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ISBN : 978-81-8449-803-5

Code No : SG95

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PREFACE

The woods are lovely, dark and deep.

But I have promises to keep, and

miles to go before I sleep

- Robert Frost

Respected Principals, Correspondents, Headmasters/
Headmistresses, Teachers,

From the bottom of our heart, we at SURA Publications sincerely thank you for the support and patronage that you have extended to us for more than a decade.

It is in our sincerest effort we take the pride of releasing **SURA'S Economics** for +2 Standard – Edition 2021-22. This guide has been authored and edited by qualified teachers having teaching experience for over a decade in their respective subject fields. This Guide has been reviewed by reputed Professors who are currently serving as Head of the Department in esteemed Universities and Colleges.

With due respect to Teachers, I would like to mention that this guide will serve as a teaching companion to qualified teachers. Also, this guide will be an excellent learning companion to students with exhaustive exercises and in-text questions in addition to precise answers for textual questions.

In complete cognizance of the dedicated role of Teachers, I completely believe that our students will learn the subject effectively with this guide and prove their excellence in Board Examinations.

I once again sincerely thank the Teachers, Parents and Students for supporting and valuing our efforts.

God Bless all.

Subash Raj, B.E., M.S.

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CHAPTER

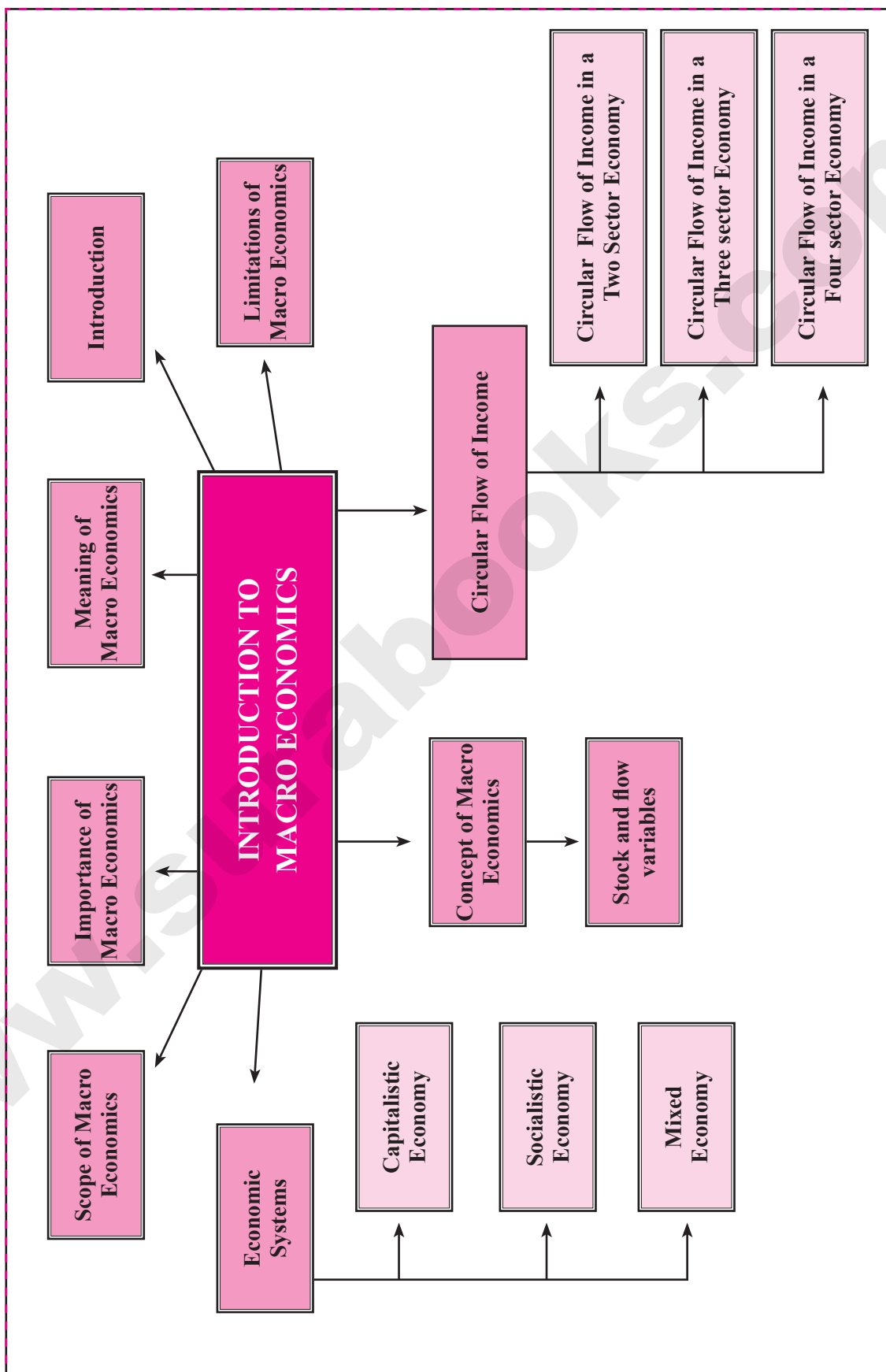
1

INTRODUCTION TO MACRO ECONOMICS

CHAPTER SNAPSHOT

- | | | | |
|-------|-----------------------------------|-------|---|
| 1.1 | Introduction | 1.8 | Concepts of Macro Economics |
| 1.2 | Meaning of Macro Economics | 1.8.1 | Stock and flow variables |
| 1.3 | Importance of Macro Economics | 1.9 | Circular Flow of Income |
| 1.4 | Scope of Macro Economics | 1.9.1 | Circular Flow of income in a Two Sector Economy |
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| 1.6 | Economy and its Types | 1.9.3 | Circular Flow of Income in a Four Sector Economy |
| 1.7 | Economic Systems | | |
| 1.7.1 | Capitalistic Economy (Capitalism) | | |
| 1.7.2 | Socialistic Economy (Socialism) | | |
| 1.7.3 | Mixed Economy (Mixedism) | | |

Concept Map



Important Terms

Macro Economics	: Macro Economics deals with aggregates such as national income, employment and output.
Business Cycle	: All the economies face the problem of business fluctuations and business cycle.
Economic Systems	: Economic system refers to the manner in which individuals and institutions are connected together to carry out economic activities in a particular area.
Globalism	: Globalisation that connects nations together through international trade and aiming at global development.
Capitalistic Economy / Market Economy / Free Trade Economy	: Capitalist economy is where the role of the government is minimum and market determines the economic activities.
Socialistic Economy / Command Economy / Socialism	: Socialism refers to a system of total planning, public ownership and state control on economic activities.
Mixed Economy / Mixedism	: In a mixed economy system both private and public sectors co-exist and work together towards economic development.
Economic Model	: A model is a simplified representation of real situation.
Circular flow of Income	: The circular flow of income is a model of an economy showing connections between different sectors of an economy.
Stock	: Stock refers to a quantity of a commodity measured at a point of time.

Definitions

Macro Economics	: According to - Dorn Busch, Fischer and Startz “Macro Economics is very much about tying together facts and theories”.
Economy	: The term economy has been defined by A.J. Brown as, “A system by which people earn their living”.
J.R. Hicks Definition of Economy	: J.R. Hicks defined as, “An economy is a cooperation of producers and workers to make goods and services that satisfy the wants of the consumers”.
Capitalistic Economy	: According to “Adam Smith” capitalistic economy is also termed as a free economy (Laissez Faire, in Latin) or market economy where the role of government is minimum and market determines the economic activities.

- Socialism** : Socialism is defined as a way of organizing a society in which major industries are owned and controlled by the government.
- Mixed Economy** : An economic system combining private and state enterprise.
- Circular flow of income** : Circular flow of income is the flow of money made as payments in exchange for products and services between various sectors in the economy, balanced by the flow of payments made in exchange for goods and services.

