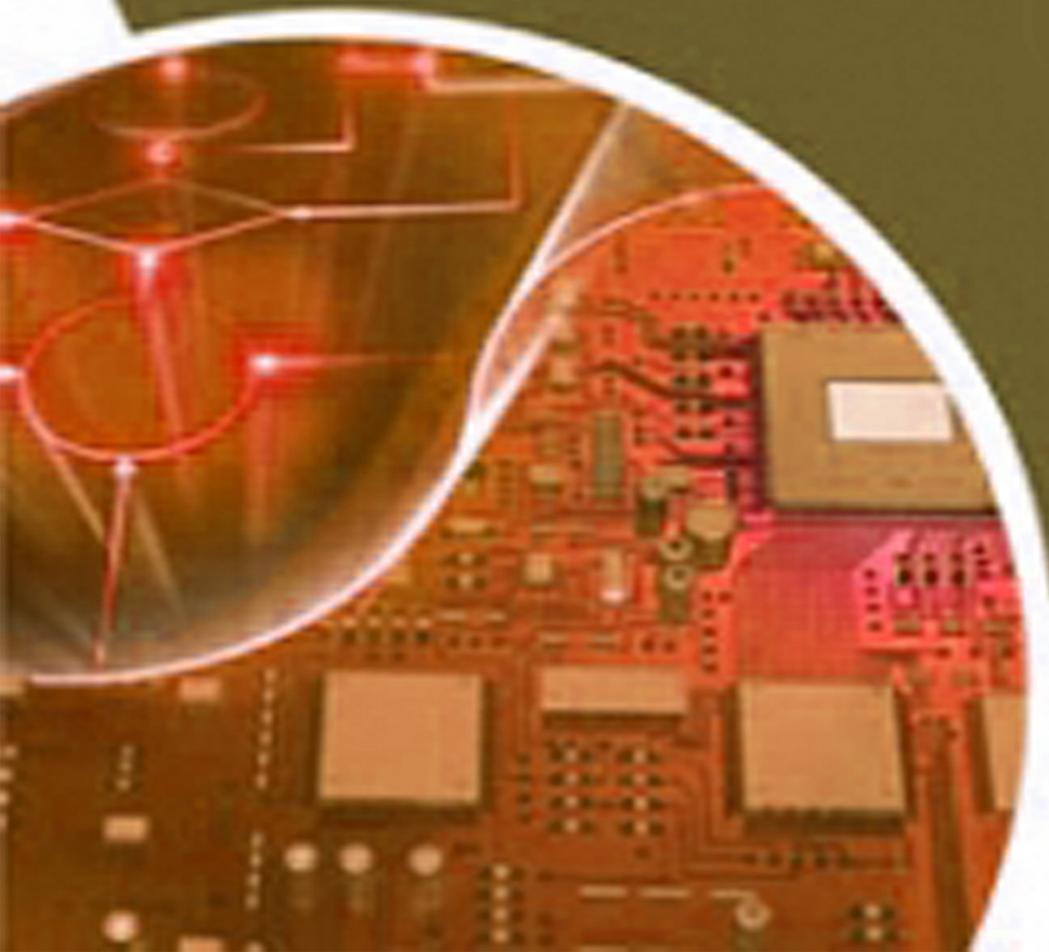


**Class 10th
Economics**

ICSE Question Papers



ICSE Board
Class X Economics
Board Paper – 2014

Time: 2 hrs

Total Marks: 80

General Instructions:

1. *Answers to this paper must be written on the paper provided separately.*
 2. *You will **not** be allowed to write during the first **15** minutes.
This time is to be spent in reading the question paper.*
 3. *The time given at the head of the paper is the time allotted for writing the answers.*
 4. *Attempt **all** questions from **Section A** and **any four** questions from **Section B**.*
 5. *The intended marks of questions or parts of questions are given in brackets [].*
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SECTION A (40 Marks)

*Attempt **all** questions from this section.*

Question 1

State whether the following statements are true or false. Give reasons.

