# ICSE Class 10 Economic Applications Specimen Paper 1

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**Maximum Marks: 80 | Time Allowed: Two hours | Reading Time: 15 minutes**

Section A is compulsory. Attempt any four questions from Section B.

## General Instructions

*Write your answers on the separate answer paper provided. The first 15 minutes are for reading the paper, and you may not write during that time. Marks for each question, or part of a question, are shown in brackets. No diagram or schedule is printed in this paper. Where a question asks for a schedule or a curve, prepare the schedule yourself with figures of your own and draw the curve on the answer paper in pencil, marking the quantity on the horizontal axis and the price on the vertical axis and labelling both. Show all working for numerical questions on the same sheet as the answer. Write the rupee as Rs.*

## SECTION A (40 Marks)

*Attempt all questions from this Section.*

### Question 1 [15]

*Choose the correct answer for each part. Write only the option you choose.*

**(i)** The payment made for the use of land is called:

(a) wages (b) rent (c) interest (d) profit

**(ii)** A weaver who gives up handloom work and takes a job in a power loom unit in the same town shows:

(a) occupational mobility (b) geographical mobility

(c) complete immobility (d) a fall in efficiency

**(iii)** The factor of production that bears the risk of loss in a business is:

(a) land (b) labour (c) capital (d) the entrepreneur

**(iv)** Which of the following will shift the demand curve for coffee to the right?

(a) a rise in the price of coffee (b) a fall in the price of coffee

(c) a rise in the income of the buyers, coffee being a normal good (d) a fall in the number of buyers

**(v)** Other things remaining equal, a rise in the price of a commodity leads to:

(a) a rise in the quantity demanded (b) a fall in the quantity demanded

(c) no change in the quantity demanded (d) a fall in the quantity supplied

**(vi)** The demand for a commodity is perfectly inelastic when its elasticity of demand is:

(a) equal to zero (b) equal to one (c) greater than one (d) infinite

**(vii)** The law of supply states that, other things remaining equal, a rise in the price of a commodity leads to:

(a) a fall in the quantity supplied (b) no change in the quantity supplied

(c) a fall in the quantity demanded (d) a rise in the quantity supplied

**(viii)** Selling costs on advertising and brand building are heaviest in:

(a) monopolistic competition (b) perfect competition

(c) a market with a single seller of a good that has no substitute (d) a market with a single buyer

**(ix)** A market in which a few large firms supply the whole output of a product is called:

(a) monopoly (b) oligopoly (c) perfect competition (d) monopolistic competition

**(x)** In India, currency notes other than the one rupee note are issued by:

(a) the State Bank of India (b) any scheduled commercial bank

(c) the Reserve Bank of India (d) a regional rural bank

**(xi)** A fixed deposit differs from a current account deposit in that it:

(a) is repayable only after an agreed period and carries a higher rate of interest (b) can be withdrawn by cheque as often as the depositor wishes

(c) carries no interest at all (d) can be opened only by a trader

**(xii)** Inflation brought about by a rise in the price of raw materials and in wage rates is called:

(a) demand pull inflation (b) cost push inflation

(c) creeping inflation (d) deflation

**(xiii)** During a long period of rising prices the group that gains is:

(a) pensioners (b) salaried employees on fixed pay

(c) borrowers who repay fixed money loans (d) holders of fixed deposits

**(xiv)** The right that allows a consumer to place a complaint before a proper forum and have it considered is the right to:

(a) safety (b) be informed (c) choose (d) be heard

**(xv)** The mark that certifies the purity of a gold ornament in India is:

(a) the ISI mark (b) Agmark (c) Hallmark (d) the FSSAI mark

### Question 2 [10]

**(i)** Distinguish between land and capital as factors of production, giving one example of each. **[2]**

**(ii)** Define elasticity of demand and write the formula used to measure price elasticity of demand. **[2]**

**(iii)** State two features of a market working under perfect competition. **[2]**

**(iv)** Name and explain any two agency functions of a commercial bank. **[2]**

**(v)** State two reasons why a consumer should insist on a cash memo for every purchase. **[2]**

### Question 3 [15]

**(i)** Give three reasons why labour is said to be a peculiar factor of production. **[3]**

**(ii)** A stationer lowers the price of a notebook from Rs 50 to Rs 45 and finds that his weekly sales rise from 200 notebooks to 260 notebooks. Calculate the price elasticity of demand and state whether the demand for the notebook is elastic or inelastic. **[3]**