MODEL QUESTIONS

PART - A

MULTIPLE CHOICE QUESTIONS

- The branches of the subject Economics is**
(a) Wealth and welfare [PTA-6]
(b) Production and consumption
(c) Demand and supply
(d) Micro and macro
[Ans. (d) Micro and macro]
- Who coined the word 'Macro'?** [QY-2019]
(a) Adam Smith (b) J M Keynes
(c) Ragnar Frisch (d) Karl Marx
[Ans. (c) Ragnar Frisch]
- Who is regarded as Father of Modern Macro Economics?**
[Govt. MQP-2019; Mar-2020; Sep-2020]
(a) Adam Smith (b) J M Keynes
(c) Ragnar Frisch (d) Karl Marx
[Ans. (b) J M Keynes]
- Identify the other name for Macro Economics.**
[PTA-1]
(a) Price Theory (b) Income Theory
(c) Market Theory (d) Micro Theory
[Ans. (b) Income Theory]
- Macro economics is a study of _____.**
[PTA-2 Mar-2020]
(a) individuals (b) firms
(c) a nation (d) aggregates
[Ans. (d) aggregates]
- Indicate the contribution of J M Keynes to economics.**
(a) Wealth of Nations (b) General Theory
(c) Capital (d) Public Finance
[Ans. (b) General Theory]
- A steady increase in general price level is termed as _____.**
(a) Wholesale price index
(b) Business Cycle
(c) Inflation
(d) National Income [Ans. (c) Inflation]
- Identify the necessity of Economic policies.**
(a) to solve the basic problems [PTA-5]
(b) to overcome the obstacles
(c) to achieve growth
(d) all the above [Ans. (d) all the above]
- Indicate the fundamental economic activities of an economy.**
(a) Production and Distribution
(b) Production and Exchange
(c) Production and Consumption
(d) Production and Marketing
[Ans. (c) Production and Consumption]
- An economy consists of** [PTA-4; HY-2019]
(a) Consumption sector
(b) Production sector
(c) Government sector
(d) All the above
[Ans. (d) All the above]
- Identify the economic system where only private ownership of production exists.**
(a) Capitalistic Economy
(b) Socialistic Economy
(c) Globalisic Economy
(d) Mixed Economy
[Ans. (a) Capitalistic Economy]
- Economic system representing equality in distribution is _____.**
(a) Capitalism (b) Globalism
(c) Mixedism (d) Socialism
[Ans. (d) Socialism]

Introduction to Macro Economics



Sura's - XII Std - Economics

13. Who is referred as 'Father of Capitalism'?

- (a) Adam Smith (b) Karl Marx
(c) Thackeray (d) J M Keynes

[Ans. (a) Adam Smith]

14. The country following Capitalism is _____. [PTA-3]

- (a) Russia (b) America
(c) India (d) China

[Ans. (b) America]

15. Identify The Father of Socialism.

[PTA-1; HY-2019]

- (a) J M Keynes (b) Karl Marx
(c) Adam Smith (d) Samuelson

[Ans. (b) Karl Marx]

16. An economic system where the economic activities of a nation are done both by the private and public together is termed as _____. [PTA-6]

- (a) Capitalistic Economy
(b) Socialistic Economy
(c) Globalistic Economy
(d) Mixed Economy

[Ans. (d) Mixed Economy]

17. Quantity of a commodity accumulated at a point of time is termed as _____. [Ans. (b) stock]

- (a) production (b) stock
(c) variable (d) flow

18. Identify the flow variable. [QY-2019; Sep-2020]

- (a) money supply (b) assets
(c) income
(d) foreign exchange reserves

[Ans. (c) income]

19. Identify the sectors of a Two Sector Model.

- (a) Households and Firms [PTA-4]
(b) Private and Public
(c) Internal and External
(d) Firms and Government

[Ans. (a) Households and Firms]

20. The Circular Flow Model that represents an open Economy. [PTA-2]

- (a) Two Sector Model
(b) Three Sector Model
(c) Four Sector Model
(d) All the above

[Ans. (c) Four Sector Model]

PART - B

ANSWER THE FOLLOWING QUESTIONS IN ONE OR TWO SENTENCES

21. Define Macro Economics. [PTA-4; QY-2019]

Ans. (i) The word 'Macro' is derived from the Greek word 'Makros' meaning 'large' - Hence, Macro Economics is the study of the economy as a whole.

(ii) In other words macro economics deals with aggregates such as national income, employment and output. Macro Economics is also known as "Income theory".

22. Define the term Inflation.

[Govt. MQP - 2019; QY-2019; Mar-2020]

Ans. (i) Inflation refers to steady increase in general price level.

(ii) Estimating the general price level by constructing various price index numbers such as wholesale price Index, Consumer Price Index etc, are needed.

23. What is meant by an 'Economy'?

[PTA-1, 5; HY-2019]

Ans. J.R. Hicks defined as, "An economy is a cooperation of producers and workers to make goods and services that satisfy the wants of the consumers".

24. Classify the economies based on status of development.

- Ans. (i)** Developed economies
(ii) Under developed economies
(iii) Undeveloped economies
(iv) Developing economies

25. What do you mean by Capitalism? [HY-2019]

Ans. Adam Smith is the 'Father of Capitalism'. Capitalistic economy is also termed as a free economy (Laissez faire, in Latin) or market economy where the role of the government is minimum and market determines the economic activities.

26. Define 'Economic Model'. [PTA-6]

- Ans. (i)** A Model is a simplified representation of real situation.
(ii) Economists use models to describe economic activities, their relationships and their behaviour.

27. 'Circular Flow of Income' - Define. [PTA-2]

- Ans. (i)** The circular flow of income is a model of an economy showing connections between different sectors of an economy.
(ii) It shows flows of income, goods and services and factors of production between economic agents such as firms, households, government and nations.

PART - C

ANSWER THE FOLLOWING QUESTIONS IN ABOUT A PARAGRAPH

28. State the importance of Macro Economics.

[PTA-5; Mar-2020]

Ans. The importance and the need for introducing a macro outlook of an economy are given below.

- (i) There is a need to understand the functions of an economy at the aggregate level to evolve suitable strategies and to solve the basic problems prevailing in an economy.
- (ii) Understanding the future problems, needs and challenges of an economy as a whole.
- (iii) Macro economics provides ample opportunities to use scientific investigation to understand the reality.
- (iv) Macro economics helps to make meaningful comparison and analysis of economic indicators.
- (v) Macro economics helps for better prediction about future.

29. Describe the different types of economic systems.

[QY-2019]

Ans. There are three major types of economic systems. They are,

- (i) **Capitalistic Economy (Capitalism) :**
Capitalistic economy is also termed as a free economy or market economy where the role of the government is minimum and market determines the economic activities.
- (ii) **Socialistic Economy (Socialism) :**
Socialism refers to a system of total planning, public ownership and state control on economic activities.
- (iii) **Mixed Economy (Mixedism) :**
In a mixed economy system both private and public sectors co-exist and work together towards economic development.

30. Outline the major merits of capitalism.

[PTA-6]

Ans. (i) Automatic Working :

Without any government intervention the economy works automatically.

(ii) Efficient use of Resources :

All resources are put into optimum use.

(iii) Incentives for Hard work :

Hard work is encouraged and entrepreneurs get more profit for more efficiency.

(iv) Consumers Sovereignty :

All production activities are aimed at satisfying the consumers,

(vi) Higher Rates of Capital Formation :

Increase in saving and investment leads to higher rates of capital formation.

31. Indicate the demerits of socialism. [PTA-1]

Ans. (i) Red Tapism and Bureaucracy :

As decision are taken by government agencies, approval of many officials and movement of files from one table to other takes time and leads to red tapism.

(ii) Absence of Incentive :

The major limitation of socialism is that this system does not provide any incentive for efficiency.

(iii) Limited Freedom of choice :

Consumers do not enjoy freedom of choice over the consumption of goods and services.

(iv) Concentration of Power :

The State takes all major decisions.

32. Enumerate the features of mixed economy. [PTA-2; HY-2019; Sep-2020]

Ans. Features of Mixed Economy :

1. **Ownership of Property and Means of Production :** The means of production and properties are owned by both private and public. Public and Private have the right to purchase, use or transfer their resources.
2. **Coexistence of Public and Private Sectors :** In mixed economies, both private and public sectors coexist. Private industries undertake activities primarily for profit. Public sector firms are owned by the government with a view to maximize social welfare.
3. **Economic Planning :** The central planning authority prepares the economic plans. National plans are drawn up by the Government and both private and public sectors abide. In general, all sectors of the economy function according to the objectives, priorities and targets laid down in the plan.
4. **Solution to Economic Problems :** The basic problems of what to produce, how to produce, for whom to produce and how to distribute are solved through the price mechanism as well as state intervention.
5. **Freedom and Control :** Though private has freedom to own resources, produce goods and services and distribute the same, the overall control on the economic activities rests with the government.

Introduction to Macro Economics

33. Distinguish between Capitalism and Globalism.

[PTA-4]

Ans.

S. No.	Capitalism	Globalism
1.	The system where the means of production are privately owned and market determines the economic activities.	An economic system where the economic activities of a nation are inter connected and inter dependent on each other nation.
2.	The role of the government is limited.	Governments of various nations plays a major role in policy making.
3.	All economic activities are regulated by price mechanism. i.e. demand and supply.	All economic activities are regulated by government policies on imports and exports. i.e. Import policy and Export policy.

34. Briefly explain the two sector circular flow model.

Ans. Circular flow of Income in a Two-Sector economy :

There are only two sectors namely household sector and firm sector.

(i) Household Sector :

The household sector is the sole buyer of goods and services, and the sole supplier of factors of production, i.e., land, labour, capital and organisation. It spends its entire income on the purchase of goods and services produced by the business sector.

