Some Basic Conc - R & U - Very Short (Info & Concept)

Q. 1. What are final goods?

Ans. Final goods are those goods which are out of the boundary line of production and are ready for use by their final users.

Q. 2. What are intermediate goods?

Ans. Intermediate goods are those goods which are used as raw material or are purchased by the firms for resale.

Q. 3. What are consumption goods?

Ans. Consumption goods (also known as consumer goods) are those goods which are used for the direct satisfaction of human wants. Example: Milk used by households.

Q. 4. What are capital goods?

Ans. Capital goods are fixed assets of the producers which are repeatedly used in the production of other goods and services and which are of high value.

Q. 5. What are producer goods?

Ans. Producer goods are those goods which are used for further production. These may be used either as raw material (like wood used in making chairs) or as fixed assets (like a tractor used in farming).

Q. 6. Name the two types of final goods.

Ans. (i) Final consumer goods, and

(ii) Final producer goods.

Q. 7. Define intermediate consumption.

Ans. Intermediate consumption refers to expenditure by the producers on the purchase of intermediate goods during an accounting year.

Q. 8. Define investment.

Ans. Investment refers to expenditure by the producer (during the period of an accounting year) on the purchase of all such goods which add to his stock of capital. It is also called capital formation.

Q. 9. What is fixed investment?

Ans. Fixed investment refers to increase in the stock of fixed assets or capital goods (like plant and machinery) of the producers during an accounting year.

Q. 10. What do you mean by inventory investment?

Ans. Change in inventory stock during the year is called inventory investment of the producers.

Q. 11. Define depreciation.

Ans. Depreciation (or consumption of fixed capital) refers to loss of value of fixed assets (in use) on account of:

(i) Normal wear and tear, and

(ii) Expected obsolescence,

(iii) Accidental damages.

Q. 12. Define depreciation reserve fund.

Ans. Depreciation reserve fund refers to that fund which the producers keep to cope with depreciation losses in the process of production.

Q. 13. Why does an entrepreneur make a provision for consumption of fixed capital?

Ans. An entrepreneur makes a provision for the consumption of fixed capital with a view to replace the worn-out fixed assets.

Q. 14. Define capital loss.

Ans. Capital loss is a loss of value of fixed assets while these are not in use. It occurs on account of:

(i) Natural calamities, and

(ii) Fall in market value of the assets during periods of economic recession.

Q. 15. What is current replacement cost?

Ans. Current replacement cost refers to the estimated value of depreciation for all the producing units in the economy, during the period of an accounting year.

Real And Norm - Very Short (Reason-Based)

Q.1. Nominal GDP is estimated at the base year prices.

Ans. False. Nominal GDP is estimated at prices prevailing during the year of estimation.

Q.2. Real GDP increases with increase in the price level in the economy.

Ans. False. Real GDP does not increase with increase in the price level in the economy because it is estimated at constant prices, or base year prices.

Q.3. Current year prices are the prices prevailing during the base year.

Ans. False. Current year prices are the prices prevailing during the year of estimation.

Q.4. Nominal GDP can be converted into real GDP by using the quantity index.

Ans. False. Nominal GDP can be converted into real GDP by using the price index, not the quantity index.

Q.5.

$$\text{GDP Deflator} = \frac{\text{Real GDP}}{\text{Current Price Index}} \times 100.$$

Ans.

$$\text{False. GDP Deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100.$$

GDP And Welfare - Very Short - Info & Con

Q.1. How are GDP and welfare related to each other?

Ans. Other things remaining constant, higher GDP implies higher welfare. So that there is a positive relationship between GDP and welfare.

Q.2. Define externalities.

Ans. Externalities refer to positive and negative impact of an economic activity on the others without involving any price or penalty.

GDP And Welfare - Very Short (Reason-Based)

Q.1. Welfare of the people in an economy is measured in terms of the availability of average income per person.

Ans. False. Welfare of the people is measured in terms of the availability of goods and services per person.

Q.2. With every increase in the level of GDP, social welfare definitely increases in the economy.

Ans. False. If increase in the level of GDP is associated with higher level of income inequality, social welfare may not increase.

GDP And Welfare - Very Short (Hots & Application)

Q.1. Should we treat subsidies to the producers as transfer payments?