**(iii)** State three points of difference between a monopoly market and a market working under monopolistic competition. **[3]**

**(iv)** Explain any three ways in which a commercial bank is of help to a trader. **[3]**

**(v)** Distinguish between demand pull inflation and cost push inflation, and give one cause of each. **[3]**

## SECTION B (40 Marks)

*Attempt any four questions from this Section.*

### Question 4 [10]

**(a)** Define capital. Explain, with one example of each, the difference between fixed capital and working capital. **[3]**

**(b)** Explain any three qualities that an entrepreneur must possess if a business is to be run successfully. **[3]**

**(c)** Explain what is meant by division of labour and state three advantages it brings to production. **[4]**

### Question 5 [10]

**(a)** State the law of demand and explain, giving one reason, why a demand curve slopes downwards from left to right. **[3]**

**(b)** Explain any three determinants of the demand for a commodity other than the price of the commodity itself. **[3]**

**(c)** Prepare a supply schedule of your own for a commodity at five different prices, draw the supply curve from that schedule, and state the law of supply that the curve illustrates. **[4]**

**Question 6 [10]**

**(a)** Explain what is meant by a market in economics, and state two bases on which markets are classified, naming the types of market under each basis. **[3]**

**(b)** Explain, with an example, what is meant by product differentiation and state two ways in which sellers bring it about. **[3]**

**(c)** Explain four points of difference between a market working under perfect competition and a market in which there is a single seller. **[4]**

**Question 7 [10]**

**(a)** Explain what is meant by a commercial bank and state its two primary functions. **[3]**

**(b)** Explain the following functions of the Reserve Bank of India: banker to the government, custodian of the foreign exchange reserves, lender of last resort. **[3]**

**(c)** Explain what is meant by credit control and describe three quantitative methods by which the Reserve Bank of India controls credit. **[4]**

**Question 8 [10]**

**(a)** Define inflation. Distinguish between creeping inflation and galloping inflation. **[3]**

**(b)** Explain any three causes of inflation that arise on the side of demand. **[3]**

**(c)** Explain how a long spell of inflation affects each of the following, stating in each case whether there is a gain or a loss: a clerk on a fixed salary, a person who has borrowed money at a fixed rate of interest, a person who holds a fixed deposit, a trader who carries a large stock of goods. **[4]**

**Question 9 [10]**

**(a)** Explain what is meant by consumer exploitation and state two forms in which it commonly takes place. **[3]**

**(b)** Explain any three rights of a consumer. **[3]**

**(c)** Describe the three tier machinery set up in India for the redressal of consumer complaints and state one relief that a consumer may be awarded. **[4]**

## ANSWER KEY AND MARKING SCHEME

*Full working is given for every numerical. Marks shown in italics are the step marks an examiner would award. Accept any correct alternative wording that carries the same economic meaning, and accept any self made schedule and correctly drawn curve that shows the required relation.*

### Question 1 [15]

**(i)** (b) rent. Land is a free gift of nature with a fixed supply, and rent is the payment made for the use of it.

**(ii)** (a) occupational mobility. The worker has moved from one occupation to another while staying in the same place, so there is no movement of place.

**(iii)** (d) the entrepreneur. Land, labour and capital are paid a reward fixed by contract, while the entrepreneur takes what is left and bears the loss if there is one.

**(iv)** (c) a rise in the income of the buyers, coffee being a normal good. Income is a determinant other than price, so the whole curve shifts to the right. A change in the price of coffee itself would only move the buyer along the same curve.

**(v)** (b) a fall in the quantity demanded. Price and quantity demanded move in opposite directions, which is the law of demand.

**(vi)** (a) equal to zero. The quantity demanded does not change at all, however much the price changes.

**(vii)** (d) a rise in the quantity supplied. A higher price makes production and sale more profitable, so sellers offer more.