(ii) Firms:

The firm sector generates its revenue by selling goods and services to the household sector. It hires the factors of production, i.e., land, labour, capital and organisation, owned by the household sector.



- (i) In a two-sector economy, production and sales are equal and there will be a circular flow of income and goods.
- (ii) Real flow indicates the factor services flow from household sector to the business sector and goods and services flow from business sector to the household.
- (iii) The basic identities of the two sector economy are as under $Y = C + I$

Where :

Y is Income, C is Consumption, I is Investment.

PART - D

ANSWER THE FOLLOWING QUESTIONS IN ONE PAGE

35. Discuss the scope of Macro Economics.

[PTA-1; QY-2019]

Ans. The study of macro economics has wide scope and it covers the major areas as follow.

- (i) **National Income :** Measurement of national income and its composition by sectors are the basic aspects of macroeconomic analysis.
- (ii) The trends in National Income and its composition provide a long term understanding of the growth process of an economy.

Inflation :

- (i) Inflation refers to steady increase in general price level.
- (ii) Estimating the general price level by constructing various price index numbers such as Wholesale Price Index, Consumer Price Index, etc, are needed.

Business Cycle :

- (i) Almost all economies face the problem of business fluctuations and business cycle.
- (ii) The cyclical movements (boom, recession, depression and recovery) in the economy need to be carefully studied based on aggregate economic variables.

Poverty and Unemployment :

- (i) The major problems of most resource - rich nations are poverty and unemployment. This is one of the economic paradoxes.
- (ii) A clear understanding about the magnitude of poverty and unemployment facilitates allocation of resources and initiating corrective measures.

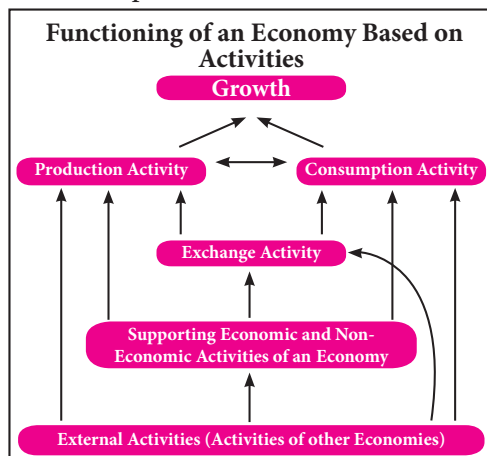
Economic Growth : The growth and development of an economy and the factors determining them could be understood only through macro analysis.

Economic Policies :

- (i) Macro Economics is significant for evolving. Suitable economic policies.
- (ii) Economic policies are necessary to solve the basic problems, to overcome the obstacles and to achieve growth.

36. Illustrate the functioning of an economy based on its activities. [Govt. MQP-2019; PTA-2, 5]

Ans. (i) The functioning of an economy by its activities is explained in the flow chart.



- (ii) In an economy the fundamental economic activities are production and consumption.
- (iii) These two activities are supported by several other activities.
- (iv) The ultimate aim of these activities is to achieve growth.
- (v) The exchange activity supports the production and consumption activities.
- (vi) The major economic activities include transportation banking advertising planning, government policy and others.
- (vii) The major non-economic activities are environment, health, education, entertainment, regulations etc.
- (viii) In addition to these supporting activities, external activities from other economies such as import, export, international relations, emigration, immigration, foreign investment, foreign exchange earnings, etc. also influence the entire functioning of the economy.

37. Compare the features of capitalism and socialism.

[PTA-3, 4, 6; Mar-2020; Sep-2020]

Ans.	S. No.	Features	Capitalism	Socialism
	1.	Ownership of means of production	Private ownership	Public ownership
	2.	Economic motive	Profit	Social Welfare
	3.	Solution of Central problems	Free market system	Central planning system.
	4.	Government Role	Internal Regulation only	Complete Involvement
	5.	Income Distribution	Unequal	Equal
	6.	Nature of Enterprise	Private Enterprise	Government Enterprise
	7.	Economic Freedom	Complete Freedom	Lack of Freedom
	8.	Major problem	Inequality	Inefficiency

38. Compare the features among Capitalism, Secularism and Mixedism.

Ans.	S. No.	Features	Capitalism	Socialism	Mixedism
	1.	Ownership of means of production	Private ownership	Public ownership	Private ownership and Public ownership
	2.	Economic motive	Profit	Social welfare	Social welfare & profit motive
	3.	Solution of central problems	Free market system	Central planning system.	Central planning system and free market system
	4.	Government Role	Internal Regulation only	Complete Involvement	Limited Role
	5.	Income Distribution	Unequal	Equal	Less unequal
	6.	Nature of Enterprise	Private Enterprise	Government Enterprise	Both Private and State enterprises
	7.	Economic Freedom	Complete Freedom	Lack of Freedom	Limited freedom
	8.	Major problem	Inequality	Inefficiency	Inequality and Inefficiency

PTA

QUESTIONS AND ANSWERS

MULTIPLE CHOICE QUESTIONS.

1. (i) J.M. Keynes is the Father of modern micro economics.

(ii) J.M. Keynes is the Father of modern macro economics.

(a) Both (i) and (ii) are true

(b) Both (i) and (ii) are false

(c) (i) is true and (ii) are false

(d) (i) is false but (ii) is true [Ans. (d) (i) is false but (ii) is true]

1 MARK

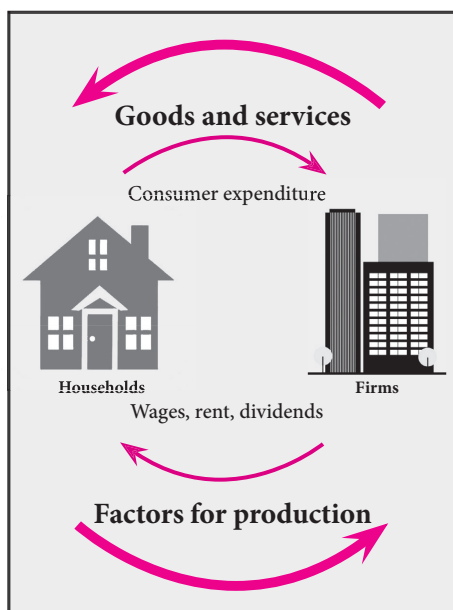
[PTA-5]

Introduction to Macro Economics

ANSWER THE FOLLOWING QUESTIONS IN ONE OR TWO SENTENCES. **2 MARKS**

1. Draw the diagram for Circular flow of income in a two sector economy. [PTA-3]

Ans.



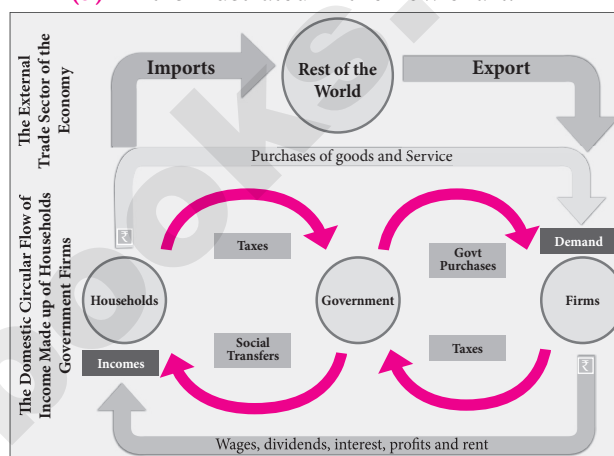
ANSWER THE FOLLOWING QUESTIONS IN ONE PAGE **5 MARKS**

1. Explain the four sector circular flow model. [PTA-3; QY-2019]

Ans. Circular flow of income in a four sector economy.

- (1) In a four sector economy, in addition to household, firms and government, a fourth sector namely, external sector is included.

- (2) In real life, only four-sector economy is exists.
(3) This model is composed of four sectors namely.
(i) Households
(ii) Firms
(iii) Government
(iv) External
(4) The external sector comprises exports and imports.
(5) It is illustrated in the flow chart.