- a) Briefly explain two methods that increase land productivity. [2]
- b) What is meant by price elasticity of demand? [2]
- c) Distinguish between sunk capital and floating capital. [2]
- d) Give two reasons for consumer exploitation in India. [2]
- e) Distinguish between an entrepreneur and an organiser. [2]

Question 2

- a) State two factors affecting the market demand of a commodity. [2]
- b) Mention two factors that determine the supply of labour. [2]
- c) What is meant by demand pull inflation? [2]
- d) Progressive taxation is suitable for the Indian economy. Give reasons to support your answer. [2]
- e) Distinguish between a tax and a fee. [2]

Question 3

- a) Give two reasons for an increase in public expenditure in recent times. [2]
- b) Distinguish between limited legal tender and unlimited legal tender. [2]
- c) Define simple division of labour. [2]
- d) Give the full form of COPRA. How does it benefit consumers? [2]
- e) Discuss any two contingent functions of money. [2]

Question 4

- a) Explain the function of the central bank as a 'Banker' to the government. [2]
- b) Mention any two sources of external debt. [2]
- c) State two differences between tax on income and tax on commodity. [2]
- d) Draw a supply curve. [2]
- e) Briefly explain any one exception to the law of demand. [2]

SECTION II (40 Marks)

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

Question 5

- a) Define land. Explain four characteristics of land as a factor of production. [5]
- b) Define efficiency of labour. Explain four factors that influence the efficiency of labour. [5]

Question 6

- a) Define capital formation. Explain three important stages of capital formation. [5]
- b) Draw a demand curve with the help of a hypothetical individual demand schedule. [5]

Question 7

- a) Define supply. Explain three reasons for the rightward shift of the supply curve. [5]
- b) Define public debt. Explain four types of public debt. [5]

Question 8

- a) Define a commercial bank. How do commercial banks mobilise deposits from the public. [5]
- b) Explain five advantages of division of labour. [5]

Question 9

- a) Define inflation. Explain four causes of inflation. [5]
- b) What is meant by quantitative credit control? [5]

Question 10

- a) Explain five ways in which consumers are exploited in India. [5]
- b) With the help of suitable diagrams explain the following degree of elasticity of supply. [5]

$$E_p = \infty$$

$$E_p > 1$$

ICSE Board
Class X Economics
Board Paper – 2014 Solution

SECTION A

Answer 1

a) Methods to increase land productivity:

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

b) Price elasticity of demand:

Price elasticity of demand measures the responsiveness of quantity demanded for any good due to one percent change in the price of that good.

Percentage method to calculate the price elasticity of demand for good is as follows:

$e_p = \text{Percentage change in the demand for the good} / \text{Percentage change in the price of the good}$

c) Sunk capital and floating capital:

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

d) Two reasons for consumer exploitation in India:

- i. Consumers buy a wide range of goods without making adequate initiative to know consumer rights.
- ii. Due to illiteracy, consumers may not challenge the quality and quantity of goods supplied by the seller, even the goods and services provided by them are not satisfactory.

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

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

Answer 2

- a) Two factors affecting the market demand of a commodity:
- i. Pattern of income distribution: If the income distribution moves in favour of the poor people, the demand for commodities would increase among those people. On the other hand, if most of the national income is concentrated with rich people, the demand for luxury goods would increase among those people. So, the pattern of income distribution affects the market demand of a commodity.
 - ii. Climatic condition: During the winter season, the demand for woollen clothes increases. During the summer season, the demand for cotton clothes increases. Hence, the climatic condition affects the market demand of a commodity.
- b) Factors determining the supply of labour:
- i. Population: The most important factor affecting the supply of labour in a country is its population. A larger population with necessary skills to perform physical or mental work will increase supply of labour to the market.
 - ii. Age structure: The total population of an economy is not considered supply of labour. Supply of labour depends on the age structure of the population. Legally, age is determined to work and not work. Child labour is prohibited by law. Salaried people have to retire after attaining a certain age. Hence, only a certain age group of people is considered supply of people.
- c) Demand pull inflation means an inflation generated by the pressure of excess demand in the economy. If there is an excess of aggregate demand over aggregate supply, the general price level will tend to increase, which leads to inflation in the economy.
- d) A tax is said to be progressive when the rate of tax increases with the increase in tax payer's income. Under this system, the tax liability increases not only in absolute terms but the proportion of income tax also increases. Rich people pay higher average income tax than the poor people. Hence, it reduces the income inequalities among the rich and poor groups of people.
- e) Differences between tax and fee:
- i. A fee is imposed for a specific reason. For instance, the school management imposes a fee for school admission of a student. Tax has no specific reason. Sales tax is imposed on a commodity without stating any special benefit on purchase of a commodity.
 - ii. A fee is not a compulsory payment towards the Government. There will not be any legal punishment against the non-payment of a fee. For example, if the admission fee is not paid, then the student will not be admitted into school. Tax is a compulsory payment made by people to the Government.