**(viii)** (a) monopolistic competition. Each seller sells a brand that is only a close substitute for the rest, so money is spent on advertising to persuade buyers that one brand is better than another.

**(ix)** (b) oligopoly.

**(x)** (c) the Reserve Bank of India. The one rupee note is issued by the Government of India and every other note by the Reserve Bank.

**(xi)** (a) is repayable only after an agreed period and carries a higher rate of interest. The bank can lend the money with confidence for that period, so it pays more for it.

**(xii)** (b) cost push inflation. The rise in prices begins with a rise in the cost of production, which producers pass on to buyers.

**(xiii)** (c) borrowers who repay fixed money loans. They give back the same number of rupees, and those rupees buy less than they did when the loan was taken.

**(xiv)** (d) be heard.

**(xv)** (c) Hallmark.

*1 mark for each correct option. No marks are deducted for a wrong option.*

### Question 2 [10]

**(i)** Land is a free gift of nature. Its total supply is fixed, nothing was spent to produce it, and it cannot be shifted from one place to another, for example a field or a deposit of coal. Capital is man made. It is produced by saving part of present income instead of consuming it, its supply can be increased by more saving, and it can be moved from place to place, for example a sewing machine or a factory shed.

*Land described with an example 1. Capital described with an example 1.*

**(ii)** Elasticity of demand is the measure of the extent to which the quantity demanded of a commodity changes in response to a change in its price, in the income of the buyer or in the price of a related good. Price elasticity of demand = percentage change in quantity demanded divided by percentage change in price.

*Definition 1. Formula 1.*

**(iii)** There is a very large number of buyers and of sellers, so that no single one of them can affect the ruling price by his own action. The product is homogeneous, every unit being exactly like every other unit, so buyers have no reason to prefer one seller. Free entry and exit, and perfect knowledge of the market, are also acceptable.

*Two features, 1 mark each 2.*

**(iv)** Collection and payment: the bank collects cheques, bills, dividends and interest due to the customer and makes payments of rent, insurance premium and taxes on the customer's standing instructions. Purchase and sale of securities: the bank buys and sells shares, bonds and government securities for the customer and holds them in safe keeping. In both cases the bank acts as the customer's agent and charges a commission.

*Two agency functions, each named and explained, 1 mark each 2.*

**(v)** The cash memo is written proof of what was bought, of the price paid and of the date of purchase, which the consumer needs if the goods turn out to be defective, underweight or overpriced. Without it a claim for repair, replacement or refund can be denied by the seller, and a complaint before a consumer commission is hard to establish, since the guarantee period is counted from the date of purchase shown on the bill.

*Proof of the purchase and its details 1. Needed to support a later claim or complaint 1.*

## Question 3 [15]

**(i)** Labour cannot be separated from the labourer. The service and the person who gives it go together, so the worker must be present wherever the work is to be done. Labour cannot be stored. A day on which a worker finds no work is lost for ever and that day's labour cannot be kept for sale later. Labour is not uniform and the labourer has a will of his own. The efficiency of a worker depends on health, training, wages and willingness, so no two units of labour are alike, and the worker bargains, refuses work and changes jobs in a way that no machine does.

*Three reasons, 1 mark each 3.*

**(ii)** Change in price = Rs 50 – Rs 45 = Rs 5, a fall. Change in quantity = 260 – 200 = 60 notebooks, a rise. Percentage change in quantity demanded = 60/200 x 100 = 30. Percentage change in price = 5/50 x 100 = 10. Elasticity of demand = 30/10 = 3. Since the value is greater than one, the demand for the notebook is elastic, and the stationer's total takings rise when he lowers the price.

*Percentage change in quantity 30 1. Percentage change in price 10 1. Elasticity 3 with demand named elastic 1.*

**(iii)** Number of sellers: there is one seller in a monopoly, while under monopolistic competition there are many sellers, each small in relation to the market. Nature of the product: the monopolist's product has no close substitute, while under monopolistic competition the sellers offer close substitutes that differ a little in brand, quality or packing. Control over price: the monopolist fixes his own price and is limited only by the demand for the product, while a seller under monopolistic competition has only a little control, because a buyer who finds the price too high turns to a rival brand. Free entry and heavy selling costs under monopolistic competition, against barred entry in a monopoly, are also acceptable.

