

SAMPLE QUESTION PAPER - 4

Economics (030)

Class XII (2024-25)

Time Allowed: 3 hours

Maximum Marks: 80

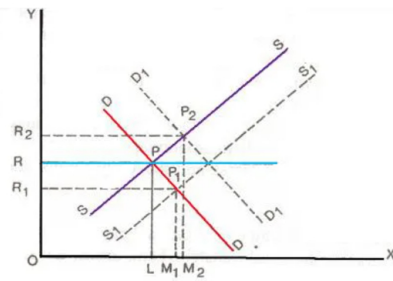
General Instructions:

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

SECTION A – MACRO ECONOMICS

1. **Statement I:** Since the official reserve transactions are made to bridge the gap in the BoP, they are seen as the accommodating transactions in the BoP. [1]
Statement II: Official reserve transactions are more relevant under a regime of fixed exchange rates than when exchange rates are floating.
a) Statement II is true and statement I is false. b) Both the statements are false.
c) Both the statements are true. d) Statement I is true and statement II is false.
2. If the total deposits created by commercial banks is ₹ 10,000 crores and legal reserve requirements is 40%, then amount of initial deposits will be _____. [1]
a) ₹ 4,000 crores b) ₹ 3,000 crores
c) ₹ 2,000 crores d) ₹ 14,000 crores
3. Decrease in Cash Reserve Ratio will lead to _____. [1]
a) no change in aggregate demand b) rise in aggregate demand

- c) fall in general price level d) fall in aggregate demand
4. Before the Bretton Woods standard system, exchange rates were pegged against _____ [1]
- a) Either gold and silver b) any precious metal
c) gold d) silver
5. If $MPC > MPS$, value of multiplier will be: [1]
- a) $k > 8$ b) $k > 5$
c) $k > 1$ d) $k > 2$
6. A situation when $AS = AD$ along with fuller utilisation of resources in the economy is called: [1]
- a) equilibrium without excess capacity b) underemployment equilibrium
c) deflationary gap d) inflationary gap
7. According to the theory of Keynesian Economics, the value of Average Propensity to Consume can never be _____. [1]
- a) unity (1) b) Less than one
c) More than one d) zero
8. Which of the following is not an example of flow variable? [1]
- a) Number of births during a year b) National wealth
c) Wheat produced during a year d) National Income
9. The monetary policy generally targets to ensure _____. [1]
- a) price stability in the economy b) stable foreign relation
c) greater tax collections for the government d) employment generation in the country
10. The demand for foreign exchange and the exchange rate has [1]



- a) Inverse relationship b) Indirect relationship
 c) Direct relationship d) Exponential relationship

11. Calculate Subsidies: [3]

Particulars	₹ in crores
(i) GDP at FC	55,000
(ii) Indirect Taxes	4,400
(iii) Net Factor Income from abroad	700
(iv) NNP at MP	55,500
(v) Depreciation	2,500

12. What is Balance of Payments? What does it comprise? [3]

OR

When foreign exchange rate in a country is on the rise, what impact is it likely to have on imports and how?

13. Explain, how the Reverse Repo Rate helps in correcting Excess Demand in an economy? [4]

14. In an economy the consumption function is $C = 500 + 0.75Y$, where C is consumption expenditure and Y is income. Calculate the equilibrium level of income. Calculate the equilibrium level of income and consumption expenditure when investment expenditure is ₹5,000. [4]

OR

Calculate investment expenditure from the following data about an economy which is in equilibrium.

National Income = Rs 1,000

Marginal Propensity to Save = 0.25

Autonomous consumption expenditure = Rs 200

15. Explain how does following helps to control the credit creation. [4]
- Open market operation
 - Margin requirement of loans.