Ans. No, subsidies to the producers should not be treated as transfer payments. Transfer payments are those payments corresponding to which there is no value addition in the economy, like scholarships to the students or old-age pensions. In the case of subsidies, value addition has already occurred. In fact, subsidies tend to lower the market value of the goods produced. Accordingly, these are added to the market price (while indirect tax is deducted) to make it equal to the factor cost. Subsidies are a part of NNPFC which is why these are deducted from factor cost to equate it with market price.

Q.2. Is net of exports (X – M) a part of net factor income from abroad?

Ans. No, it is not. Income from exports is a part of domestic income. Because, what we export is a part of domestic product. Imports are just the opposite of exports. Thus, net of exports is a component of domestic product or expenditure on domestic product.

Q.3. Rajiv purchases a generator for his office. Giving reasons, answer the following questions:

(i) Purchase of a generator by Rajiv is an intermediate expenditure.

(ii) Expenditure on the maintenance of the generator is an intermediate expenditure.

Ans. (i) No, purchase of a generator by Rajiv is a final investment expenditure because generator is a fixed asset for the office/firm.

(ii) Yes, expenditure on the maintenance of the generator is an intermediate expenditure. Because, things purchased for repair and maintenance are used up during the period of one year and are therefore, treated as intermediate consumption.

GDP And Welfare - Evaluation & Multi-desc

Q.1. Saving is both a virtue as well as a vice. Explain how.

Ans. At the micro level, saving is a virtue. But it may be a vice at the macro level. If an individual saves more, he accumulates more wealth. It enhances his ability to earn more. But at the macro level, if everyone starts saving more, demand for goods and services may fall. It will adversely impact the inducement to invest. Consequently, the level of income and employment may shrink, pushing the economy into a state of depression.

Q.2. Explain the economic value of high component of net exports (X – M) in the total expenditure on final goods and services.

Ans. High component of 'X – M' in the total expenditure on final goods and services is a sign of higher exports than imports of the domestic economy. It implies:

- **i.** that the inflow of foreign exchange (on account of exports) is greater than the outflow of foreign exchange (on account of imports). Accordingly, balance of trade is favourable.
- **ii.** that the domestically produced goods are able to find markets abroad. So that, deficiency of domestic demand no longer remains a hurdle in the growth process of the domestic economy.
- **iii.** that we are, by and large, self-sufficient. Our imports are so limited that we don't have to depend much on other countries.

Briefly, high component of X – M is a pointer to high rate of GDP growth.

Some Basic Conc - R & U (Reason Based)

Q. 1. Intermediate goods are included in the estimation of GDP.

Ans. False. Because value of intermediate goods is only a part of the value of final goods and their inclusion leads to double counting. Therefore, only final goods are included in the estimation of GDP.

Q. 2. LED TV is an example of semi-durable consumer goods.

Ans. False. LED TV is an example of durable consumer goods. Because LED TV can be repeatedly used for several years and is of relatively high value.

Q. 3. Value of intermediate goods is equal to the value of intermediate consumption.

Ans. True. Value of intermediate goods is equal to the value of intermediate consumption. Because intermediate consumption refers to expenditure by the producers on the purchase of intermediate goods during an accounting year.

Q. 4. All producer goods are capital goods.

Ans. False. Producer goods are those goods which are used in the production of other goods. Capital goods only refer to fixed assets of the producers. Therefore, all producer goods are not capital goods.

Q. 5. Private final consumption expenditure refers to consumption expenditure by the households.

Ans. False. Private final consumption expenditure includes consumption expenditure by the households as well as non-profit private institutions.

Q. 6. High fixed investment is a sign of growth and development.

Ans. True. Because fixed investment indicates production capacity of a nation. Greater the addition to production capacity (fixed investment) higher the growth and development.

Q. 7. Unexpected obsolescence is an element of depreciation.

Ans. False. Only expected obsolescence is considered as an element of depreciation, not the unexpected obsolescence. Loss of value of fixed assets owing to unexpected obsolescence is called capital loss.

Q. 8. A car purchased by a household is a final good.

Ans. True. A car purchased by a household is a final good because the household is the final user of the car and no value is to be added to the car.