- (6) In four sector economy, expenditure for the entire economy include domestic expenditure.
(C + I + G) and net exports (X-M)
(7) Therefore four sector model expressed as
$$Y = C + I + G + (X - M)$$

GOVERNMENT EXAM QUESTIONS AND ANSWERS

ANSWER THE FOLLOWING QUESTIONS IN ONE PARAGRAPH

3 MARKS

1. What are the limitation of Macro Economics.

[Govt. MQP-2019]

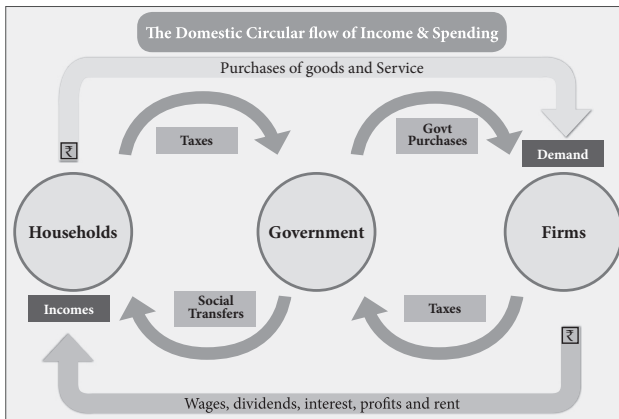
Ans. Macro economics suffers from certain limitation. They are

- (i) There is a danger of excessive generalisation of the economy as a whole.
(ii) It assumes homogeneity among the individual units.
(iii) There is a fallacy of composition. What is good of an individual need not be good for nation and viceversa. And, what is good for a country is not good for another country and at another time.
(iv) Many non-economic factors determine economic activities; but they do not find place in the usual macroeconomic books.

ANSWER THE FOLLOWING QUESTIONS IN ONE PAGE **5 MARKS**

1. Briefly explain the three sector circular flow model. [Sep-2020]

Ans. Circular flow of income in a Three sector Economy:



In addition to household and firms, inclusion of the government sector makes this model a three-sector model. The government levies taxes on households and firms, purchases goods and services from firms, and receive factors of production from household sector. On the other hand, the government also makes social transfers such as pension, relief, subsidies to the households. Similarly, Government pays the firms for the purchases of goods and services. The Flow Chart illustrates three-sector economy model:

Under three sector model, national income (Y) is obtained by adding Consumption expenditure (C), Investment expenditure (I) and Government expenditure (G).

Therefore:

$$Y = C + I + G$$

ADDITIONAL QUESTIONS AND ANSWERS

PART - A

MULTIPLE CHOICE QUESTIONS **1 MARK**

(i) **Choose the Correct Option.**

1. A steady fall in general price level is termed as _____.

- (a) Deflation (b) Inflation
(c) Trade
(d) To achieve growth [Ans. (a) Deflation]

2. Micro means _____.

- (a) Large (b) Big
(c) Small (d) Both 'a' and 'b'
[Ans. (c) Small]

3. Macro means _____.

- (a) Large
(b) Aggregate
(c) Economy as a whole
(d) All the above [Ans. (d) All the above]

4. Macro economics is also known as _____.

- (a) Price theory (b) Income theory
(c) Business cycle
(d) Poverty and unemployment
[Ans. (b) Income theory]

5. Planned economy is also known as _____.

- (a) Capitalist Economy
(b) Socialist Economy
(c) Mixed Economy
(d) All the above [Ans. (b) Socialist Economy]

6. Father of socialism _____.

- (a) Adamsmith (b) J.M. Keynes
(c) Karl Marx (d) J.R. Hicks
[Ans. (c) Karl Marx]

7. Example for Mixed Economy _____.

- (a) India (b) France
(c) China (d) Both 'a' and 'b'
[Ans. (d) Both 'a' and 'b']

8. Combination of both capitalism and socialism _____.

- (a) Capitalist Economy
(b) Traditional Economy
(c) Mixed Economy
(d) Socialist Economy
[Ans. (c) Mixed Economy]

9. Socialist Economy promote _____.

- (a) Social welfare motive
(b) Collective welfare motive
(c) Profit motive
(d) Both 'a' and 'b' [Ans. (d) Both 'a' and 'b']



10. Market forces are _____.

- (a) Supply and price
- (b) Demand and price
- (c) Prices of commodity
- (d) Supply and demand

[Ans. (d) Supply and demand]

11. The right to property exists largely in _____.

- (a) Traditional society
- (b) Capitalism
- (c) Socialism
- (d) Mixed economy

[Ans. (b) Capitalism]

12. Absence of Price Mechanism is a characteristic feature of the _____.

- (a) Socialist economy
- (b) Capitalist economy
- (c) Traditional economy
- (d) Mixed economy

[Ans. (a) Socialist economy]

13. Non-interference of the state is a characteristic features of the _____.

- (a) Socialist Economy
- (b) Capitalist Economy
- (c) Traditional Economy
- (d) Command Economy

[Ans. (b) Capitalist Economy]

14. _____ sector sells the entire output to house holds.

- (a) Firm
- (b) House hold
- (c) Government
- (d) Foreign trade

[Ans. (a) Firm]

15. In addition to household and firms, inclusion of the government sector make this model a _____ model.

- (a) Single sector model
- (b) Two sector model
- (c) Three sector model
- (d) Four sector model

[Ans. (c) Three sector model]

16. _____ is a combination of both capitalism and socialism.

- (a) Socialistic economy
- (b) Capitalistic economy
- (c) Traditional economy
- (d) Mixed economy

[Ans. (d) Mixed economy]

17. Identify the Father of Scientific Socialism.

- (a) Adamsmith
- (b) J.M. Keynes
- (c) Karl Marx
- (d) Marshall

[Ans. (c) Karl Marx]

18. Identify the stock variable.

- (a) Wealth
- (b) Income
- (c) Foreign exchange
- (d) Money

[Ans. (a) Wealth]

19. Identify the economic system where only public ownership of production exists.

- (a) Capitalistic economy
- (b) Socialistic economy
- (c) Globalistic economy
- (d) Mixed economy

[Ans. (b) Socialistic economy]

20. Identify the economic system where all decision are under taken by the central planning authority.

- (a) Socialist economy
- (b) Globalistic economy
- (c) Mixed economy
- (d) Capitalistic economy

[Ans. (a) Socialist economy]

21. Capitalism leads to _____.

- (a) Central planning
- (b) Class struggle
- (c) Welfare
- (d) All the above

[Ans. (b) Class struggle]

(ii) Match the following and choose the correct answer by using codes given below.

1.	(A)	Father of Macro Economics	(i)	J.M. Keynes
	(B)	Father of Socialist Economy	(ii)	Karl Marx
	(C)	Micro	(iii)	Small
	(D)	Macro	(iv)	Large

Codes :

- (a) A - (i), B - (ii), C - (iii), D - (iv)
- (b) A - (ii), B - (i), C - (iii), D - (iv)
- (c) A - (iv), B - (iii), C - (ii), D - (i)
- (d) A - (i), B - (iv), C - (ii), D - (iii)

Ans. (a) [A - (i), B - (ii), C - (iii), D - (iv)]

2.	(A)	The General Theory of employment interest and money	(i)	Income Theory
	(B)	Macro	(ii)	Inflation
	(C)	Aggregate Economics	(iii)	1936
	(D)	Steady increase in general price	(iv)	Greek

Codes :

- (a) A - (iv), B - (iii), C - (ii), D - (i)
(b) A - (ii), B - (i), C - (iv), D - (iii)
(c) A - (iii), B - (iv), C - (i), D - (ii)
(d) A - (iv), B - (i), C - (ii), D - (iii)

Ans. (c) [A - (iii), B - (iv), C - (i), D - (ii)]

3. (A)	Socialist Economy	(i)	Free Trade Economy
(B)	Traditional Economy	(ii)	Command Economy
(C)	Mixed Economy	(iii)	Subsistence Economy
(D)	Capitalistic Economy	(iv)	Co-existence of both public and private

Codes :

- (a) A - (ii), B - (iii), C - (iv), D - (i)
(b) A - (iv), B - (iii), C - (ii), D - (i)
(c) A - (i), B - (iv), C - (iii), D - (ii)
(d) A - (ii), B - (iii), C - (i), D - (iv)

Ans. (a) [A - (ii), B - (iii), C - (iv), D - (i)]

4. (A)	Role of Government	(i)	Mixed Economy
(B)	Customs and Tradition	(ii)	Capitalistic Economy
(C)	Profit Motive	(iii)	Socialistic Economy
(D)	Co-existence of public and private	(iv)	Traditional Economy

Codes :

- (a) A - (ii), B - (iii), C - (iv), D - (i)
(b) A - (iii), B - (iv), C - (ii), D - (i)
(c) A - (iii), B - (i), C - (iv), D - (ii)
(d) A - (iv), B - (iii), C - (i), D - (ii)

Ans. (b) [A - (iii), B - (iv), C - (ii), D - (i)]

5. (A)	Market force	(i)	Socialism
(B)	Bureaucratic expansion	(ii)	Inefficiency of production
(C)	Private property	(iii)	Supply, demand and price
(D)	Red tapism and corruption	(iv)	Laissez Faire economy

Codes :

- (a) A - (iii), B - (i), C - (iv), D - (ii)
(b) A - (iv), B - (iii), C - (ii), D - (i)
(c) A - (ii), B - (iv), C - (i), D - (iii)
(d) A - (ii), B - (iii), C - (iv), D - (i)