16. Answer the following questions: [6]

- (i) i. How will you treat the following while estimating national income ? Give reason : [3]
- Services rendered by the housewives
 - Money received by an individual resident from his son working abroad
 - Salaries to foreign technical specialist
 - Vegetables grown in your kitchen garden
- ii. Calculate Gross National Product at market price and Net National Disposable Income from the following data. [3]

Particulars	(Rs. in Crore)
Net current transfers to abroad	(-)5
Profits	70
Consumption of fixed capital	30
Rent	40
Indirect tax	20
Indirect tax	100
Royalty	10
Compensation of employees	600
Subsidy	5
Net factor income from abroad	(-)25

(ii) OR

- i. Calculate **Gross Value Added at Factor Cost** from the following data: [3]

		(₹ in lakhs)
(i)	Sales tax	20
(ii)	Sales	400
(iii)	Purchase of raw material	250
(iv)	Excise duty	30

21. Farmers cannot retain the product for a long time they have to sell it immediately. [1]
Which defect of agriculture is shown in this system?



- a) Lack of information b) Distress sale
c) Unregulated market d) False weight
22. **Assertion (A):** In order to manage the crisis, India approached IMF and World Bank which granted \$7 Billion as a loan. [1]
Reason (R): Foreign exchange reserves declined to its lowest level with a reluctance from other countries to lend to India.
- 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.
23. Just as a country can turn physical resources like land into physical capital like factories, similarly, it can also turn human resources like students into _____ like engineers and doctors. [1]
- a) Human Capital b) Economic development
c) Human Capital Formation d) Economic Growth
24. China has the _____ largest GDP. [1]
- a) third b) second
c) fourth d) first
25. In Delhi, the use of _____ as fuel in public transport system has significantly lowered air pollution. [1]
- a) LPG b) CNG

c) petrol

d) Diesel

26. **Statement I:** During the colonial period, The agricultural sector accounted for the largest share of workforce, which usually remained at a high of 70-75 per cent while the manufacturing and the services sectors accounted for only 10 and 15-20 per cent respectively. [1]

Statement II: Parts of the then Madras Presidency (comprising areas of the present-day states of Tamil Nadu, Andhra Pradesh, Kerala and Karnataka), Bombay and Bengal witnessed a decline in the dependence of the workforce on the agricultural sector with a commensurate increase in the manufacturing and the services sectors.

a) Statement II is true, but statement I is false.

b) Statement I is true, but statement II is false.

c) Both the statements are false.

d) Both the statements are true.

27. Select the correct combination between the following columns. [1]

Column A	Column B
(a) Socialism	(i) Coexistence of both public and public sector
(b) Capitalism	(ii) Produced goods are distributed on the basis of purchasing power of the people.
(c) Mixed economic system	(iii) What, how and for whom to produce
(d) Central problems of an economic system	(iv) Produced goods are distributed on the basis of need and not affordability.

a) (a) - (ii), (b) - (iv), (c) - (i), (d) - (iii) b) (a) - (iv), (b) - (i), (c) - (ii), (d) - (iii)

c) (a) - (iv), (b) - (ii), (c) - (i), (d) - (iii) d) (a) - (i), (b) - (iv), (c) - (ii), (d) - (iii)

28. Explain the concepts of the greenhouse effect and greenhouse gases. [3]

OR

Recently Indians have drifted away from the traditional knowledge and practices and caused large scale damage to environment. Explain how, adopting the traditional practices can be helpful in achieving the objective of sustainable development.

29. Why is it not easy to maintain an employment growth rate of 2% for a country like India? [3]
30. Why was public sector given a leading role in industrial development during the planning period? [4]
31. **As a form of economic activity, outsourcing has intensified in recent times. Most MNCs, and even small companies, are outsourcing their services to India.** Defend or refute the above statement. [4]

OR

Explain negative impacts of liberalisation and globalisation on business and industry in India.

32. Trace the relationship between human capital and economic growth. [4]
33. **Answer the following questions:** [6]
- (i) i. Discuss the importance of credit in rural development. [3]
- ii. The Government of India has taken various measures to align the agricultural marketing system with the growing production activities in the rural areas. [3]
- Do you agree with the given statement? Give any two valid reasons in support of your answer.
- (ii) **OR**
- i. Explain the need for rural development. [3]
- ii. Explain different sources of credit in rural areas. [3]
34. **Read the following text carefully and answer the questions given below:** [6]

Pakistan Faces a Long Road to Sustainable Growth

At the turn of the century, Pakistan had the highest GDP per capita when compared with India, Bangladesh, and Vietnam. Twenty years later, it is at the bottom of the group. Political upheaval, a violent insurgency fed by the war in Afghanistan, and the inability of successive governments to carry out reforms are to blame for this decline. Today, a polarized political environment and elite intrigue among civilian, judicial, and military institutions have made sustainable economic growth and

reforms that much more unlikely. The COVID-19 pandemic has further sharpened the challenge.