Q. 9. Air conditioners purchased by a dealer are final goods.

Ans. False. Air conditioners purchased by a dealer are intermediate goods because these are meant for resale.

Q. 10. Chairs, fans, etc., purchased by a school are final goods.

Ans. True. Chairs, fans, etc., purchased by a school are final goods because school is the final user of these goods and no value is to be added to these goods.

Q. 11. Expenditure on maintenance of a machinery is an intermediate expenditure.

Ans. True. Expenditure on maintenance of a machinery is an intermediate expenditure, as all expenditure on repair and maintenance (incurred by a firm) is treated as a part of intermediate consumption.

Circular Flow Of Income - Very Short(Info & Con)

Q. 1. Define stock variables.

Ans. Stock variables are those variables which are measured at a particular point of time.

Example: Wealth and capital.

Q. 2. Define flow variables.

Ans. Flow variables are those variables which are measured per unit of time period.

Example: Income and investment.

Q. 3. What is meant by intersect oral flows?

Ans. Intersect oral flows refer to the flow of goods and services as well as the flow of money among different sectors of the economy.

Q. 4. What is meant by circular flow of income?

Ans. Circular flow of income refers to unbroken circularity of real flows and money flows across different sectors of the economy.

Q. 5. Define monetary flow.

Ans. Monetary flow (or money flow) refers to the flow of factor incomes, viz., rent, interest, profit and wages from the producing sector to the household sector as monetary rewards for their factor services. The households spend their incomes on the goods and services produced by the producing sector. Accordingly, money flows back to the producing sector as household expenditure.

Q. 6. Define real flow.

Ans. Real flow refers to the flow of factor services from the household sector to the producing sector and the corresponding flow of goods and services from the producing sector to the household sector.

Q. 7. What is the principle of circular flow of income and product?

Ans. (i) Real flows (in terms of goods and services) are opposite to the money flows.

(ii) Flow of income across different sectors always implies the identity between payments and receipts.

Q. 8. State whether the following are a stock or a flow?

(i) Income of a household.

(ii) Consumption expenditure of a household.

Ans. Both are flows, as these are measured per unit of time period.

Q. 9. State which of the following is a stock and which is flow?

(i) Wealth.

(ii) Cement Production.

Ans. (i) Stock,

(ii) Flow.

Q. 10. State whether the following is a stock or a flow?

(i) Money supply or quantity of money of the nation.

(ii) Change in nation’s money supply.

Ans. (i) Stock,

(ii) Flow.

Circular Flow Of Income - Very Short(Reason-based)

Q. 1. A stock is a quantity measured at a specified period of time.

Ans. False. A stock is a quantity measured at a particular point of time.

Q. 2. Capital formation is a stock variable.

Ans. False. Capital formation is a flow variable. It refers to addition to the stock of capital and is measured per unit of time period.

Q. 3. Population of a country and number of births both are stock variables.

Ans. False. Population of a country is a stock variable because it is measured at a point of time. Number of births is a flow variable because it is measured per unit of time period.

Q. 4. Export is a flow variable.

Ans. True. Export is a flow variable because it is measured per unit of time period.

Q. 5. Producer sector supplies the factor services to the household sector.

Ans. False. Producer sector supplies goods and services to the household sector.

Q. 6. Flow of factor services rendered by the households to the producers are real flows.

Ans. True. Flow of factor services rendered by the households to the producers are real flows because these flows involve the movement of goods and services from one sector to the other.

Q. 7. Money flows are opposite to real flows.

Ans. True. Money flows are opposite to real flows. Because money flows are in response to the real flows. Money flow from households to the producers is a reciprocal to the real flow of goods from the producers to the households. Likewise, money flow from producers to the households is a reciprocal of the the real flow of factor services from the households to the producers.

Q. 8. A car covering a distance of 300 km in 5 hours includes both stock as well as flow variable.

Ans. True. Because

(i) Distance is a stock variable.

(ii) Speed $\left(\frac{300\,Km}{5\,hours}\right)$ is a flow variable.

Concepts Relating To Nat - Very Short - Info & Con

Q. 1. What is meant by normal residents of a country?

Ans. Normal residents are those residents who ordinarily reside in the country concerned and whose centre of economic interest lies in that country.

