CBSE Class–12 economics

Important Questions - Macro Economics 02

National Income Accounting

VERY SHORT ANSWER QUESTIONS (1 Mark)

Q1. Explain the meaning of non-market activities

a) Production
b) Non marketable
c) Involuntary
d) Economic

Ans. (b)

Q2. Nominal GNP is same as

a) GNP at constant prices
b) Real GNP
c) GNP at current prices
d) GNP less Net factor income from abroad

Ans. (c)

Q3. Real flow is the flow of

a) Money
b) Goods only
c) Services only
d) Goods and services

Ans. (d)

Q4. What is national disposable income?

Ans. National disposable is termed as that income which is available to the whole economy for the spending purpose or for disposition.

It is calculated as NNP_{MP} + Net Current Transfers from Abroad (NDI)

Q5. What is real flow?

Ans. Real flow refers to the flow of services and goods between different segments of economy. For e.g. Flow sector services flow from household to firm and then reverse, i.e. from firm to household again.

Q6. Define money flow.

Ans. Money flow refers to the flow of money between different sectors of the economy such as firm, household, etc. For e.g. Income flow from firms to household and consumption expenditure from household to firm back.

Q7. What must be added to domestic factor income to obtain national income?

Ans. Net factor income from abroad must be added to domestic factor income to obtain the national income.

Q8. Explain the meaning of non market activities.

Ans. Non marketing activities are those things which get acquired of many final goods and services. They are not through regular market transactions. For e.g. vegetables grown in the kitchen garden of the house.

Q9. Define Real GNP.

Ans. GNP which is computed at constant prices i.e. through base year price is called Real GNP in economics.

Q10. Money flow is the flow of

a) Factor payments

b) Goods only

c) Services only

d) Goods and services only

Ans. (a)

Q11. State which one of the following is true.

a) **Bread is always a consumer good.**
b) **Gross domestic capital formation is always greater than gross fixed capital formation.**
c) **Capital formation is a flow**
d) **Nominal GDP can never be less that real GDP**

Ans. (c)

Q12. Which of the following in an example of macro economics

a) **Price determination**
b) **Consumer's equilibrium**
c) **Producer's equilibrium**
d) **Inflation**

Ans. (d)

Q13. Microeconomics is different from macroeconomics as

a) **Microeconomics deals with economic behaviour**
b) **Microeconomics deals with individual behaviour**
c) **Microeconomics deals with prices only**
d) **Microeconomics deals with government's decisions**

Ans. (b)

Q14. Intermediate goods are those

a) **Which are sold**
b) **Which capital can buy**
c) **Which are for long term use**
d) **Which are for resale**

Ans. (d)

Q15. An example of transfer payments is

a) **Free meals in the company canteen**
b) **Employers' contribution for social security**
c) **Retirement pension**
d) **Old age pension**

Ans. (d)

SHORT ANSWER QUESTIONS (3 / 4 Marks)

Q16. Distinguish between personal income and private income.

Ans. Following is the difference between the two:

Personal Income is the sum total of earned and transfer incomes received by individuals from all the income sources comprises of within and outside country. It is calculated as -

Personal Income = Private Income – Corporate Tax – Corporate Savings (undistributed profits)

Private Income can be considered of factor and transfer income received from all the private sources within and outside country.

Q17. Explain the main steps involving in measuring national income through product method.

Ans. Here are the steps:-

1. **First of all, classify the producing units into industrial sectors like primary, secondary and tertiary sectors.**
2. **Then estimate the net value added at the factor cost.**
3. **In the third step, evaluate value of output by putting sales and change in stock together.**

4. **Appraise gross value added by value of output by subtracting intermediate consumption from it.**
5. **Deduct depreciation and net indirect tax from gross value added at market price to arrive at net value added at factor cost = NDP_{FC}.**
6. **Finally add net factor income received from abroad to NDP_{FC} to obtain NNP_{FC} which is again national income.**

Q18. What is double counting in economy? How can it be avoided?

Ans. Calculating the value of commodities at each and every stage of production more than one time is known as doubt counting.

It can be avoided by the following ways:-

a) **By taking value added method while calculating national income**

b) **By taking value of final commodity only while calculating national income**

Q19. Do you agree with the statement, 'Machine purchased is always a final good'. Give reason for your answer.

Ans. Yes, we agree with the statement stated here. Whether machine is a final good or it depends on how it is used. If machine is bought by household, then it is termed as final good. And on the other hand, if the machine is bought by any industry, then also it is called final good. But if it is bought by firm for resale, then it is called intermediate good.

Q20. What are the precautions to be taken while calculating national income through product method, specially value added method?