Inflation is still the biggest issue facing the government today. Headline inflation climbed to 9 percent in September 2020 and double-digit food inflation continues to erode citizens' purchasing power. This has worsened the situation for millions of households who have seen a decline in their purchasing power since 2016, according to data from the Pakistan Bureau of Statistics. In its most recent monetary policy statement, the State Bank of Pakistan raised its concerns as well, warning that while "core inflation has been relatively stable," food inflation remains a risk, "especially in the wake of recent flood-related damages and potential locust attacks." With households spending a larger share of their incomes on food—an emerging wheat crisis is compounding problems—consumption spending on other items will remain subdued, leading to a lack of economic growth in a country where consumer spending drives more than 80 percent of the economy. At the same time, a weak economic recovery around the world, particularly in the European Union and the United States, will subdue demand for Pakistan's exports. After declining by 20 percent on a year-on-year basis in August, exports grew by 6 percent in September. The outlook, however, remains bleak due to a weak global economic recovery. The issue has been further exacerbated by chronic structural inefficiencies — exporters who received additional orders in recent weeks are facing gas and cotton shortages. This means export growth is unlikely to drive a significant uptick in economic activity and employment. As a result, the structural issue with Pakistan's economy, i.e., its inability to earn sufficient foreign income to pay for its import and debt servicing needs, remains its Achilles' heel.

Questions:

- i. Discuss the underlying problem with Pakistan's sustainable growth?
- ii. Anticipate the outcome of Pakistan's foreign income vis-à-vis its export growth.

Solution
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SECTION A – MACRO ECONOMICS

1.
(c) Both the statements are true.
Explanation:
Both the statements are true.
2. (a) ₹ 4,000 crores
Explanation:
₹ 4,000 crores
3.
(b) rise in aggregate demand
Explanation:
rise in aggregate demand
4.
(c) gold
Explanation:
Before the Bretton Woods standard, gold standard was followed. Under that system of exchange, rates were fixed or tied against US Dollar.
5.
(d) $k > 2$
Explanation:
 $k > 2$
6. (a) equilibrium without excess capacity
Explanation:
When $AD = AS$, all the producers wish to produce during the year is exactly equal to what the buyers wish to spend on the purchase of goods and services during the year, so, there is no excess capacity.
7.
(d) zero
Explanation:
APC can never be zero.
8.
(b) National wealth
Explanation:
National wealth

9. (a) price stability in the economy

Explanation:

price stability in the economy

10. (a) Inverse relationship

Explanation:

More foreign currency is earned when exchange rate is lower and less foreign currency is earned when foreign exchange rate high.

11. $GDP_{FC} = NNP_{MP} + 2,500 - 700 - (4,400 - \text{Subsidies})$

$$55,000 = 55,500 + 2,500 - 700 - 4,400 + \text{Subsidies}$$

$$\text{Subsidies} = 55,000 - 52,900$$

$$\text{Subsidies} = 2,100 \text{ crores}$$

12. Balance of payments refers to systematic records of all economic transactions between the residence of a country and the residence of foreign countries during a given period of time, particularly one year.

Balance of payments broadly comprises the following:

i. **Current Account-** Current Account is that account which records imports and exports of goods and services and unilateral transfer.

ii. **Capital Account-** Capital Account is that account that records all such transactions between residents of a country and rest of the world which results in a change in the asset or liability status of the residents of a country and government. For example
Borrowing

OR

1. The demand for foreign currency increase with the rise in foreign exchange rate. Such a rise in the foreign exchange rate implies depreciation in domestic currency.

2. This leads to encouragement in exports from a country and discourages imports from the rest of the world as the residents of the country have to pay more to buy foreign goods.