Q. 2. What is meant by domestic territory of a country?

Ans. Domestic territory of a country refers to economic territory of a country in which economic activities of the country generates its domestic income.

Q. 3. What is factor income?

Ans. Factor income is the income received by owners of the factors of production in the form of rent, wages, interest and profit for the services rendered in the production process.

Q. 4. Define domestic factor income.

Ans. Domestic factor income is income generated in the domestic territory of the country by all enterprises during one year.

Q. 5. What are transfer payments or transfer expenditure?

Ans. Transfer payments (or transfer expenditure) are all those unilateral payments corresponding to which there is no value-addition in the economy. **Examples:** Gifts and donations.

Q. 6. Define voluntary transfers.

Ans. Voluntary transfers are those transfers which flow on account of the free will of the payer and the recipient.

Q. 7. Define forced transfers.

Ans. Forced transfers are compulsory payments, like income tax.

Q. 8. Define current transfers.

Ans. Current transfers are those transfers which are paid from the current income of the payer and added to the current income of the recipient for consumption expenditure.

Q. 9. What are capital transfers?

Ans. Capital transfers are the transfers made out of wealth or saving of the payer and included in the wealth or saving of the recipient.

Q. 10. What are capital transfers from abroad?

Ans. Capital transfers from abroad are those transfers which are paid by rest of the world for purpose of gross capital formation or long-term expenditure.

Q. 11. Define GDP at market price.

Ans. GDP at market price refers to market value of final goods and services produced within the domestic territory of the country within one year, inclusive of depreciation.

Q. 12. Define NDP at market price.

Ans. NDP at market price refers to market value of final goods and services produced within the domestic territory of the country within one year, exclusive of depreciation.

Q. 13. Define GDP at factor cost or gross domestic income.

Ans. GDP at factor cost or gross domestic income is the sum total of

(i) Compensation of employees,

(ii) Operating surplus,

(iii) Mixed income and

(iv) Consumption of fixed capital, within the domestic territory of the country during the period of one year.

Q. 14. Define NDP at factor cost or net domestic income.

Ans. NDP at factor cost or net domestic income refers to the sum total of factor incomes (rent + interest +profit + wages) generated within the domestic territory of a country during a year.

Q. 15. Define GNP at market price.

Ans. GNP at market price refers to market value of final goods and services produced during the year along with net factor income from abroad and consumption of fixed capital.

Q. 16. Define NNP at market price.

Ans. NNP at market price refers to market value of final goods and services produced during the year, inclusive of net factor income from abroad but exclusive of depreciation.

Q. 17. Define GNP at factor cost.

Ans. GNP at factor cost refers to the sum total of factor incomes (rent + interest + profit + wages) earned by normal residents of a country during the year, along with consumption of fixed capital.

Q. 18. Define NNP at factor cost.

Ans. NNP at factor cost refers to the market value of final goods and services produced within the domestic territory of a country during the period of an accounting year, inclusive of net factor income from abroad but exclusive of depreciation and estimated at factor cost.

Q. 19. Define factor income from abroad.

Ans. Factor income from abroad is the factor income earned by our residents who are temporarily residing abroad. **Example:** Salaries of Indians working in Russian embassy in India.

Q. 20. Define factor income to abroad.

Ans. Factor income to abroad is the factor income earned by non-residents who are temporarily residing in our country. **Example:** Salaries of Americans working in Indian embassy in America.

Q. 21. What is national debt interest?

Ans. National debt interest refers to the interest payments accruing to residents of the country on account of borrowings by the government. The government borrows money from the people (by issuing bonds like National Saving Certificates in India).

Q. 22. Give the meaning of non-market activities.

Ans. Non-market activities refer to those activities which are not performed through exchange or which do not involve sale of goods and services, e.g., a teacher teaching his own son, services of house wives, etc.

Q. 23. What must be added to domestic factor income to obtain national income?

Ans. Net factor income from abroad.

Q. 24. When is gross domestic product of an economy equal to gross national product?

Ans. Gross domestic product (GDP) of an economy is equal to gross national product (GNP) when net factor income from abroad is zero.

Concepts Relating To Nat -Very Short(Reason-based)

Q. 1. Transfer payments are included in the estimation of national income.

Ans. False. Transfer payments are not included in the estimation of national income because transfer payments are unilateral payments. These are not related to factor services rendered by the residents of a country.