Ans. (a) [A - (iii), B - (i), C - (iv), D - (ii)]

6. (A)	Planned Economy	(i)	West Germany
(B)	Capitalist Country	(ii)	Cuba
(C)	Socialist Country	(iii)	India
(D)	Mixed Economy	(iv)	Socialistic Economy

Codes :

- (a) A - (iii), B - (ii), C - (iv), D - (i)
(b) A - (iv), B - (i), C - (ii), D - (iii)
(c) A - (iv), B - (iii), C - (ii), D - (i)
(d) A - (ii), B - (iii), C - (iv), D - (i)

Ans. (b) [A - (iv), B - (i), C - (ii), D - (iii)]

7. (A)	Only Internal Regulation	(i)	Traditional economy
(B)	Complete involvement	(ii)	Mixed economy
(C)	Limited Role	(iii)	Capitalism
(D)	Federal Government	(iv)	Socialistic Economy

Codes :

- (a) A - (iii), B - (iv), C - (ii), D - (i)
(b) A - (i), B - (ii), C - (iv), D - (iii)
(c) A - (iv), B - (iii), C - (ii), D - (i)
(d) A - (i), B - (ii), C - (iii), D - (iv)

Ans. (a) [A - (iii), B - (iv), C - (ii), D - (i)]

(iii) State whether the Statements are true or false.

1. (i) **There is a competition in the socialistic economy.**
(ii) **Profit is the main motive of capitalistic economy.**
(a) Both (i) and (ii) are true
(b) Both (i) and (ii) are false
(c) (i) is true but (ii) is false
(d) (i) is false but (ii) is true

[Ans. (d) (i) is false but (ii) is true]

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2. (i) In a socialistic economy complete determined and controlled by a central planning authority.

(ii) In a mixed economy both private and public co-exist.

- (a) Both (i) and (ii) are true
- (b) Both (i) and (ii) are false
- (c) (i) is true but (ii) is false
- (d) (i) is false but (ii) is true

[Ans. (d) (i) is false but (ii) is true]

3. (i) The word 'Macro' is derived from the Greek word.

(ii) The word 'Macro' is derived from the latin word.

- (a) Both (i) and (ii) are true
- (b) Both (i) and (ii) are false
- (c) (i) is true but (ii) is false
- (d) (i) is false but (ii) is true

[Ans. (c) (i) is true but (ii) is false]

4. (i) The word Micro means small.

(ii) The word Macro means large.

- (a) Both (i) and (ii) are true
- (b) Both (i) and (ii) are false
- (c) (i) is true but (ii) is false
- (d) (i) is false but (ii) is true

[Ans. (a) Both (i) and (ii) are true]

(iv) Which one of the following is correctly matched?

1.	(a)	Capitalism	-	Welfare motive
	(b)	Socialist	-	Profit motive
	(c)	Traditional economy	-	Modern technology
	(d)	Mixed economy	-	Social welfare and profit motive

[Ans. (d) Mixed economy - Social welfare and profit motive]

2.	(a)	Two sector model	-	Firm and Industry
	(b)	Three sector model	-	Firms, Households and Industry
	(c)	Four sector model	-	Firm, Households Government and Foreign Trade
	(d)	India	-	Two sector model

[Ans. (c) Four sector model - Firm, Households Government and Foreign Trade]

3.	(a)	Micro	-	Large
	(b)	Macro	-	Small
	(c)	Father of macro economics	-	Adam Smith
	(d)	Father of Socialism	-	Karl Marx

[Ans. (d) Father of Socialism - Karl Marx]

(v) Which one of the following is Not correctly matched?

1.	(a)	In equality leads to	-	Monopoly
	(b)	Fair and Hire Policy	-	Capitalists
	(c)	Equal opportunity to all	-	Mixed
	(d)	Maximum Social Benefit	-	Socialism

[Ans. (c) Equal opportunity to all - Mixed]

2.	(a)	Mixed Economy	-	Efficient utilization
	(b)	Socialism	-	Promotes Social Welfare
	(c)	Capitalistic Economy	-	Profit Motive
	(d)	Traditional Economy	-	Modern Technology

[Ans. (d) Traditional Economy - Modern Technology]

3.	(a)	Two Branch of Economics	-	Micro and Macro Economics
	(b)	First Nobel Price in Economic Science	-	Ragnar Frisch
	(c)	Father of Modern Macro Economics	-	Adam Smith
	(d)	Father of Macro Economics	-	J.M. Keynes

[Ans. (c) Father of Modern Macro Economics - Adam Smith]

4.

(a)	General System of Economics	-	Socialistic Economy
(b)	One of the scope of Macro Economics	-	Central Planning Authority
(c)	Father of Capitalism	-	Adam Smith
(d)	Capitalistic Economy	-	Welfare Motive

[Ans. (d) Capitalistic Economy - Welfare Motive]

5.

(a)	Market Economy	-	Command Economy
(b)	Merits of Socialism	-	Reduction in inequalities
(c)	Karl Marx	-	Father of Scientific Socialism
(d)	Mixed Economy	-	USA

[Ans. (d) Mixed Economy - USA]

6.

(a)	Circular flow models	-	Two
(b)	Four Sectors	-	House holds, firms, Government and external sector
(c)	Socialism	-	Central planning authority
(d)	Total Freedom	-	Capitalism

[Ans. (a) Circular flow models - Two]

7.

(a)	Fundamental Economic Activity	-	Production and Consumption
(b)	Economic Systems	-	Three
(c)	Mixedism	-	India
(d)	Capitalistic Economy	-	Co-existence of Public and Private

[Ans. (d) Capitalistic Economy - Co-existence of Public and Private]

(vi) Assertion and Reason.

1. Assertion (A) : The fundamental economic activities are production and consumption.

Reason (R) : The ultimate aim of these activities is to achieve growth.

- (a) Both 'A' and 'R' are true and R is the correct explanation of A
- (b) Both 'A' and 'R' are true but R is not the correct explanation of A
- (c) A is true but R is false
- (d) A is false but R is true

[Ans. (a) Both 'A' and 'R' are true and R is the correct explanation of A]

2. Assertion (A) : Profit is the driving force behind capitalistic economy.

Reason (R) : Price Mechanism is the heart of any capitalistic economy.

- (a) Both 'A' and 'R' are true and R is the correct explanation of A
- (b) Both 'A' and 'R' are true but R is not the correct explanation of A
- (c) A is true but R is false
- (d) A is false but R is true

[Ans. (a) Both 'A' and 'R' are true and R is the correct explanation of A]

3. Assertion (A) : In a Socialistic economy all resources are owned and operated by the government.

Reason (R) : Public welfare is the main motive behind socialistic economy.

- (a) Both 'A' and 'R' are true and R is the correct explanation of A
- (b) Both 'A' and 'R' are true but R is not the correct explanation of A
- (c) A is true but R is false
- (d) A is false but R is true

[Ans. (a) Both 'A' and 'R' are true and R is the correct explanation of A]

4. Assertion (A) : In a mixed economic system both private and public co-exist.

Reason (R) : Mixed economy tends to eliminate the evils of both capitalism and socialism.

- (a) Both 'A' and 'R' are true and R is the correct explanation of A
- (b) Both 'A' and 'R' are true but R is not the correct explanation of A
- (c) A is true but R is false
- (d) A is false but R is true

[Ans. (a) Both 'A' and 'R' are true and R is the correct explanation of A]

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5. Assertion (A) : The circular flow of income is a model of an economy showing connections between different sectors of an economy.

Reason (R) : The circular flow analysis is the basis of national accounts and Macro economics.

- (a) Both 'A' and 'R' are true and R is the correct explanation of A
- (b) Both 'A' and 'R' are true but R is not the correct explanation of A
- (c) A is true but R is false
- (d) A is false but R is true

[Ans. (a) Both 'A' and 'R' are true and R is the correct explanation of A]

(vii) Pick the Odd one Out.

1. The subject matters covered Macro economics are _____

- (a) Investment and Saving
- (b) Inflation Business Cycle
- (c) International Trade
- (d) Individual Demand and Supply

[Ans. (d) Individual Demand and Supply]

2. General Economics Systems :

- (a) Indian economy
- (b) Capitalist economy
- (c) Socialist economy
- (d) Mixed economy

[Ans. (a) Indian economy]

3. Features of Capitalistic Economy :

- (a) Freedom of choice and enterprise
- (b) Profit motive
- (c) Collective welfare
- (d) Price Mechanism

[Ans. (c) Collective welfare]

4. Demerits of Socialism

- (a) Red Tapism and Bureaucracy
- (b) Reduction in inequalities
- (c) Absence of incentives
- (d) Limited freedom of choice

[Ans. (b) Reduction in inequalities]

PART - B

ANSWER THE FOLLOWING QUESTIONS IN ONE OR TWO SENTENCES

2 MARKS

1. Write down the three types of economic systems.

- Ans. (i)** Capitalistic Economy (Capitalism)
(ii) Socialistic Economy (Socialism)
(iii) Mixed Economy (Mixedism)

2. What is Globalism?

Ans. Globalism : An economic system where the economic activities of a nation are inter connected and inter dependent on each other nation.