13. Reverse Repo rate is the rate of interest at which commercial banks can park their excess reserve or surplus funds with the central bank, for a relatively shorter period of time. To deal with the situation of excess demand this rate may be increased by the central bank. It may encourage the commercial bank to park their surplus funds with Central Bank. As a result, the availability of creating credit with the commercial bank will be reduced and the money supply tends to reduce so it will reduce the availability of money from the economy. Consequently, consumption expenditure and investment expenditure may get reduced, implying a reduction in Aggregate Demand.

14. (i) Equilibrium level of national income (Y)

$$\text{At equilibrium, } Y = C + I$$

$$[Ad = AS = Y \text{ and } AD = C + I]$$

$$\text{Or, } Y = 500 + 0.75Y + 5,000 [C = 500 + 0.75Y]$$

$$0.25y = 5,500$$

$$Y = ₹22,000$$

(ii) Consumption expenditure at equilibrium level of national income. Putting value of National Income of 22,000 in consumption function,

$$\text{we get; } C = 500 + 0.75 \times 22,000$$

$$C = ₹17,000$$

Equilibrium level of income = ₹22,000;

Consumption expenditure at equilibrium level of income = ₹17,000.

OR

Calculation of Investment Expenditure :

1. Marginal Propensity to Save (MPS) = 0.25,

2. Autonomous Consumption (\bar{C}) = Rs 200

3. National Income (Y) = Rs 1,000

Calculation of Marginal Propensity to Consume:

$$(\text{MPC or } b) = 1 - \text{MPS} = 1 - 0.25 = 0.75$$

We know.

$$Y = C + I \text{ or } = \bar{C} + bY + I \dots (i)$$

$$\therefore C = \bar{C} + bY$$

On substituting the given variables in equation (i), we get

$$1,000 = 200 + 0.75 \times 1,000 + I$$

$$1000 + 200 + 750 + I$$

$$1000 + 950 + I$$

$$\Rightarrow I = 1000 - 950 = 50,$$

\therefore **Investment = Rs 50**

15. **Open market operations:** Open market operations refers to buying and selling of government securities by the central bank from/to the public and commercial banks. RBI is authorised to sell or purchase treasury bills and government securities.

Sale of securities by central bank reduces the reserves of the commercial bank. It adversely affects the bank's ability to create credit and therefore decreases the money supply in the economy.

Purchase of securities by central bank increases the reserves and raises the bank's ability to give credit.

Margin Requirements : Margin is the difference between the amount of loan and market value of the security offered by the borrower against the loan. If the margin fixed by central bank is 30%, then the commercial banks are allowed to give loan upto 70% of the

value of securities. By changing the margin requirements the Central bank can alter the amount of loans made against securities by the bank.

16. Answer the following questions:

(i) i. (a) Not included : Deficit to estimate value.

(b) Not included : Transfer payments.

(c) Included : Factor income.

(d) Not included : Difficult to calculate value.

ii. $NNP_{FC} = \text{Compensation of employees} + \text{Operating surplus (Rent + Royalty + Interest Profit)} + \text{Mixed income} + \text{Net factor income from abroad}$

$$= 600 + (40 + 10 + 100 + 70) + 0 + (-)25$$

$$= \text{Rs.}795 \text{ crore}$$

$$GNP_{MP} = NNP_{FC} + \text{Depreciation} + \text{NIT}$$

$$= 795 + 30 + (20 - 5)$$

$$= \text{Rs.} 840 \text{ crore}$$

Net National Disposable Income:

$$= GNP_{MP} - \text{Consumption of fixed capital} - \text{Net current transfer to abroad}$$

$$= 840 - 30 - (-5)$$

$$= \text{Rs.}815 \text{ crore}$$

(ii) OR

i. As per value added method,

Gross value Added at market price = Value of Output - intermediate consumption

Gross Value Added at Factor Cost

= Sales + Change in stocks - Purchase of raw material - Import of raw material -

Sales tax - Excise duty

$$= 400 + (-) 40 - 250 - 12 - 20 - 30$$

$$= 400 - 352$$

$$= ₹ 48 \text{ lakhs}$$

$$\text{ii. GDP Deflator (2014 - 15)} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

$$= \frac{6.5}{6.5} \times 100$$

$$= 100$$

$$\text{GDP Deflator (2016 - 17)} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

$$= \frac{9}{7.2} \times 100$$

$$= 125$$

Analysis:

In 2016 - 17, GDP deflator of 125 shows that prices have increased 25% as compared

to the base year (2014 - 15)

It is a warning for the economy to take necessary steps to control inflation.