*Three points of difference, 1 mark each 3.*

**(iv)** The bank keeps the trader's money safe in a current account from which payments can be made by cheque as often as they are needed, so large sums need not be held in the shop. The bank provides short term finance through a cash credit, an overdraft or the discounting of bills, so the trader can buy stock and pay suppliers before the money from his own sales comes in. The bank collects and remits money for the trader and issues drafts and letters of credit, which makes dealing with buyers and sellers in distant places possible without sending cash.

*Three services, 1 mark each 3.*

**(v)** Demand pull inflation is a rise in the general price level that happens because the total demand for goods and services runs ahead of the supply available at the ruling prices, so buyers bid prices up. One cause is a large increase in the supply of money and bank credit, which puts more purchasing power in the hands of buyers without adding to the goods on the market. Cost push inflation is a rise in the general price level that begins with an increase in the cost of production, which producers add to their selling prices. One cause is a rise in the price of raw materials or in wage rates.

*Demand pull explained 1. Cost push explained 1. One correct cause given for each 1.*

## Question 4 [10]

**(a)** Capital is that part of a person's wealth, other than land, which is man made and is used in the further production of wealth instead of being consumed at once. Fixed capital is used over and over again in production over a long period and is not used up in a single use, for example a power loom or a factory

building. Working capital is used up in a single use and has to be replaced each time, for example the yarn fed to the loom and the wages paid to the weavers.

*Definition of capital 1. Fixed capital with an example 1. Working capital with an example 1.*

**(b)** Willingness to bear risk and uncertainty, because the entrepreneur pays the other factors their agreed reward first and takes whatever is left, which may be a loss. The power of taking decisions, because what to produce, how much of it, by which method and on what scale must all be settled before the market has given its answer. Organising ability, because land, labour and capital have to be brought together, hired, placed in the right work and kept working as one unit. Foresight and leadership are also acceptable.

*Three qualities, 1 mark each 3.*

**(c)** Division of labour means splitting the making of an article into a number of separate operations and setting a different worker to each operation, so that every worker repeats one task instead of making the whole article. Advantages: output rises, because repeating one operation makes the worker quick and skilled at it; time and training are saved, since the worker need not move from tool to tool and need be taught only one job; and machinery can be introduced for each separate operation, which makes production on a large scale and at a lower cost per unit possible.

*Meaning explained 1. Three advantages, 1 mark each 3.*

## Question 5 [10]

**(a)** Law of demand: other things remaining equal, the quantity demanded of a commodity rises when its price falls and falls when its price rises, so that price and quantity demanded move in opposite directions. The curve therefore slopes downwards from left to right, a lower price on the vertical axis standing against a larger quantity on the horizontal axis. Reason: as a buyer takes more units of a good the satisfaction got from each extra unit falls, so he will buy the extra units only if they are offered at a lower price. A fall in price also leaves the buyer with more real income, makes the good cheaper than its substitutes and brings in buyers who could not afford it before.

*Law of demand stated 1. Downward slope from left to right stated 1. At least one correct reason 1.*

**(b)** Income of the buyer: a rise in income lets the household buy more of a normal good at every price, so demand increases. Prices of related goods: if the price of a substitute such as tea rises, the demand for coffee increases, while if the price of a complement such as petrol rises, the demand for cars falls. Tastes, habits and fashion: a good that comes into fashion is bought in larger quantity at the same price, and a good that goes out of fashion is bought in smaller quantity. The size and composition of the population, and the expectation of a change in price, are also acceptable.