3. What are the demerits of Capitalism?

- Ans. (i)** Concentration of wealth and income
(ii) Wastage of Resources
(iii) Class Struggle
(iv) Business Cycle
(v) Production of Non essential goods

4. What do you mean by Socialism?

Ans. Socialism refers to a system of total planning, Public ownership and state control on economic activities.

5. What is Mixed Economy?

Ans. In economic system both private and public sectors co-exist and work together towards economic development.

6. Give examples for Mixed Economic countries.

- Ans. (i)** India
(ii) England
(iii) France and
(iv) Brazil are the examples of mixed economy

7. Give the countries which have communism.

- Ans. (i)** North Korea
(ii) China
(iii) Venezuela

8. Write down the examples for capitalistic economies.

- Ans. (i)** The USA
(ii) West Germany
(iii) Australia and
(iv) Japan

9. Write any three merits of capitalism.

- Ans. (i)** Efficient use of Resources
(ii) Automatic working
(iii) Higher Rates of capital formation
(iv) Development of new technology

10. Who is the controll authority of socialistic economy?

- Ans. (i)** Central planning authority is the controlling authority in a socialistic economy.
(ii) All the decisions are under taken by the central planning authority.
(iii) It means all factors of production are nationalized and managed by public authority.

11. Write the equation for Four-sector economy.

Ans. $Y = C + I + G + (X - M)$

C - Consumption Expenditure (Households)

I - Investment Expenditure (Firms)

G - Government Expenditure (Government)

(X-M) - Net Exports (External Sector)

12. What are the different models of circular flow of income?

Ans. There are three models of circular flow of income. They are,

(i) Two sector model

(ii) Three sector model

(iii) Four sector model

13. What are the movements of Business Cycle?

Ans. The four different phases of trade cycle is referred to as

(i) Boom

(ii) Recession

(iii) Depression and

(iv) Recovery

14. What is Business Cycle?

Ans. All economics face the problem of business fluctuations.

15. What is Economic Policies?

Ans. Economic policies are necessary to solve the basic problems to overcome the obstacles and to achieve growth.

16. What is Price Mechanism?

Ans. (i) Price Mechanism is the heart of any capitalistic economy.

(ii) All the economic activities are regulated through price mechanism.

17. Write a note on Central Planning.

Ans. (i) Planning is an integral part of a socialist economy.

(ii) In socialist economy all decisions are undertaken by the Central Planning Authority.

PART - C

ANSWER THE FOLLOWING QUESTIONS IN ONE PARAGRAPH

3 MARKS

1. Write any two demerits of capitalism.

Ans. (i) Class Struggle :

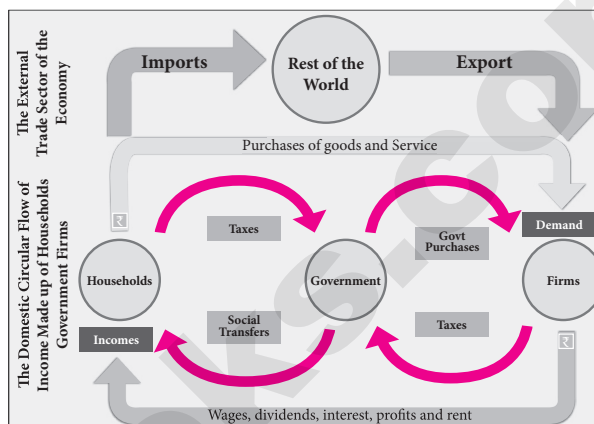
Capitalism leads to class struggle as it divides the society into capitalists and workers.

(ii) Business Cycle :

Free Market System leads to frequent violent economic fluctuations and crisis.

2. Draw the circular flow of income in a three sector economy.

Ans.



3. What are the demerits of mixed economy?

Ans. (i) Lack of Coordination : The greatest drawback of mixedism is lack of coordination between public sector and private sector. As both work with divergent motives, it creates many coordination related problems.

(ii) **Competitive Attitude :** It is expected that both government and private should work with a complementary spirit towards the welfare of the society, but in reality they are competitive in their activities.

(iii) **Inefficiency :** Most of the public sector enterprises remain inefficient due to lethargic bureaucracy, red tapism and lack of motivation.

(iv) **Fear of Nationalization :** In a mixed economy, the fear of nationalization discourages the private entrepreneurs in their business operations and innovative initiatives.

(v) **Widening Inequality :** Ownership of resources, laws of inheritance and profit motive of people widens the gap between rich and poor.

4. Explain any three features of Capitalistic Economy.

Ans. (i) Private Ownership of Property and Law of Inheritance :

The basic feature of capitalism is that all resources namely, land, capital, machines, mines etc. are owned by private individuals.

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The owner has the right to own, keep, sell or use these resources according to his will. The property can be transferred to heirs after death.

(ii) Freedom of Choice and Enterprise :

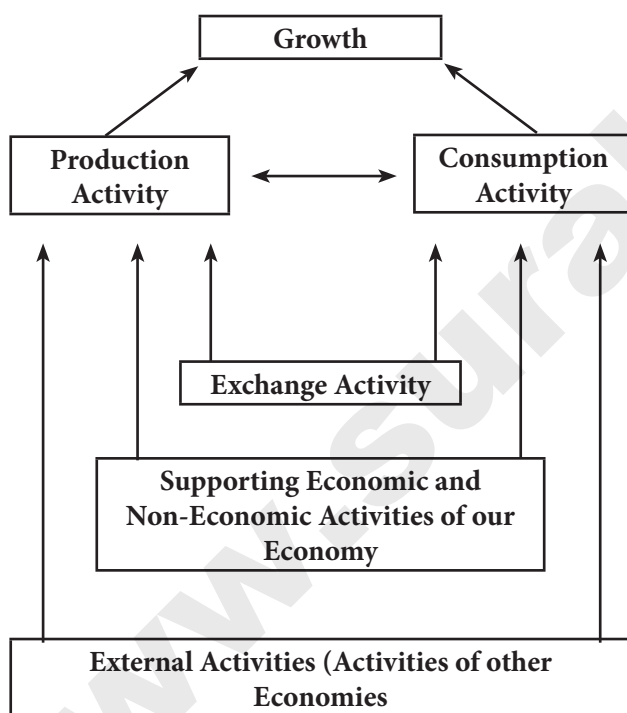
Each individual is free to carry out any occupation or trade at any place and produce any commodity. Similarly, consumers are free to buy any commodity as per their choice.

(iii) Free Competition :

There is free competition in both product and factor market. The government or any authority cannot prevent firms from buying or selling in the market. There is competition between buyers and sellers.

5. Bring out the functions of an economy with the help of flow chart.

Ans. Functioning of an Economy based on Activities



6. Describe the three models of circular flow of income.

Ans. Two Sector Model :

It is for a simple economy with households and firms

Three Sector Model :

It is for a mixed and closed economy with households, firms and government.

Four Sector Model :

It is for an open economy with households, firms, government and rest of the world.

PART - D

ANSWER THE FOLLOWING QUESTIONS IN ONE PAGE

5 MARKS

1. Explain the merits of socialism.

Ans. Merits of Socialism :

1. Reduction in Inequalities :

No one is allowed to own and use private property to exploit others.

2. Rational Allocation of Resources :

The central planning authority allocates the resources in a planned manner. Wastages are minimised and investments are made in a pre planned manner.

3. Absence of Class Conflicts :

As inequalities are minimum, there is no conflict between rich and poor class. Society functions in a harmonious manner.

4. End of Trade Cycles :

Planning authority takes control over production and distribution of goods and services. Therefore, economic fluctuations can be avoided.

5. Promotes Social Welfare :

Absence of exploitation, reduction in economic inequalities, avoidance of trade cycles and increase in productive efficiency help to promote social welfare.

2. Explain the Demerits of capitalism.

Ans. Demerits of Capitalism

1. Concentration of Wealth and Income :

Capitalism causes concentration of wealth and income in a few hands and thereby increases inequalities of income.

2. Wastage of Resources :

Large amount of resources are wasted on competitive advertising and duplication of products.



3. **Class Struggle :** Capitalism leads to class struggle as it divides the society into capitalists and workers.
4. **Business Cycle :** Free market system leads to frequent violent economic fluctuations and crises.
5. **Production of non essential goods :** Even the harmful goods are produced if there is possibility to make profit.

