Important Questions for Class 12

Macro Economics

Chapter 2 – National Income Accounting

Very Short Answer Questions **1 Mark**

1. Explain the meaning of non-market activities

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

Ans: (b) Non-marketable.

2. 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) GNP at current prices

3. Real flow is the flow of

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

Ans: (d) Goods and services

4. What is national disposable income?

Ans: The term "national disposable income" refers to the amount of money available to the entire economy for spending or disposition.

The formula for calculating national disposable income is NNP_{MP} + Net Current Transfers from Abroad (NDI).

5. What is real flow?

Ans: The flow of services and goods between various segments is referred to as real flow. Flow sector services, for example, flow from household to firm and then back again.

6. Define money flow.

Ans: The flow of money between different sectors of the economy, such as firms, households, and so on, is referred to as money flow. For example, consider the flow of income from firms to households and the flow of consumption expenditure from households to firms.

7. What must be added to domestic factor income to obtain national income?
Ans: To calculate the national income, net factor income from outside the country must be added to domestic factor income.

8. Explain the meaning of non-market activities.
Ans: Non-marketing activities are those that are gained as a result of the purchase of a large number of finished goods and services. They are really not bought and sold on the open market. Vegetables, for example, cultivated in the house kitchen garden.

9. Define Real GNP.
Ans: In economics, real GNP is defined as GNP computed at constant prices, or through a base year price.

10. Money flow is the flow of
- **a) Factor payments**
- **b) Goods only**
- **c) Services only**
- **d) Goods and services only**

Ans: (a) Factor payments

11. 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) Capital formation is a flow

12. 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) Inflation

13. 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) Microeconomics deal with individual behaviour

14. 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) Which are for resale

15. 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) Old age pension

Short Answer Questions **3/4 Marks**

16. Distinguish between personal income and private income.

Ans: The distinction between the two is as follows:
Individuals' **personal income** is the sum of their earned and transfer revenues from all sources of income, both within and outside the country.
Personal Income is computed as follows: Private Income – Corporate Tax – Corporate Savings (undistributed profits)
Factor and transfer income obtained from all private sources within and outside the country is classed as **private income**.
Personal income (PI) ≡ NI – Undistributed profits – Net interest payments made by households – Corporate tax + Transfer payments to the households from the government and firms.

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

Ans: The most important steps in calculating national income using the product approach:

1. First, divide the manufacturing units into industrial sectors such as primary,

secondary, and tertiary.
2. Next, calculate the factor cost's net value added.
3. In the third phase, calculate the output value by adding sales and stock changes.
4. Calculate gross value added by deducting intermediate consumption from output value.
5. Subtract depreciation and net indirect tax from gross value added at market price to get NDP_{FC} (net value added at factor cost).
6. Finally, add net factor income from outside the country to NDP_{FC} to get NNP_{FC}, which is national income once more.

18. What is double counting in economy? How can it be avoided?
Ans: Doubt counting is the process of calculating the value of goods multiple times at each stage of production.
The following methods can be used to avoid it:
a)When estimating national income, use the value-added technique.
b)Calculating national income only on the basis of the final commodity's worth.

19. Do you agree with the statement, 'Machine purchased is always a final good'. Give reason for your answer.
Ans: Yes, we agree with the assertion made here. It is up to the user to decide if a machine is a finished product or not. When a machine is purchased by a household, it is referred to as a final good. On the other hand, if a machine is purchased by a business, it is referred to as a final good. However, if it is purchased by a company for resale, it is referred to as an intermediate good.

20. What are the precautions to be taken while calculating national income through product method, specially value-added method?
Ans: The steps will be as follows:
a) Instead of relying on the value added by each production unit, avoid using the production's doubt counting approach.
b) Inclusion of output produced for self-consumption.
c) The cost of intermediary consumption should never be taken into account.
d) The sale and acquisition of used products should never be included.
g) The value of services rendered must always be factored into sales.

Long Answer Questions **6 Marks**

21. 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/-
Thus, the final answer is Rs. 120.

22. 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 together
Net national income (NNP_{FC}) = Net disposable income ($NNDP_{MP}$)
= (Government 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

23. 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

24. 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 foreign bank branch in India are included in India's domestic income because they are earned within the country's borders.
2. Since the embassy in New Delhi is not part of India's domestic territory, salaries paid to its employees will not be included in the country's domestic income.
3. Interest received by an Indian resident from his or her foreign enterprises is not included in India's domestic income because it is a factor income.

25. 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	30
8	Net indirect tax	05
9	Net domestic capital formation	40
10	Net indirect tax	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 crores

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 crores