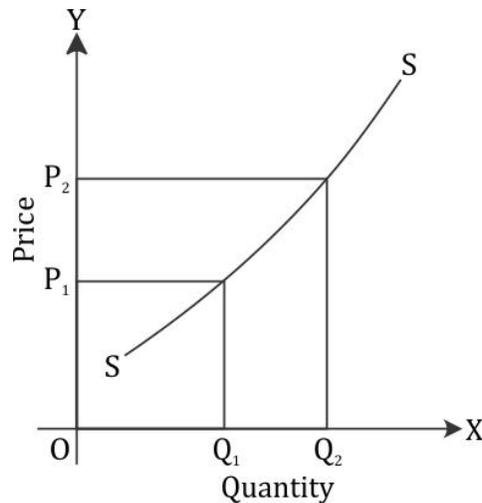
Answer 3

- a) Two reasons for an increase in public expenditure in modern days:
 - i. Public expenditure tends to increase with the expansion of administrative machinery, maximising social and economic welfare, providing salary and other benefits such as old-age pension, sickness benefits, accident benefits, free education to industrial workers etc.
 - ii. Public expenditure tends to increase with the huge interest payments on market borrowings.
- b) Limited legal tender and unlimited legal tender:
 - i. The rupee notes of higher denominations are considered unlimited legal tender because they can be used for settling claims relating to high-value transactions. For example, 100/500/1000 rupee notes.
 - ii. Coins of smaller denominations are considered limited tender because they are acceptable only for meeting financial transactions of lower value. For example, 1/2/5 rupee coins for satisfying the smaller requirement.
- c) Labour specialising in the production of a particular good or service is called simple division of labour. Division of labour increases the efficiency of labour in productivity.
- d) COPRA - Consumer Protection Act, 1986. Consumer grievances and complaints against traders are checked at three levels. They are National Consumer Commission at the national level, State Consumer Commission at the state level and District Forum at the district level. They provide relief and compensation to affected consumers. Currently, there are more than 500 district courts functioning in the three-tier system of India.
- e) Two contingent functions of money:
 - i. Assisting production decisions: The main objective of any producer is to maximise their profit. So, producers have to decide the amount of factors of production to be used in production. They have to make factor payments to those factors of production in terms of money. Thus, the money-prices of those factors help the producer to take necessary decisions.
 - ii. Assisting consumption decisions: The main objective of any consumer is to satisfy their wants through the consumption of goods. However, the consumption of the consumer depends on the income level and money-prices of the commodities in the market. Thus, the income of the consumer and money-prices of the commodities influence the consumption decision of individuals.

Answer 4

- a) The central bank acts as a 'Banker' to the Government and it performs the following functions:
- It receives deposits from the Government and collects cheques and drafts deposited in the government account.
 - It makes purchases and sales of government securities.
 - It provides cash to the Government as required for payment of salaries and wages to their staff and other disbursements.
 - It makes payments on behalf of the Government.
- b) International Monetary Fund and World Bank are the two sources of external debt.
- c) Differences between tax on income and tax on commodity:
- A tax on income is paid directly to the Government by the person to whom it is imposed. Hence, the tax on income is known as direct tax. It cannot be shifted on to any other person. According to the ability of the taxpayers, these taxes are levied.
 - A tax on commodity is paid to the Government by one person, but the tax burden is borne by another person. Hence, the tax on commodity is known as indirect tax. It can be shifted on to the other person. Ability of the taxpayers is assessed indirectly in this taxation.

d) Supply curve



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

Answer 5

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

Four characteristics of land:

- i. Land is limited in supply: Supply of land is fixed as it is given by nature.
 - ii. Gifts of nature: Land is a gift of nature which does not have any cost of production. Land is readily available for any use. However, other agents of production are available at a cost.
 - iii. Primary factor of production: Land is a basic factor of production because it cannot produce anything by itself.
 - iv. Land has alternative uses: Land can be used for alternative uses such as cultivation, dairy or poultry-farming, rearing of livestock, building of houses, play ground etc.
- b) Efficiency of labour means the productive capacity of a worker. It indicates the ability of the worker to do more work or better work during a given period of time.