*Three determinants, 1 mark each 3.*

**(c)** Any schedule of the candidate's own in which the quantity offered for sale rises as the price rises is acceptable. For example, for rice: at Rs 30 a kilogram 100 quintals a week, at Rs 40 150 quintals, at Rs 50 220 quintals, at Rs 60 300 quintals and at Rs 70 380 quintals. The price is marked on the vertical axis and the quantity on the horizontal axis, the five points are plotted and joined, and the curve obtained rises from left to right. Law of supply: other things remaining equal, the quantity supplied of a commodity rises as its price rises and falls as its price falls, so price and quantity supplied move in the same direction, because a higher price makes production and sale more profitable and draws out larger quantities.

*Schedule of five prices with quantities rising as price rises 1. Axes labelled and points plotted 1. Curve rising from left to right 1. Law of supply correctly stated 1.*

## Question 6 [10]

**(a)** In economics a market does not mean a particular building or place. It means the whole area, however wide, over which the buyers and the sellers of a commodity are in such close touch with one another, by person, by telephone or through dealers, that the price of that commodity tends to be the same throughout the area. Markets are classified on the basis of competition, under which they are perfect competition, monopoly, oligopoly and monopolistic competition. They are also classified on the basis of area, under which they are local, regional, national and international markets. Classification on the basis of time, into very short period, short period and long period markets, is also acceptable.

*Meaning of a market explained 1. One basis with the types under it 1. A second basis with the types under it 1.*

**(b)** Product differentiation means making one seller's product appear different from the closely similar products of rival sellers, so that buyers do not treat the brands as the same thing and each seller gets some control over the price of his own brand. For example, many firms sell bath soap, and each gives its soap its own name, wrapper, colour and scent, so that a buyer who wants that particular soap must go to that firm. Sellers bring differentiation about by real differences in the good itself, such as quality, ingredients, design, size or packing, and by differences in the conditions of sale, such as the brand name, advertising, the site of the shop, credit, home delivery and after sales service.

*Meaning explained 1. Example given 1. Two ways stated 1.*

**(c)** Number of sellers: under perfect competition there is a very large number of sellers, while in the second case there is only one, who is the whole industry. Nature of the product: it is homogeneous under perfect competition, while the single seller's product has no close substitute. Control over price: a firm under perfect competition is a price taker and must accept the ruling price, while the single seller is a price maker who fixes his own price and may charge different prices from different buyers. Entry: entry and exit are free under perfect competition, while the single seller keeps rivals out by law, by a patent, by owning the source of the raw material or by the size of the capital needed. Selling costs are needed in the second case but not under perfect competition, where the product and the price are the same everywhere.

*Four points of difference, 1 mark each 4.*

## Question 7 [10]

**(a)** A commercial bank is an institution that accepts deposits of money from the public, repayable on demand or after an agreed period, and lends or invests that money in order to earn a profit. Its primary functions are, first, accepting deposits, which it does through current accounts repayable on demand, savings accounts, fixed deposits repayable after an agreed term and recurring deposits paid in by instalments, and second, advancing loans, which it does through term loans, cash credit, overdrafts and the discounting of bills of exchange.

*Meaning of a commercial bank 1. Accepting deposits explained 1. Advancing loans explained 1.*

**(b)** Banker to the government: the Reserve Bank keeps the accounts of the central and the state governments, receives money into them and makes payments out of them, manages the public debt by issuing and redeeming government loans, and gives the government short term advances when its receipts fall behind its spending. Custodian of the foreign exchange reserves: it holds the country's stock of gold and foreign currency, buys and sells foreign exchange, and uses the reserve to keep the external value of the rupee from moving sharply. Lender of last resort: when a commercial bank is short of cash and can get funds nowhere else, it may borrow from the Reserve Bank against eligible securities, so that a bank which is otherwise sound does not fail for want of ready money.

*Three functions, 1 mark each 3.*

**(c)** Credit control means the steps taken by the central bank to regulate the amount of credit created by the commercial banks and the cost at which that credit is given, so that prices, production and employment are kept steady. Bank rate: this is the rate at which the Reserve Bank lends to commercial banks against eligible securities. When it is raised, funds cost the banks more, the banks raise their own lending rates, borrowing becomes dearer and credit contracts. Open market operations: the Reserve Bank sells government securities in the market, which draws cash out of the banks and leaves them with a smaller base on which to lend, and it buys securities when it wants credit to expand. Variable reserve ratios: by raising the cash reserve ratio, which is the part of its deposits a bank must keep with the Reserve Bank, or the statutory liquidity ratio, which is the part it must hold in cash, gold or approved securities, the Reserve Bank leaves the banks less to lend.