17. Answer the following questions:

(i) i. **Economic stability:** Free play of market forces are bound to generate trade cycles, also called business cycles. Please refer to the phases of recession, depression, recovery and boom in the economy. A government budget is used to prevent business fluctuations of inflation or deflation to achieve the objective of economic stability. The government aims to control the different phases of business fluctuations through its budgetary policy. Policies of the surplus budget during inflation and deficit budget during deflation helps to maintain the stability of prices in the economy.

ii. **Re-distribution of income:** Reducing inequality is a major objective of government's budget especially in developing country like India, where inequality of income and wealth is very high. The government uses its financial tools of taxation and subsidies to enhance equal distribution of income and wealth. In order to ensure equity of income, the progressive tax structure is followed in India, which imposes a higher burden of taxes on higher income group and a lesser burden on lower income group. Also, those who earn below a substantial limit are exempted from payment of taxes. The additional income generated from the higher income group is re-distributed by the government in the form of subsidies to the poor sections of the society, to ensure the objective of welfare. LPG subsidy is a good example of such redistribution of income.

(ii) Revenue receipts refer to the government receipts which do not create a liability for the government and as well do not lead to a reduction in assets of the government.

The following are the characteristics of revenue receipts:

- i. Revenue receipts are of recurring nature.
- ii. The purpose of revenue receipts is to meet the regular expenses of the government.
- iii. Revenue receipts include tax receipts and non-tax receipts.

Following are the examples of revenue receipts:

- a. Income tax
- b. Sales tax
- c. Fees and fines
- d. Interest and dividend

SECTION B – INDIAN ECONOMIC DEVELOPMENT

18.

(d) Frictional unemployment

Explanation:

Frictional unemployment is when workers leave their jobs to find better ones. It's usually a voluntary exit but can also result from a layoff or termination with cause. Friction is the time, effort, and expense it takes the worker to find a new job.

19. (a) Mixed

Explanation:

After repeated attempts at economic restructuring, Pakistan is currently operating in a mixed economy where stateowned enterprises account for the bulk of gross domestic product (GDP). The country has tried many economic structure during its existence.

20.

(b) Industrial Policy Resolution, 1956

Explanation:

Industrial Policy Resolution, 1956

21.

(b) Distress sale

Explanation:

Most of the Indian farmers are very poor and thus have no capacity to wait for a better price of his produce in the absence of proper credit facilities. Farmers often have to go for even distress sale of their output to the village moneylenders-cum-traders at a very poor price.

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

Explanation:

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

23. (a) Human Capital

Explanation:

Human Capital

24.

(b) second

Explanation:

China is the second largest economy in the world with a GDP of about 11.22 trillion dollars.

25.

(b) CNG

Explanation:

CNG never produce smoke. CNG is Eco friendly.

26.

(d) Both the statements are true.

Explanation:

Both the statements are true.

27.

(c) (a) - (iv), (b) - (ii), (c) - (i), (d) - (iii)

Explanation:

(a) - (iv), (b) - (ii), (c) - (i), (d) - (iii)

28. The accumulation of certain gases like carbon dioxide, nitrogen oxide, and methane in the atmosphere has increased its average temperature over years. Such gases trap the heat waves of the Sun thereby causing the melting of polar ice caps in the Arctic and Antarctic regions. The melting of polar ice has increased the water level in oceans and seas causing frequent floods and droughts across the world. Agriculture is the most affected sector by this global climatic change. This increase in the average temperature of the atmosphere is known as the 'greenhouse' effect and the gases causing it are called the 'greenhouse gases'. Consequently, ecological balance is impaired, inflicting greater incidence of natural calamities.

OR

Recently Indians have drifted away from the traditional knowledge and practices and caused large scale damage to environment. The given statement is quite appropriate.