3. Explain the merits of Mixed Economy.

Ans. (a) Rapid Economic Growth :

- (i) The best advantage of mixed economy is that it promotes rapid economic growth.
- (ii) Thus both public requirements and private needs are taken care of.

(b) Balanced Economic Growth :

- (i) Mixedism promotes balanced growth of the economy.

- (ii) It promotes balanced growth between agriculture and industry, consumer goods and capital goods, rural and urban etc.

(c) Proper utilization of Resources :

- (i) The government can ensure proper utilization of resources.
- (ii) The government controls most of the important activities directly and the private sector indirectly.

(d) Economic Equality :

The government uses progressive rates of taxation for levying income tax to bring about economic equality.

(e) Special Advantages to the society :

The government safeguards the interest of the workers and weaker sections by legislating on minimum wages and rationing, establishing fair price shops and formulating social welfare measures.



CHAPTER

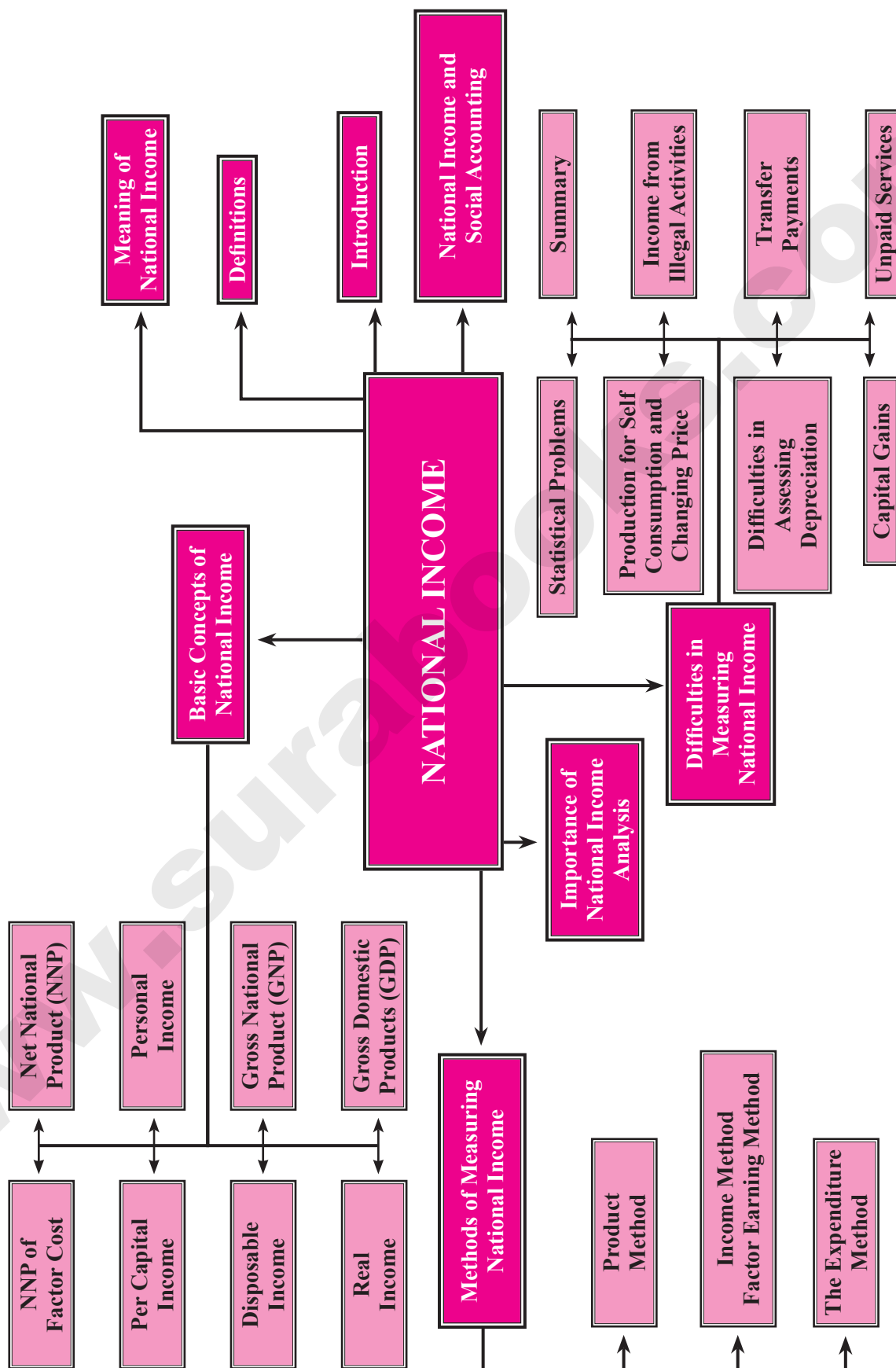
2

NATIONAL INCOME

CHAPTER SNAPSHOT

- | | |
|---|---|
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|---|---|

Concept Map



Important Terms

GNP	: Total money value of final goods and services produced in a country during a particular year (one year) including depreciation and net exports.
NNP	: Total money value of final goods and services produced in a country during a particular year excluding depreciation including net exports.
NNP at factor cost	: The total of income payment made to factors of production.
Personal Income	: Total income received by the individuals of a country before payment of direct taxes.
Disposable Income	: It is the sum of the consumption and saving of individuals after the payment of income tax.
Per capital Income	: Annual average income of a person.
Social Accounts	: The accounts of national income considering the social cost generated by economic activities.
Unpaid Services	: Rendering useful services like preparation of meals, washing, learning bringing up children, services to their friends and relatives without payment.
Capital Sector	: It includes saving and investment activities.
Transfer Payments	: Government makes payments in the form of pensions unemployment allowance, subsidies, etc.
Real Income	: Nominal income is national income expressed in term of a general price level of a particular year in the other words, real income is the buying power of nominal income.
Outlay Method	: The total expenditure incurred by the society in a particular year is called total expenditure of a society.
Factor Cost	: There are number of inputs that are included into a production process when producing goods and services. These inputs are commonly known as factors of production.
Market Price (MP)	: The market price is the price that consumer will pay for the product when they purchase it from the sellers.
Capital Gains	: Capital gains are the difference between a higher selling price and a lower purchase price.
Social Accounting	: "Social accounting is the process of measuring and reporting to stakeholders the social and environmental effects of an organisation's actions".

Definitions

- National Income by Alfred Marshall** : Alfred Marshall defined National Income as “The labour and capital of country acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterial including services of all kinds. This is the true net annual income or revenue of the country or national dividend”.
- National Income by Samuelson** : According to Samuelson “The concept of national Income is an indispensable preparation for tackling the great issues of unemployment, inflation and growth”.
- GDP Deflator** : The GDP deflator, also known as the implicit price deflator, measures the impact of inflation on the gross domestic product during a specified period, usually a year.
- Per Capita Income** : The average income of a person of a country in a particular year is called Per Capita Income. Per capita Income is obtained by dividing nation income by population.
- National Income by Simon Kuznets** : “The net output of the commodities and services flowing during the year from the country’s productive system into the hands of the ultimate consumers or into net addition to the country’s stock of capital goods”.
- Simon Kuznets.

Formulae

1. Gross Domestic product (GDP)

GDP by expenditure method at market prices
= C + I + G + (X - M)

2. Net Domestic Product (NDP)

Net Domestic Product = GDP - Depreciation

3. GNP at market prices = GDP at market prices + Net factor income from abroad.

4. NNP = GNP - Depreciation allowance.

5. NNP at factor cost = NNP at market prices - Indirect taxes + subsidies.

6. Personal Income = National income - (Social security contribution and undistributed corporate profits) + Transfer payment.

7.

Disposable Income = Personal income - Direct tax.

As the entire disposable income is not spent on consumption,

Disposal income = consumption + saving.

8. Per capita Income

Per capita Income = $\frac{\text{National income}}{\text{Population}}$

9. Real Income

National Income at constant price
= National income at current price $\div \frac{P_1}{P_0}$

10. GDP deflator

GDP deflator = $\frac{\text{National GDP}}{\text{Real GDP}} \times 100$

11. Method of measuring National Income

Output = Income = Expenditure.

