

BOOK: INTRODUCTORY MACROECONOMICS

UNIT 1: NATIONAL INCOME AND RELATED AGGREGATES

Q.1 NVA fc Equals to

- a) Sum of factor payments b) Sum of Current transfer Payments
- c) Sum of Capital Transfer Payments d) Net Current transfer from rest of the world

Ans: Sum of factor Payments

Q.2 NNP fc is called:

- a) National Income b) Domestic Income
- c) Personal Income d) Private Income

Ans: National Income

Q.3 National Income = Domestic income when:

- a) NFIA is Positive b) NFIA is Negative
- c) NFIA is Zero d) None of the above

Ans: NFIA is Zero

Q.4 Which of the following item will not be included while calculating NDP mp.

- a) Private final consumption expenditure b) Consumption of fixed capital
- c) Govt Final consumption expenditure d) Net Export

Ans: Consumption of fixed capital

Q.5 Which of the following will not be included while calculating national income by income method?

- a) Wages and Salaries b) Royalty
- c) Scholarship d) Profit

Ans: Scholarship

Q.6 Which of the following is not included in estimation of NI?

- a) Subsidies Lunch b) Old Age Pension
- c) Free Medical Facilities served in office to employees d) Construction of a House

Ans: Old Age Pension

Q.7 Consumption of fixed capital refers to fall in the value of fixed assets...

- a) Due to normal wear and tear b) Due to abnormal wear and tear
- c) Due to foreseen obsolescence
- d) Due to normal wear and tear and foreseen obsolescence

Ans: Due to normal wear and tear and foreseen obsolescence

Q.8 Value of output is equal to

- a) Sales+ Change in Stock
- b) Sales + Closing Stock
- c) Sales + Opening Stock
- d) Sales- opening Stock

Ans: Sales + Change in stock

Q.9 Income of the Family is the example of which variable?

- a) Stock Variable
- b) Flow Variable
- c) Both stock and flow
- d) Neither Stock nor flow

Ans: Flow Variable

Q.10 Which of the following is not a flow variable?

- a) Income
- b) Capital Formation
- c) Supply of Money in a country
- d) Leakage of water from a tank

Ans: Supply of water in a country

Q.11 Define Production.

Ans: Production is the process of converting inputs into outputs or value added to the raw materials.

Q.12 Define consumption.

Ans: The process of using up utility of goods and services for direct satisfaction of individual or collective human wants is called Consumption.

Q.13 Define Capital Formation.

Ans: Excess of production over Consumption is called investment.

Q.14 Define Good.

Ans: In economics, a good is defined as any physical object, natural or manmade, or service rendered, that could command a price in the market.

Q.15 Define Consumption Goods.

Ans: Goods purchased or even produced, for satisfaction of wants is called consumption goods. Example: washing machines, TV etc.

Q.16 Define Capital Goods.

Ans: Goods capable of being used for producing other goods are called Capital goods. Eg. car machinery etc.

Q.17 Define final goods.

Ans: Goods and services purchased, or own produced, for the purpose of consumption and investment are final goods.

Q.18 Define Intermediate goods.

Ans: Intermediate goods refer to those goods and services which are purchased during the year by one production unit from other production unit and completely used up, or resold, during the same year.

Q.19 Define Stocks.

Ans: Variables whose magnitude is measured at a particular point of time are called stock variables.

Q.20 Define Flow.

Ans: Variables whose magnitude is measured over a period of time are called flow variables.

Q.21 Distinguish between leakages and Injections.

Leakages	Injections
<ol style="list-style-type: none"> 1. These flow variables have a negative impact on the process of production. 2. These are withdrawals from circular flow of income. 3. Effect on economy: reduce demand of goods and services; reduce flow of income 4. Examples: saving taxation and imports. 	<ol style="list-style-type: none"> 1. These cause positive impact on the process of production or income generation. 2. These are additions to the circular flow of income. 3. Effect on economy: Add to the production capacity of the economy; generate demand of goods and services. 4. Examples: investment, exports, consumption expenditure

Q.22 What are the steps for estimating national income by value added method?

Ans: 1. Identification of producing units

(namely primary sector, secondary sector and tertiary sector)

2. Calculation of GDPmp or GVAmP:

- $GVOmp = \text{Sales} + \text{Change in Stocks} + \text{Goods produced for self-consumption}$

$= (\text{Domestic Sales} + \text{exports}) + (\text{Closing Stock} - \text{Opening Stock})$

- $GVA\ mp/GDPmp = GVOmp - \text{intermediate Consumption}$
 $= GVOmp - (\text{Domestic purchase} + \text{imports})$

3. Calculation of Domestic Income (NDP_{fc}): $NDP\ fc = GDPmp - \text{Depreciation} - NIT$

4. Calculation of National income (NNP_{fc}): $NNPfc = NDPfc + NFIA$

Q.23 What is double counting? How can it be avoided?

Ans: Counting the value of commodities at every stage of production more than one time is called double counting.

It can be avoided by

- a) taking value added method in the calculation of the national income.

b) By taking the value of final commodity only while calculating N. I.

Q.24 Given the following data:

- i) GDPFC = 25,215 Crores
- ii) Net Indirect Taxes = 1575 Crores
- iii) Depreciation = 1000 Crores
- iv) NFIA = 40 Crores

Calculate: -

- i) GDPMP ii) GNPMP iii) NNPMP
- iv) NNPFC v) NDPMP vi) NDPFC

Ans. i) GDPMP = GDPFC + NIT

$$= 25215 + 1575$$

$$= \text{Rs. } 26,790 \text{ Crores}$$

ii) GNPMP = GDPMP + NFIA

$$= 26790 + 40$$

$$= \text{Rs. } 26,830 \text{ Crores}$$

iii) NNPMP = GDPMP – Depreciation – NFIA

$$= 26,790 - 1000 - 40$$

$$= \text{Rs. } 25,750 \text{ Crores}$$

iv) NNPFC = NNPMP – NIT

$$= 25,750 - 1575$$

$$= \text{Rs. } 24,175 \text{ Crores}$$

v) NDPMP = NNPFC – NFIA + NIT

$$= 24,175 - 40 + 1575$$

$$= \text{Rs. } 25,710 \text{ Crores}$$

vi) NDPFC = NDPMP – NIT

$$= 25,710 - 1,575$$

$$= \text{Rs. } 24,135 \text{ Crores}$$

Q.25 There are only two producing sectors A and B in an economy. Calculate:

- (a) Gross value added at market price by each sector
- (b) National income.

Rs. (Crore)

(i) Net factor income from Abroad.

(ii) Sales by A	1000
(iii) Sales by B	2000
(iv) Change in stock of B	(–) 200
(v) Closing stock of A	50
(vi) Opening stock of A	100
(vii) Consumption of fixed capital by A and B	180
(viii) Indirect taxes paid by A and B	120
(ix) Purchase of raw material by A	500
(x) Purchase of raw material by B	600
(xi) Exports by B	70

Ans: a) GVAMP of Sector A = $1000 - 50 - 500 = 450$

GVAMP of Sector B = $2000 - 200 - 600 = 1200$

b) Total = $450 + 1200 = 1650$

National Income (NNPFC) = $1650 - 150 - 120 + 20 = 1370$ Crores