Q. 2. National income is the sum total of factor incomes earned by normal residents and non-residents of a country during the period of an accounting year.

Ans. False. National income is the sum total of factor incomes earned by the normal residents of a country during the period of an accounting year.

Q. 3. The Indian people employed in World Health Organisation located in India are non-residents of India.

Ans. False. The Indian people employed in World Health Organisation located in India are normal residents of India.

Q. 4. Income earned by foreigners working in branch of a foreign bank in India is a part of the domestic factor income of India.

Ans. True. This is because the branch of a foreign bank is located within the domestic territory of India.

Q. 5. Money received from sale of shares is included in domestic factor income.

Ans. False. Money received from sale of shares is not included in domestic factor income because sale and purchase of shares only causes change of ownership of financial assets. There is no value addition in terms of flow of goods and services in the economy.

Q. 6. Depreciation is added to gross domestic income to obtain national income

Ans. False. Depreciation is subtracted from gross domestic income to obtain national income.

Q. 7. Scholarship given by Government of India is included in national income of India.

Ans. False. Scholarship given by Government of India is not included in national income of India. Because, scholarship is a transfer payment.

Q. 8. Depreciation is the basis of difference between the domestic income and national income.

Ans. False. The basis of difference between the domestic income and national income is net factor income from abroad.

Q. 9. Domestic product can be more than national product.

Ans. True. When net factor income from abroad is negative, domestic product would be more than the national product.

Q. 10. Salaries to Indian residents working in German embassy in India is included in domestic income of India

Ans. False. Salaries to Indian residents working in German embassy in India is not included in domestic income of India, because German embassy in India is not a part of domestic territory of India.

Q. 11. Profits earned by a company in India, which is owned by a non-resident is included in national income of India.

Ans. True. Profits earned by a company in India, which is owned by a non-resident is a part of domestic factor income of India, because the company is generating profit within the domestic territory of India. Therefore, as a component of domestic income, it is included in national income of India.

Q. 12. National debt interest is included in national income of India.

Ans. False. National debt interest is not included in national income of India. Because it is treated as a transfer payment.

Q. 13. The salaries received by Indians working in branches of foreign banks in India is included in the estimation of domestic income.

Ans. True. Salaries received by Indians working in branches of foreign banks in India is a part of domestic income because these branches of foreign banks are located within the domestic territory of the country.

Q. 14. Factor income from abroad is a part of domestic factor income of India.

Ans. False. Factor income from abroad is not a part of domestic factor income of India, because it is not generated within the domestic territory of India.

Q. 15. Interest paid by banks to Rohit on his deposits is included in national income.

Ans. True. Interest paid by banks to Rohit on his deposits is included in national income because banks are expected to have used Rohit’s saving for productive purpose.

Method Of Calculating - Very Short - Info & Con

Q. 1. Name the three methods of measuring national income.

Ans. (i) Product method or value added method,

(ii) Income method, and

(iii) Expenditure method.

Q. 2. What is meant by primary sector?

Ans. Primary sector is that sector which produces goods by exploiting natural resources. It comprises agriculture, fishing, forestry and mining.

Q. 3. What is meant by secondary sector?

Ans. Secondary sector is that sector in which production is done by using output of primary sector as input.

Q. 4. What is meant by tertiary sector?

Ans. Tertiary sector is that sector in which entrepreneurs provide services such as of banking, insurance, etc.

Q. 5. Define the concept of value added.

Ans. Value added refers to addition of value to a thing with a view to generating income.

Q. 6. What is an alternative name of value added?

Ans. Production

Q. 7. What is meant by double counting?

Ans. The counting of the value of a commodity more than once is called double counting. This leads to overestimation of the value of goods and services produced.

Q. 8. What is meant by value added method?

Ans. Value added method is that method which measures the contribution of each producing enterprise to production in the domestic territory of the country.

Q. 9. What is meant by income method?

Ans. Income method is that method which measures national income as the sum total of factor incomes (compensation of employees, rent, interest and profit) earned by normal residents of a country during an accounting year.