- India is very much privileged to have about 15,000 species of plants which have medicinal properties. The traditional health care systems such as Ayurveda, Unani, Tibetan etc. are very useful for treating chronic health problems.
- Traditional cosmetic products are herbal in composition. These products are not only environment-friendly but also are free-from side effects. They do not involve large-scale industrial and chemical processing.

29. The rate of investment and choice of technology determine the growth rate of employment in an economy. The emphasis on growth of the economy through modernisation of production techniques has resulted in jobless growth in India. A jobless recovery or jobless growth is an economic phenomenon in which an economy experiences growth while maintaining or decreasing its level of employment. We can see that the modern techniques employed in production use capital intensive method of production, which is cost effective and gives more output by employing less labour. Since labour intensive techniques of production are replaced by capital intensive methods, therefore, it has been difficult to maintain an employment growth rate of 2% for our country.

30. At the time of independence, Indian economic conditions were very poor and weak. There was neither much private capital nor did India have international investment credibility so as to attract foreign investment. Moreover, Indian planners did not want to be dependent

on foreign capital for economic development. In such a situation, it was only logical that the public sector should take the initiative.

During the planning period, the public sector was given a leading role in industrial development because of the following reasons:

- i. **Lack of Capital with the Private Entrepreneurs:** At the time of Independence, the requirement of capital for diversified industrial growth far exceeded its availability with private entrepreneurs. Accordingly, it became essential for the state to foster industrial growth through public sector undertakings.
- ii. **Lack of Incentive among the Private Entrepreneurs:** The Indian market was comparatively small which discouraged Indian industrialists to invest in major projects (even though they had sufficient capital to invest). Thus, the government promoted the industrial sector.
- iii. **Socialistic Pattern of Society:** Indian planners wanted to develop the Indian economy on a socialist base, so they focused on government-funded major projects.
- iv. **Social welfare:** In India, there were certain projects in which the profit margin was negligible. Thus, the private sector was not interested in such projects, and it was only the public sector which could bring the balanced regional growth with the establishment of government units in the backward areas. This move could increase the employment and income of the people.

31. As a form of economic activity, outsourcing has intensified in recent times. Most MNCs, and even small companies, are outsourcing their services to India.

The given statement is correct.

In recent times, outsourcing has intensified because of the growth of fast modes of communication, particularly the growth of Information Technology (IT). Today, voice-based business processes (popularly known as BPO or call centres), record keeping, accountancy, banking services, music recording, film editing or even teaching are being outsourced by companies in developed countries to India where they can be availed at a cheaper cost with reasonable skill and accuracy. Thus, low wage rates and availability of skilled manpower in India made it a destination for global outsourcing after 1991.

OR

Following are the negative impacts of liberalisation and globalization on business and industry in India:

- i. **Urban concentration of growth process-** LPG policies have resulted in the concentration of the growth process in urban areas. All MNCs are focusing only on urban areas, where they find conducive infrastructural facilities. This has further widened the rural-urban gulf.

- ii. **Change in Industrial Structure-** Industrial structure of the country has changed in favour of products and services demanded by rich sections of the society.
 - iii. **Closure of Small Units-** Hundreds and thousands of tiny and small scale units throughout the country have been forced to close down in face of the growing competition from the MNCs.
 - iv. **The loss to Domestic Industry-** Faced with the strong winds of international competition, the domestic industry has lost its feet.
 - v. **Increasing Competition-** As a result of changes in the rules of industrial licensing and entry of foreign firms, competition for Indian firms has increased especially in service industries like telecommunications, airlines, banking, insurance, etc.
 - vi. **The destabilisation of Protected Environment-** Indian markets are getting destabilised as Indian companies are facing challenges from the massive entry of MNC's. Even some of the companies finding difficulty in survival. Indian companies are facing takeover threat and subordinate position in joint ventures.
32. Human capital is directly related to economic growth. The relationship can be measured by how much is invested into people's educations. For example, many governments offer higher education to people at no cost. These governments realize that the knowledge people gain through education helps develop an economy and leads to economic growth. Workers with more education tend to have higher earnings, which then increases economic growth through additional spending.
- A company can help increase human capital and increase economic growth as well. For example, consider a computer programmer working at a technology company; she receives on-site training, attends in-house seminars and the company pays for part of her tuition for higher education. If she decides to stay at the firm, she may develop new ideas and new products for the company.
33. Answer the following questions:
- (i) i. The only factor which can ensure higher productivity in agriculture in rural economy is Capital. It can grow only if it has an adequate flow of finance. Provision of rural credit enables a farmer to buy fertilisers, improved seeds of organic pesticides and equipment. All these inputs help him to increase his agricultural productivity and income. Credit is the lifeline of farming activity. Because:
 - i. Most farming families in India are small and marginal holders, producing just enough for subsistence. They seldom generate surplus for further investment.
 - ii. Gestation period between sowing and harvesting is quite long. This necessitates borrowing for the purchase of inputs.
 So, the importance of credit in rural development can be perceived as a means to break the vicious circle of low capital, low productivity and low savings of the rural

