

Investment, Stock, Flows & Circular Flow of Income

1 Mark Questions

1. Define stock variable. (Delhi 2012; All India 2011)

Ans. Stock variables are defined as any quantity measured at a particular point of time. e.g. number of machines in a plant, amount in the bank account on a specific date, etc.

2. Define flow variable. (All India 2012; Delhi 2011)

Ans. Flow variables are defined as any quantity measured per unit at a particular period of time, e.g. income or expenditure over a time period of one month or one year.

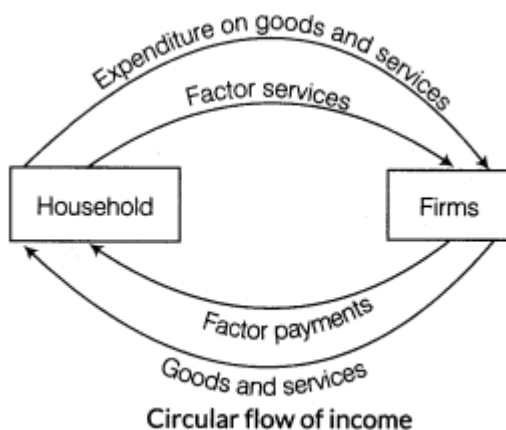
3. Define depreciation. (All India 2011)

Ans. It is the loss of value of fixed assets in use on an account of normal wear and tear, normal rate of accidental damages and expected or foreseen obsolescence. Depreciation is also called consumption of fixed capital.

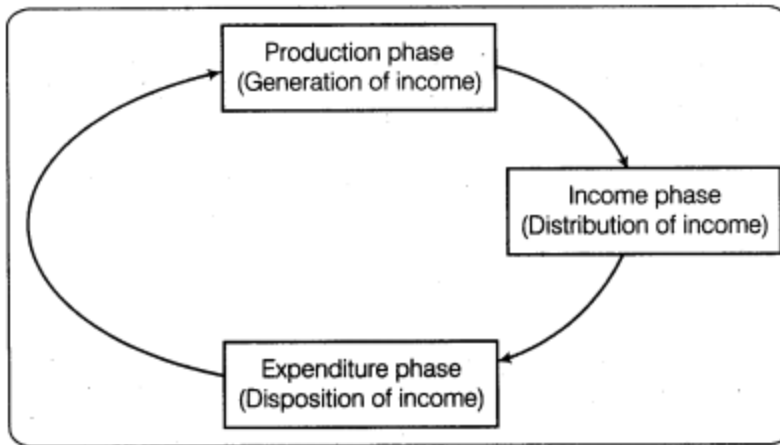
3 Mark Questions

4. Explain the circular flow of income. (Compartment 2014; Delhi 2009)

Ans. Circular flow of income refers to the unending flows of production of goods and services, income and expenditure in an economy. It shows the redistribution of income in a circular manner between production units (firms) and households. It can be better understood with this diagram



Phases of Circular Flow of Income: There are three different phases (generation, distribution and disposal) in circular flow of income, as shown in the given diagram



Different phases of circular flow of income

(i) Generation phase: In this phase, firms produce goods and services with the help of factor services.

(ii) Distribution phase This phase involves the flow of factor income (rent, wages, interest and profit) from firms to the households.

Disposal phase In this phase, the income received by factors of production, is spent on the goods and services produced by firms.

Income is first generated in production units, then distributed to households, and finally spent on goods and services produced by these units to make the circular flow complete its course.

8. Give reasons and categories the following into stock and flow

(i) Profits

(ii) Capital

(iii) Savings

(iv) Balance in bank account (All India 2011)

Ans. (i) Profits: These are flow variables as it is measured over a period of time.

(ii) Capital : It is a man made means of production. It is a stock because it is measured at given point of time.

(iii) Savings: Give reasons and categories the following into stock and flow

(iv) Balance in bank account: This is a stock variable which is measure on a specific date, i.e. point of time.



9. Give reasons and categories the following in stock and flow

(i) Losses

(ii) Capital

(iii) Production

(iv) Wealth

(Delhi 2011 c)

Ans. (i) Losses: These are those flows as it is measured over a period of time.

(ii) Capital: It is a manmade means of production. It is a stock because it is measured at given point of time.

(iii) Production: It is a flow as it is measured over a period of time.

(iv) Wealth: It is a stock as it is measured at a particular point of time.