CBSE Test Paper-01

Chapter 01 National Income and Related Aggregates

1. Can the gross domestic product be greater than the gross national product? **(1)**
   a. No
   b. Yes
   c. Never
   d. Can't say
2. State which one of the following is true. **(1)**
   a. Rent is a factor income
   b. Royalty is not a factor income
   c. Tax is a factor income
   d. Subsidies is a factor payment
3. National Income is a **(1)**
   a. Hypothetical concept
   b. Non economic concept
   c. Stock concept
   d. Flow concept
4. Money flow is the flow of **(1)**
   a. Goods only
   b. Factor payments
   c. Services only
   d. Goods and services only
5. What do you mean by gross investments? **(1)**
6. Define Domestic territory of a country. **(1)**
7. What is meant by Real Gross Domestic Product? **1**
8. What is real national income? **(1)**
9. Find Net National Product at Market Price. **(3)**

S.no.	Contents	

		(Rs. in Crores)
(i)	Personal Taxes	200
(ii)	Wages and Salaries	1,200
(iii)	Undistributed Profit	50
(iv)	Rent	300
(v)	Corporate Tax	200
(vi)	Personal Income	2,000
(vii)	Interest	400
(viii)	Net Indirect Tax	300
(ix)	Net Factor Income from Abroad	20
(x)	Profit	500
(xi)	Social Security Contribution by Employers	250

10. Giving reason, explain whether the following are included in domestic product of India. **(3)**

    i. Profits earned by a branch of foreign bank in India.
    ii. Payment of salaries to its staff by an embassy located in New Delhi.
    iii. Interest received by an Indian resident from its abroad firms.

11. From the following data, calculate "Net Value Added at Factor Cost". **(4)**

S.no.	Content	(Rs. in Lakhs)
(i)	Sales	400
(ii)	Change in Stock	(-) 20
(iii)	Intermediate consumption	200
(iv)	Net indirect taxes	40
(v)	Exports	50
(vi)	Depreciation	70

12. State any precautions that are taken while calculating national income by expenditure method.

13. Calculate the Net National Product at Market Price from the given details.

S.no.	Contents	(Rs. in Crores)
(i)	Mixed income of self-employed	8,000
(ii)	Depreciation	200
(iii)	Profit	1,000
(iv)	Rent	600
(v)	Interest	700
(vi)	Compensation of employees	3,000
(vii)	Net indirect taxes	500
(viii)	Net factor income to abroad	60
(ix)	Net exports	(-) 50
(x)	Net current transfers to abroad	20

14. Giving reason, explain how the following should be treated in the estimation of National Income. **(6)**

    i. Payment of interest by a firm to a bank.
    ii. Payment of interest by a bank to an individual.
    iii. Payment of interest by an individual to a bank.

15. Giving reason explain how the following should be treated in estimation of national income: **(6)**

    i. Payment of interest by a firm to a bank
    ii. Payment of interest by a bank to an individual.
    iii. Payment of interest by an individual to a bank.

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Answers

1. b. Yes

   Explanation: When net factor income from abroad is negative.

2. a. Rent is a factor income

   Explanation: Rent is earned from the use of capital which is one of factors of production.

3. d. Flow concept

   Explanation: It is measured after a specific period of time, usually a year.

4. b. Factor payments

   Explanation: Money flow refer to payment for factor services.

5. Expenditure on the purchase of fixed assets or on inventory stock during the year is called gross investment.
   Gross investment = expenditure on the purchase of fixed assets during the accounting year + expenditure on the inventory stock during the accouting year
   or
   Gross investment = Net investment + Depreciation.

6. It refers to that area of economic activity which generates domestic income.
   According to UN, domestic territory or economic territory is the geographical territory adminstered by a government within which persons, goods and capital circulate freely.

7. Real Gross Domestic Product (GDP) refers to the market value of the final goods and services produced within the domestic territory of the country during a financial year, included in GDP are valued at constant (fixed) prices, i.e. prices of the base year. It is also known as GDP at constant prices.

8. Real national income refers to national income at constant prices. It is also called Real GDP.

Real National Income or Real GDP = $Q \times P^*$

where Q = Qty of final goods and service produced during an accounting year and P^* = Prices prevailing during the base year

9. Net National Product at Market Price is calculated as:

   NNP_{mp} = Wages and Salaries + Social Security Contribution by Employers + Rent + Interest + Profit + Net Factor Income from Abroad + Net Indirect Tax.

   = 1,200 + 250 + 300 + 400 + 500 + 20 + 300 = Rs. 2,970 crores.

   To get a national product, we add net factor income from abroad and to get the national product at market prices we add net indirect taxes.

10. i. As the profits are earned in the domestic territory of India, the profits earned by a branch of the foreign bank in India will be 'included' in domestic income of India.
    ii. Payment of salaries to its staff by an embassy located in New Delhi will 'not be included' in the domestic income of India, as it is not a part of the domestic territory of India.
    iii. As interest received by an Indian resident from its abroad firms is factor income from abroad, it will 'not be included' in domestic income of India.

11. **Value of output** = Sales value + Change in stock

    = Rs. 400 - Rs. 20 = Rs. 380 lakhs

    $\mathbf{GVA_{mp}}$ = Value of Output - Intermediate Consumption

    = Rs. 380 - Rs. 200 = Rs. 180 lakhs

    $\mathbf{NVA_{fc}}$ = GVA_{mp} - Depreciation - Net indirect taxes

    = Rs. 180 - Rs. 30 - Rs.40 = Rs. 110 lakhs

12. While using the expenditure method, the following precautions are required to be taken, related to the calculation of National Income:

    i. Only final expenditure is to be taken into account to avoid the error of double counting of expenditures,
    ii. Expenditure on second-hand goods is not to be included, because such expenditure has already been included when they are originally purchased. However, any commission or brokerage on such goods is included as it is a payment made for productive service.

iii. Expenditure on the purchase of financial assets such as shares and bonds is not to be included in total expenditure, as these are mere paper claims and are not related to the production of final goods and services.
iv. Expenditure on transfer payments by the government is not to be included as such payments are not connected with any productive activity and there is no value addition.
v. Imputed value/estimated value of expenditure on goods produced for self-consumption should be taken into account, as these goods are reflected in the estimation of Gross Domestic Product (GDP).

13. Net Domestic Product at Factor Cost (NDP_{FC})

    = Compensation of Employees + Rent + Interest + Profit + Mixed Income of Self Employed

    = 3,000 + 600 + 700 + 1,000 + 8,000 = Rs. 13,300 crores

    Net National Product at Market Price (NNP_{MP})

    = NDP_{fc} - Net Factor Income to Abroad + Net Indirect Taxes = 13,300 - 60 + 500

    = Rs. 13,740 crores

14. i. **Payment of interest by a firm to a bank:** It will be 'included' in the estimation of National Income, as it is a factor income. Also, firms take loans for investment purposes.
    ii. **Payment of interest by a bank to an individual:** It will be 'included' in the estimation of National Income as it is a factor income.
    iii. **Payment of interest by an individual to a bank:** It will 'not be included' in the estimation of National Income as consumer takes a loan for consumption purposes.
15. i. Payment of interest by a firm to a bank is an interest income (factor income) therefore added in national income.
    ii. Payment of interest by bank to an individual is again a factor payment, therefore included in national income.
    iii. Payment of interest by an individual to bank is interest (factors income), therefore it is included in national income.