Q. 10. What is meant by expenditure method?

Ans. Expenditure method is that method which measures national income in terms of the expenditure (consumption expenditure + investment expenditure) on the purchase of final goods and services produced in the economy during the period of an accounting year.

Method of Calculating - Very Short (Reason-Based)

Q.1. Both value added and value of output are identical concepts.

Ans. False. Value added and value of output both are different concepts. Value of output refers to the market value of the goods produced. While value added refers to the market value of the goods produced minus market value of the goods used as inputs/raw material in the process of production.

Q.2. Sum total of value added by all the producing units within the domestic territory of the country is equal to national product.

Ans. False. Sum total of value added by all the producing units within the domestic territory of the country is equal to domestic product.

Q.3. Sum of value added is equal to sum of factor incomes.

Ans. True. Sum of value added refers to the value of final goods and services produced in the economy during the period of one year. Net value added at factor cost implies cost of the factors of production in terms of rent, interest, profit and wages. This is equal to income generated. Hence, the fact that value added is identical with income generated.

Q.4. Exports are included in the estimation of national income.

Ans. True. Because exports are a part of goods and services produced within the domestic territory of a country.

Q.5. For calculating gross domestic capital formation, we do not add change in stock to gross domestic fixed capital formation.

Ans. False. We do add change in stock to gross domestic fixed capital formation for calculating gross domestic capital formation. Change in stock is treated as inventory investment.

Q.6. Retirement pensions are included in the estimation of national income.

Ans. True. Because retirement pensions are a kind of deferred wage.

Q.7. Expenditure on second hand goods is not included in the estimation of national income.

Ans. True. Expenditure on second hand goods is not included in the estimation of national income because value of second hand goods has already been accounted during the year of their production (when these were initially produced and purchased by the final users).

Q.8. Payment of income tax by a firm is not included in the estimation of national income.

Ans. True. Because income tax by a firm implies corporate tax. It is a transfer payment by the firm to the government. It is paid out of income and therefore, not to be separately added in the estimation of national income.

Q.9. Festival gifts to employees are included in the estimation of national income.

Ans. False. Festival gifts to employees are not included in the estimation of national income because gifts are transfer payments.

Q.10. Free medical treatment of the employees by the employer is included in the estimation of national income.

Ans. True. Free medical treatment of the employees by the employer is included in the estimation of national income because it is a kind of wages in kind and therefore, a part of compensation of employees.

Q.11. Contribution to provident fund by the employers is included in the national income.

Ans. True. Contribution to provident fund by the employers is included in national income, because it is paid by the employers on behalf of the employees. It is included in national income as a part of the compensation of employees.

Q.12. Contribution to provident fund by the employees is added in the estimation of national income.

Ans. False. Contribution to provident fund by the employees is paid out of their income. It is, therefore, not separately added in the estimation of national income.

Q.13. Free dress provided to nurses by the hospital is included in the estimation of national income.

Ans. False. Free dress provided to nurses by the hospital is not included in the estimation of national income if the dress is a uniform provided by the hospital at the time of work. It is to be treated as an intermediate consumption.

Q.14. Leisure is not included in GNP.

Ans. True. Leisure is not included in GNP because it does not involve rendering of any factor service.

Q.15. Prize won in a lottery is included in the national income.

Ans. False. Prize won in a lottery is not included in the national income because it is just a windfall gain, involving no value addition.

Real And Norm - Very Short - Info & Con

Q.1. Define nominal GDP.

Ans. Nominal GDP (also called GDP at current prices) refers to market value of the final goods and services produced within the domestic territory of a country during an accounting year, as estimated using the current year prices.

Q.2. Define real GDP.

Ans. Real GDP (also called GDP at constant prices) refers to market value of the final goods and services produced within the domestic territory of a country during an accounting year, as estimated using the base year prices.

Q.3. How is GDP at current prices converted into GDP at constant prices?

Ans. GDP at current prices is converted into GDP at constant prices by using the following formula:

$$\text{GDP at Constant Prices or Real GDP} = \frac{\text{GDP at Current Prices}}{\text{Current Price Index}} \times 100$$

Q.4. What is a GNP deflator?

Ans. The GNP deflator measures the average level of the prices of all the goods and services that make up GNP. GNP deflator is measured as the ratio of nominal GNP to real GNP, multiplied by 100.