*Meaning of credit control 1. Three quantitative methods, 1 mark each 3.*

## Question 8 [10]

**(a)** Inflation is a sustained rise in the general level of prices over a period of time, which means that the purchasing power of money falls and the same sum of money buys fewer goods than before. Creeping inflation is a slow rise in prices, of a small percentage a year. It does little harm, and it leaves producers a rising margin that encourages them to invest and produce more. Galloping inflation is a very rapid rise in

prices, running into large figures within a year. Money loses value so fast that people stop saving in money, hold goods and gold instead, and the price system no longer guides production properly.

*Definition of inflation 1. Creeping inflation 1. Galloping inflation 1.*

**(b)** An increase in the supply of money and of bank credit, which puts purchasing power in the hands of buyers without adding anything to the goods on the market. An increase in government spending met by borrowing or by creating money, since the government's own demand for goods and labour is added to the demand of the public. A rise in the incomes and the numbers of the buying public, as when wages and salaries are raised across the board or the population grows, so that more money chases the same supply of goods. Black money spent freely, and credit made easy for consumers, are also acceptable.

*Three causes, 1 mark each 3.*

**(c)** The clerk on a fixed salary loses. His money income stays where it is while prices rise, so the goods his salary will buy fall and his real income drops. The borrower gains. He returns the same number of rupees he agreed to pay, and those rupees now buy less than they did when he took the loan, so the real burden of the debt is lighter. The holder of a fixed deposit loses. The sum he gets back at the end of the term has less purchasing power than the sum he put in, and the interest he receives may not make up the difference. The trader carrying a large stock gains. The goods lying in his godown are worth more than he paid for them, and selling prices usually rise faster than the costs he has already met.

*Four cases, the gain or loss and the reason both being needed, 1 mark each 4.*

### Question 9 [10]

**(a)** Consumer exploitation means the unfair treatment of a buyer by a seller or a producer who takes advantage of the buyer's ignorance, of his weak bargaining position or of a shortage of the good, so that the buyer does not get the value of the money he has paid. Two common forms are short weight and short measure, where the quantity delivered is less than the quantity paid for, and charging a price above the printed or the fair price, which sellers do most of all when a good is scarce. Adulteration, the sale of unsafe or poor quality goods, misleading advertisements and the refusal to honour a guarantee are also acceptable.

*Meaning of consumer exploitation explained 1. Two forms, 1 mark each 2.*

**(b)** Right to safety: the consumer is to be protected against goods and services that are a danger to life, health or property, which is why electrical goods, pressure cookers, medicines and food have to meet laid down standards. Right to be informed: the consumer is entitled to know the quality, the quantity, the ingredients, the price, the date of manufacture and the date of expiry of what he is buying, so that his choice is an informed one and he is not misled by an advertisement. Right to choose: the consumer is to be assured of a variety of goods and services at competitive prices, so that no seller can force a particular brand or a tied purchase on him. The right to be heard, the right to seek redressal and the right to consumer education are also acceptable.

*Three rights, 1 mark each 3.*

**(c)** Under the Consumer Protection Act a consumer may take a complaint to any of three bodies, according to the value of the goods or services and the compensation claimed. The District Consumer Disputes Redressal Commission, set up in the districts, hears complaints of the smaller values, and a consumer may file his complaint there himself, on a plain written complaint with a small fee and without engaging a lawyer. The State Consumer Disputes Redressal Commission, at the state level, hears complaints of larger value and also hears appeals against the orders of the District Commissions. The National Consumer Disputes Redressal Commission, at the apex, hears complaints of the highest value and appeals against the orders of the State Commissions. The Commission may order the defect in the goods to be removed, or the goods to be replaced, or the price to be refunded, or compensation to be paid for the loss and the injury suffered.

*District Commission 1. State Commission 1. National Commission with its appellate work 1. One relief correctly stated 1.*