poor.

ii. Yes. The Government of India has taken various measures to align the agricultural marketing system such as:

- For the welfare of farmers as well as consumers, various market regulations were initiated to create orderly and transparent marketing conditions.
- The government took measures to enhance infrastructural amenities such as roads, railways, warehouses, cold storage facilities, and processing units to meet the growing demand.

(ii) OR

i. More than two-thirds of India's population depends on agriculture and about 60% of India's population lives in rural areas. The development of all aspects within rural communities is vital for the effective development of the country. Hence, India's economic development requires speedy rural development. The following points highlight the need for rural development:

- Increase in Productivity-** Rural development is needed to provide rural people with various means that will help them increase productivity. This will make agriculture a profitable venture. There can be no development without rural development.
 - Employment-** Rural development is needed to create employment opportunities particularly in rural areas. This will be possible by promoting non-farm activities.
 - Better Living-** Rural development is needed to improve the standard of living of rural people by providing better access to healthcare, education and sanitation.
- ii. NABARD is an apex institution entrusted with all matters concerning policy, planning and operations in the field of rural credit and related economic activities. It does not lend to general public directly but serves as a funding agency for the institutions providing credit in rural areas. Those who lend to public directly can be categorised into:
- Institutional Sources of Credit:** Institutional credit institutions include Cooperative Credit Societies, Regional Rural Banks, Land Development Banks and Commercial Banks. Together they constituted only 7% of credit needs of the farmers in 1950-51 but by 1981 their share increased to 63% and at present it is 74%.
 - Non Institutional Sources of Credit:** Landlords, village traders and moneylenders are major non institutional sources of credit. At the time of independence their share in total credit was 93% but it has declined sharply over years. But since these credits are not backed by written records, we can't be sure of the available statistics.

34. i. Scholars opine that political instability, over-dependence on remittances, and foreign aid along with the volatile performance of the agriculture sector are the reasons for the slowdown of the Pakistan economy. Besides, the COVID-19 pandemic and restrained exports have been instrumental in abating the sustainable growth of the country. **Inflation** is still the biggest issue that the government faces even today. This has worsened the situation for millions of households who have seen a decline in their purchasing power. Other issues caused due to natural phenomenon like flood-related damages and potential locust attacks further exacerbates the situation.
- ii. If a country can build up its foreign exchange earnings by sustainable export of manufactured goods, it need not worry. In Pakistan, most foreign exchange earnings came from remittances from Pakistani workers in the Middle-east and the exports of highly volatile agricultural products. Moreover, the economy has been suffering instability due to various reasons.
- a. **Weak Economic Recovery:** There was a growing dependence on foreign loans on the one hand and increasing difficulty in paying back the loans on the other. The weak economic recovery around the world, particularly in the European Union and the United States, has subdued demand for Pakistan's exports. The outlook, however, remains bleak due to a weak global economic recovery. After declining by 20 percent on a year-on-year basis in August, exports grew by 6 percent in September.
- b. **Structural inefficiencies:** The chronic structural inefficiencies have worsened the condition. The exporters who received additional orders in recent weeks were facing input (gas and cotton) shortages. This means export growth is unlikely to show an upward trend in economic activity and employment. As a result, the structural issue with Pakistan's economy, i.e., its inability to earn sufficient foreign income to pay for its import and debt servicing needs, remains its shortcoming.