Ans. The following will be the steps:

a) **Avoid production's doubt counting method, one should always go with the value added by each production unit.**

b) Output produced for self-consumption to be included.

c) One should never include sale and purchase of second hand goods.

d) Value of intermediate consumption should never be included

e) One must always include value of services rendered in sales.

LONG ANSWER QUESTIONS (6 Marks)

Q21. Calculate net value added at market price of a firm: -

Items	Amount
Sale	300
Change in stock	-10
Depreciation	20
Net in direct taxes	30
Purchase of machinery	100
Purchase of intermediate product	150

Ans. Value of output: - Sale + Change in stock (300+ (-) 10 = 290/-)

Gross Value added at MP= Value of output - Purchase of intermediate product.

290 - 150 = 140/-

Net Value added at MP = Gross Value added at MP - Depreciation

140 - 20 = 120/-

Hence the final answer is Rs. 120.

Q22. Calculate national income and gross national disposable income from the following data

S.No	Contents	Rs. (in crores)
1	Net indirect tax	05
2	Net domestic fixed capital formation	100
3	Net exports	(-) 20
4	Government's final consumption expenditure	200

5	Net current transfers from abroad	15
6	Private final consumption expenditure	600
7	Change in stock	10
8	Net factor income from abroad	05
9	Gross domestic fixed capital formation	125

Ans. Putting the equation….

Net national income (NNP_{FC}) = Net disposable income ($NNDP_{MP}$)

= (Govt. final consumption expenditure + private final consumption expenditure +net domestic fixed capital formation +net exports)

= 200+600+100+10+ (-) 20

= 910-20= 890

So NDP_{mp} = 890 crores

NNP_{FC} = $NNDP_{MP}$ + (net factor income from abroad – net indirect tax)

= 890+5-5

So NNP_{FC} = 890 crores

Depreciation = (Gross domestic fixed capital formation - Net domestic fixed capital formation)

= 125-100= 25 crores

GNDI = (NNP_{FC} + Net indirect tax+ Net current transfers from abroad+ Depreciation)

= 890+05+15+25

GDNI = 935 crores

Q23. Calculate NNP at market price by production method and income method.

S.No	Contents	Rs. (in crores)
1	Intermediate consumption Primary sector Secondary sector Tertiary sector	 500 400 300
2	Value of output of Primary sector Secondary sector Tertiary sector	 1000 900 700
3	Rent	10
4	Emoluments of employers	400
5	Mixed income	650
6	Operating surplus	300
7	Net factor income from abroad	-20
8	Interest	05
9	Consumptive of fixed capital	40
10	Net indirect tax	10

Ans.

1. **By Production Method:**

   Value added at MP = Value of output - Intermediate consumption

   = (1000+900+700) – (500+400+300)

   = 2600-1200

   Hence GDP_{MP} = 1400 crores

   NNP_{MP} = GDP_{MP} - (Consumptive of fixed capital+ Net factor income from abroad)

   = 1400 – 40 = (-20)

NNP_{MP} is equal to 1380 crores

2. **By Income Method:**

NNP_{MP} = Emoluments of employers+ Mixed income+ Operating surplus+ Net indirect tax+ Net factor income from abroad

=400+650+300+10+ (-20)

NNP_{MP} = 1350+10-20

= 1340 crores

Q24. Giving reason, explain whether the following are included in domestic product of India.

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

Ans.

1. **Profits earned by a branch of foreign bank in India will be included in domestic income of India because the profits are earned within the domestic territory of India.**
2. **Payment of salaries to its staff by embassy located in New Delhi will not be included in domestic income of India as it is not a part of domestic territory of India.**
3. **Interest received by an Indian resident from its abroad firms will not be included in domestic income of India because it is factor income from abroad.**

Q25. Calculate National Income and Private Income from the following data.

S.No	Contents	Rs. (in crores)
1	Net current transfers from rest of the world	10
2	Private final consumption expenditure	600
3	National debt interest	15

4	Net exports	(-)20
5	Current transfers from government	5
6	Net domestic product at factor cost accruing to govt.	25
7	Government final consumption expenditure	100
8	Net indirect tax	30
9	Net domestic capital formation	70
10	Net factor income from abroad	10

Ans.

a) **National Income (NNP_{FC}) = [Private final consumption expenditure+ Government final consumption expenditure+ Net domestic capital formation+ Net exports+ Net factor income from abroad- Net indirect tax]**

= 600+100+70+ (-20) +10-30

= 780-50

= 730 crore

b) **Private Income = NNP_{FC}- Net domestic product at factor cost accruing to govt+ Transfer payments+ National debt interest**

= 730-25+ (10+5) +15

= 760-25

= 735 crore