Factors influencing the efficiency of labour:

- i. Ability and willingness of the workers to work and to learn skills depend on the health of a worker and therefore on the wage rate and the standard of living. The improvement in standard of living leads to an improvement in health through better nourishment. It also depends on the average age of any labour.
- ii. Literacy is perhaps the first priority to improve the efficiency of labour. Adequate provisions for imparting training to the workers will improve the efficiency of labour.
- iii. Climatic differences affect the efficiency of labour in production. The hot and humid climate of most of the states of India is a factor which deprives the people to work hard and the ability to display high efficiency.
- iv. A healthy and conducive work environment increases the level of efficiency. The facilities available in the work place determine the labour efficiency to a great extent.

Answer 6

a) Capital formation:

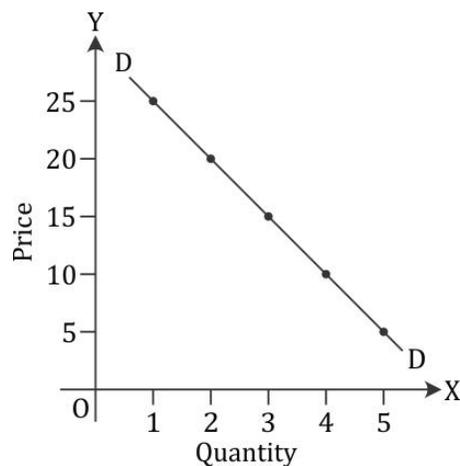
Capital formation means the creation of capital. A change in the stock of any capital during a particular period of time is called capital formation.

Three important stages of capital formation:

- i. **Creation of saving:** Savings are transformed into capital. If an individual does not save money, then there cannot be any capital formation, even other conditions are favourable for capital formation.
- ii. **Mobilisation of savings:** Although with a high level of income, if a person holds savings in the form of cash instead of depositing in the bank, then the savings cannot be mobilised for investment. Hence, the savings must be mobilised from the savers. These functions are performed by financial and other institutions as well as the capital markets.
- iii. **Investment mobilised savings:** The mobilised savings must be actually used by producers for investment. Money kept by the people in the banks must be lent out by the banks to producers for business investment such as purchase of machinery, raw materials etc.

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

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



Answer 7

a) Supply:

The supply of a commodity is defined as the quantity of the commodity which the producers desire to sell to consumers. Thus, the supply is a desired flow. It indicates how much firms are willing to sell per period of time and not how much they actually sell.

Three reasons for the rightward shift of the supply curve:

- i. Price of the product: When there is an increase in the price of the product and if it is more than the marginal cost of production, it enables the firm to earn excess profit by selling at a higher price. So, there is an increase in the supply of product which causes a rightward shift of the supply curve.
- ii. Technological condition: Technological progress creates positive approach in the supply of a particular product. It decreases the cost per unit and increases the productivity of given factor inputs of production. This leads to making the production of a particular good more profitable. So, there is an increase in the supply of product which causes a rightward shift of the supply curve.
- iii. Law of diminishing marginal utility: According to this law, as more units of the variable factor are employed, the addition made to total production falls, i.e. the cost of production increases. Thus, more quantity is supplied only at a higher price in order to cover the rise in cost of production.

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

Four types of public debt:

i. Internal and external debt:

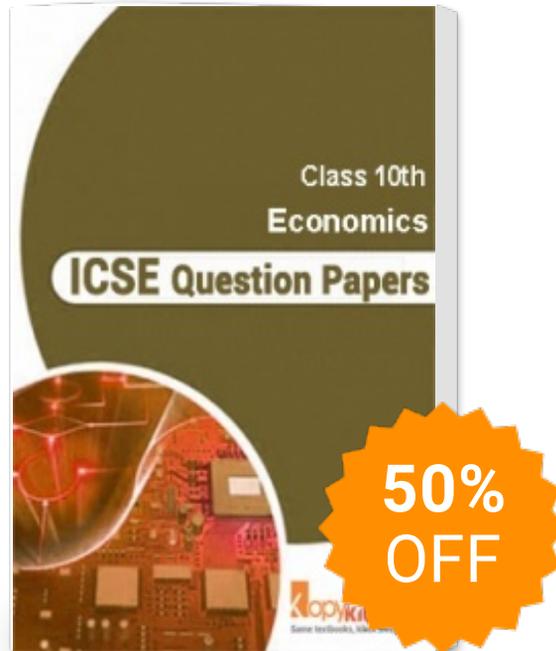
Internal debt means government borrowings within the country. Individuals, banks, business firms and others are the various internal sources from which the Government borrows. The various instruments of internal debt include market loans, bonds, treasury bills, ways and means advances etc. Over the years,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

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

ii. Productive and unproductive debt:

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

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