

PRINCIPAL SAAB
Periodic Assessment 1 (PA-1) — Answer Key
Class XII | Economics (030) | Periodic Assessment 1 | Session 2026-27

Time: 40 minutes | Maximum Marks: 25 | Answer Key

This is a Periodic Assessment (PA-1) style practice paper for Class 12 Economics, covering Introductory Macroeconomics Unit 1 (National Income and Related Aggregates) — which also includes the basic concepts of final, intermediate and capital goods, stocks and flows, and gross investment and depreciation — together with Indian Economic Development Chapter 1 (Indian Economy on the Eve of Independence) and Chapter 2 (Indian Economy 1950-1990). Time: 40 minutes. Maximum Marks: 25. Every question is tagged with its book and chapter, so you can skip a chapter your school has not covered yet. Money and Banking is not included in this paper.

How the marks are split: Section A has 5 questions of 1 mark each, Section B has 4 questions of 2 marks each, Section C has 3 questions of 3 marks each, and Section D is one case-based question of 3 marks. In the tags below, Macro means Introductory Macroeconomics and IED means Indian Economic Development.

Marking Scheme

Award marks only for a correct and complete answer to the part being marked. Where a question says "any two" or "any three", a student needs only that many correct points; the extra points below are given so that a range of correct answers can be marked fairly.

Section A — Answers

Q1 — (b) Intermediate good. The bakery buys flour to convert it into bread for sale. The flour is completely used up inside the same year's production process and its value passes into the value of the bread, so it is an intermediate good and not a final good.

Q2 — (c) Wealth held by a household on 31 March. A stock is measured at a point of time. Income, investment and depreciation are all measured over a period of time ("during a year"), so they are flows. Note that depreciation is a flow even though it relates to the stock of capital.

Q3 — (a) Rs 3,500 crore. $\text{NDP at factor cost} = \text{GDP at market price} - \text{depreciation} - \text{net indirect taxes} = 4,000 - 300 - 200 = \text{Rs } 3,500 \text{ crore}$. Option (b) Rs 3,700 crore is NDP at market price, which is the most common slip here.

Q4 — (b) Make India a supplier of raw materials and a market for British manufactured goods. Colonial policy was framed around Britain's own economic interest. India exported raw cotton, jute, indigo and food grains and imported finished British goods, which is why no modern industrial base was built here.

Q5 — (b) Three categories. The Industrial Policy Resolution 1956 placed industries in three schedules: 17 industries reserved exclusively for the state, 12 industries in which the state would progressively set up new units while private firms could supplement it, and all the remaining industries left to the private sector under licensing.

Section B — Answers

Q6 — Gross and net investment. Gross investment is the total value of capital goods produced or bought during a year, before any deduction. It includes the part that only replaces machinery worn out or made obsolete during the year. Net investment is the actual addition to the economy's stock of capital after that replacement is taken out. Relationship: $\text{Net investment} = \text{Gross investment} - \text{Depreciation}$. If gross investment exactly equals depreciation, net investment is zero and the capital stock stays the same.

Q7 — Gross value added. $\text{GVA at market price} = \text{Value of output} - \text{Intermediate consumption} = \text{Rs } 80 \text{ lakh} - \text{Rs } 52 \text{ lakh} = \text{Rs } 28 \text{ lakh}$. Intermediate purchases are subtracted to avoid double counting, because that value has already been counted as the output of the firms that supplied those goods.

Q8 — Decline of handicrafts under British rule (any two). (i) Discriminatory tariff policy. Indian handicraft exports faced heavy duties in Britain while British machine-made goods entered India at very low or no duty, so Indian crafts lost their price advantage in both home and foreign markets. (ii) Competition from cheap machine-made goods. Mass production in British factories after the Industrial Revolution made imported cloth far cheaper than handmade Indian cloth. (iii) Loss of patronage. As Indian princely courts and nobles lost power and income, the traditional demand for fine handicrafts collapsed. (iv) Spread of the railways. Railways carried British manufactured goods deep into rural markets and carried raw materials out to the ports.

Q9 — Goals of the Five Year Plans. The four long-term goals are growth, modernisation, self-reliance and equity. Growth means a steady increase in the country's capacity to produce goods and services, seen as a rise in GDP. It needs a larger stock of productive capital, better supporting services such as banking and transport, and more efficient use of both. Equity is equally acceptable: it means that the benefits of growth must reach every section of society, that basic needs such as food, housing, education and health are met, and that the gap in income and wealth is reduced.

Section C — Answers

Q10 — National Income by the income method. Step 1 — Operating surplus = Rent + Interest + Profit = 250 + 180 + 370 = Rs 800 crore. Step 2 — NDP at factor cost = Compensation of employees + Operating surplus + Mixed income = 1,200 + 800 + 600 = Rs 2,600 crore. Step 3 — National Income (NNP at factor cost) = NDP at factor cost + Net factor income from abroad = 2,600 + (–40) = Rs 2,560 crore. Why two figures were not used: consumption of fixed capital (Rs 150 crore) is not added because the answer required is a net aggregate, and net indirect taxes (Rs 220 crore) are not added because the answer required is at factor cost. Both were deliberate distractors.

Q11 — GDP deflator. (a) GDP deflator = $(\text{Nominal GDP} \div \text{Real GDP}) \times 100 = (6,600 \div 5,500) \times 100 = 120$. (b) A deflator of 120 means the average price level in 2024-25 is 20 per cent higher than in the base year 2011-12. It measures the total price rise since the base year, not the inflation rate of that single year, so the answer “inflation is 20 per cent” on its own does not earn the mark. (c) No. Nominal GDP can rise only because prices have risen, while the actual quantity of goods and services stays the same or even falls, so nothing more is available to people. Any one other valid reason is accepted: the extra output may be very unequally distributed, population may grow faster than GDP so real income per person falls, or the extra output may be of goods that do not raise welfare.

Q12 — Industrial policy 1956 to 1990 (1 mark for each head). (a) IPR 1956 classification. Industries were divided into three groups: 17 industries to be owned and developed exclusively by the state; 12 industries in which the state would progressively set up new units while private firms could supplement its effort; and all the remaining industries, left to the private sector but still regulated by the state. (b) Industrial licensing. A private firm needed a licence from the government to open a new factory, to expand output substantially, or to make a new product. Licensing was used to steer scarce resources into planned priorities and to encourage industry in backward regions, where licences came with concessions such as tax relief and cheaper electricity. (c) Small-scale industry. A large list of products was reserved for exclusive production by small-scale units, which also received concessions in excise duty and bank credit. The reason was that small units are labour-intensive and create more jobs per unit of capital, but cannot compete with big firms on their own.

Section D — Answers

Q13 — (a) Value of output = Sales + Change in stock of finished goods = 55 + 10 = Rs 65 lakh. GVA at market price = Value of output – Intermediate consumption = 65 – 40 = Rs 25 lakh. The unsold flour of Rs 10 lakh is part of output. It has been produced this year, so it must be counted even though it has not yet been sold.

Q13 — (b) NVA at market price = GVA at market price – Depreciation = 25 – 5 = Rs 20 lakh.

Q13 — (c) No, Ravi is wrong. The grinding machine is a capital good, not an intermediate good. It is not used up within one year; it gives service over several years, so buying it counts as investment, which is final expenditure. Only the wear and tear of the machinery during the year, that is depreciation of Rs 5 lakh, is charged, and only when moving from gross to net value added. Subtracting the full Rs 12 lakh would wrongly give a GVA of Rs 13 lakh and would count the machine twice.