12. Income method

$Y = W + r + i + \pi \quad F(R - P)$

13. The expenditure method

$GNP = C + I + G + (X - M)$



MODEL QUESTIONS

PART - A

MULTIPLE CHOICE QUESTIONS

1. Net National product at factor cost is also known as [PTA-3]
(a) National Income
(b) Domestic Income
(c) Per capita Income (d) Salary.
[Ans. (a) National Income]
2. Primary sector is _____. [PTA-6; HY-2019; Mar-2020]
(a) Industry (b) Trade
(c) Agriculture (d) Construction.
[Ans. (c) Agriculture]
3. National income is measured by using _____ methods. [QY-2019]
(a) Two (b) Three
(c) Five (d) Four
[Ans. (b) Three]
4. Income method is measured by summing up of all forms of _____.
(a) Revenue (b) Taxes
(c) expenditure (d) Income
[Ans. (d) Income]
5. Which is the largest figure?
(a) Disposable income (b) Personal Income
(c) NNP (d) GNP
[Ans. (d) GNP]
6. Expenditure method is used to estimate national income in _____.
(a) Construction sector
(b) Agricultural Sector
(c) Service sector (d) Banking sector
[Ans. (a) Construction sector]
7. Tertiary sector is also called as _____ sector [PTA-1; Sep-2020]
(a) Service (b) Income
(c) Industrial (d) Production
[Ans. (a) Service]
8. National income is a measure of the _____ performance of an economy. [PTA-5]
(a) Industrial (b) Agricultural
(c) Economic (d) Consumption
[Ans. (c) Economic]
9. Per capita income is obtained by dividing the National income by _____. [PTA-3]
(a) Production
(b) Population of a country
(c) Expenditure
(d) GNP [Ans. (b) Population of a country]
10. GNP = _____ + Net factor income from abroad.
(a) NNP (b) NDP
(c) GDP (d) Personal income
[Ans. (c) GDP]
11. NNP stands for _____.
(a) Net National Product
(b) National Net product
(c) National Net Provident
(d) Net National Provident
[Ans. (a) Net National Product]
12. _____ is deducted from gross value to get the net value. [Sep-2020]
(a) Income (b) Depreciation
(c) Expenditure
(d) Value of final goods [Ans. (b) Depreciation]
13. The financial year in India is _____. [Govt. MQP-2019; HY-2019]
(a) April 1 to March 31
(b) March 1 to April 30
(c) March 1 to March 16
(d) January 1 to December 31
[Ans. (a) April 1 to March 31]
14. When net factor income from abroad is deducted from NNP, the net value is _____.
(a) Gross National Product [PTA-6]
(b) Disposable Income
(c) Net Domestic Product
(d) Personal Income
[Ans. (c) Net Domestic Product]
15. The value of NNP at production point is called _____. [PTA-5]
(a) NNP at factor cost
(b) NNP at market cost
(c) GNP at factor cost
(d) Per capita income
[Ans. (a) NNP at factor cost]

PART - B

ANSWER THE FOLLOWING QUESTIONS IN ONE OR TWO SENTENCES

21. Define National Income. [PTA-5; Mar-2020]

Ans. According to Alfred Marshall, "The labour and capital of a country acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterial including services of all kinds. This is the true net annual income or revenue of the country or national dividend".

22. Write the formula for calculating GNP.

[QY-2019; Sep-2020]

Ans. GNP at market prices = GDP at market prices + Net factor income from Abroad.

$$\text{GNP} = C + I + G + ((X-M) + (R-P))$$

C - Consumption Expenditure

I - Investment Expenditure

G - Government Expenditure

X-M - Difference between value exports and imports of goods.

R-P - Net factor income from abroad

16. The average income of the country is _____. [PTA-4]

- (a) Personal Income
(b) Per capita income
(c) Inflation Rate (d) Disposal Income

[Ans. (b) Per capita income]

17. The value of national income adjusted for inflation is called _____. [Ans. (d) Real national income]

- (a) Inflation Rate (b) Disposal Income
(c) GNP
(d) Real national income

18. Which is a flow concept ?

- (a) Number of shirts (b) Total wealth
(c) Monthly income (d) Money supply

[Ans. (c) Monthly income]

19. PQLI is the indicator of _____. [Ans. (b) Economic welfare]

- (a) Economic growth
(b) Economic welfare
(c) Economic progress
(d) Economic development

20. The largest proportion of national income comes from _____. [PTA-2]

- (a) Private sector
(b) Local sector
(c) Public sector
(d) None of the above [Ans. (a) Private sector]

23. What is the difference between NNP and NDP?

Ans.	S. No.	NNP	NDP
	1.	NNP refers to the market value of output	NDP is the value of net output of the economy during the year.
	2.	NNP at factor cost is the total of income payment made to factors of production.	The country's capital equipment wears out or becomes outdated each year during the production process.
	3.	Formula : $\text{NNP} = \text{GNP} - \text{depreciation allowance}$	Net Domestic Product = GDP - Depreciation.

24. Trace the relationship between GNP and NNP.

[PTA-2]

Ans.	S. No.	GNP	NNP
	1.	Gross National Product (GNP) is the total measure of the flow of final goods and services at market value resulting from current production in a country during a year, including net income from abroad.	Net National Product (NNP) refers to the value of the net output of the economy during the year. NNP is obtained by deducting the value of depreciation.
	2.	$\text{GNP at Market prices} = \text{GDP at market prices} + \text{Net Factor income from Abroad.}$	$\text{NNP} = \text{GNP} - \text{depreciation allowance}$

National Income



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25. What do you mean by the term 'Personal Income'? [Mar - 2020]

- Ans. (i)** Personal income is the total income received by the individuals of a country from all sources before payment of direct taxes in a year.
- (ii)** Personal income is never equal to the national income, because the former includes the transfer payments whereas they are not included in national income.

26. Define GDP deflator. [Govt. MQP - 2019]

Ans. GDP deflator is an index of price changes of goods and services included in GDP.

$$\text{GDP deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

27. Why is self consumption difficult in measuring national income? [PTA-6]

Ans. (i) Farmers keep a large portion of food and other goods produced on the farm for self consumption.

- (ii)** The problem is whether that part of the produce which is not sold in the market can be included in national income or not.

PART - C

ANSWER THE FOLLOWING QUESTIONS IN ONE PARAGRAPH

28. Write a short note on per capita income.

[QY-2019; Sep-2020]

- Ans. (i)** The average income of a person of a country in a particular year is called Per Capita Income.
- (ii)** Per capita income is obtained by dividing national income by population.

$$\text{Per Capita Income} = \frac{\text{National income}}{\text{Population}}$$

29. Differentiate between personal and disposable income.

[PTA-5]

S. No.	Personal Income	Disposable Income
1.	Personal income is the total income received by the individuals of a country from all sources before payment of direct taxes in a year.	Disposable Income is also known as Disposable personal income. It is the individuals income after the payment of income tax.
2.	Personal income is never equal to the national income, because the former includes the transfer payments whereas they are not included in national income.	This is the amount available for households for consumptions.
3.	Personal Income = National income - Social security contribution and undistributed corporate profits) + Transfer payments.	Disposable Income = Personal Income - Direct tax. As the entire disposable income is not spent of consumption. Disposable income = Consumption + Saving

30. Explain briefly NNP at factor cost.

- Ans. (i)** NNP refers to the market value of output.
- (ii)** NNP at factor cost is the total of income payment made to factors of production.
- (iii)** Thus from the money value of NNP at market price, we deduct the amount of indirect taxes and add subsidies to arrive at the net national income at factor cost.

$$\text{NNP at factor cost} = \text{NNP at Market prices} - \text{Indirect taxes} + \text{Subsidies.}$$

31. Give short note on Expenditure method.

[PTA-3; HY-2019]

- Ans. (i)** The total expenditure incurred by the society in the particular year is added together.
- (ii)** To calculate the expenditure of a society, it includes personal consumption expenditure, net domestic investment, government expenditure on consumption as well as capital goods and net exports.

$$\text{GNP} = C + I + G + (X - M)$$

- C = Private consumption expenditure.
I = Private investment expenditure.
G = Government expenditure.
X – M = Net exports.

32. What is the solution to the problem of double counting in the estimation of national income?

[PTA-6; QY-2019]

- Ans. (i)** To avoid double counting, either the value of the final output should be taken into the estimate of GNP or the sum of values added should be taken.
- (ii)** Double counting is to be avoided under value added method.
- (iii)** Any commodity which is either raw material or intermediate good for the final production should not be included.
- (iv)** For example, value of cotton enters value of yarn as cost, and value of yarn in cloth and that of cloth in garments.
- (v)** At every stage value added only should be calculated.

33. Write briefly about national income and welfare.

- Ans. (i)** National income is considered as an indicator of the economic well-being of a country.
- (ii)** The economic progress of country is measured in terms of their GDP per capita and their annual growth rate.
- (iii)** A country with a higher per capita income is supposed to enjoy greater economic welfare with a higher standard of living.
- (iv)** But the rise in GDP or per capita income need not always promote economic welfare.

34. List out the uses of national income.

Ans. Uses of National Income : [Govt. MQP - 2019]

- (i)** The National Income of a country describes the economic performance or production performance of a country.
- (ii)** Economists, planners, Government, businessmen and international agencies (IMF, World Bank etc.) use national income data and analysis them for various purposes.
- (iii)** National income data help in measuring changes in the standard of living over time and also enable us to compare standard of living of different countries.
- (iv)** Level of development of a country is also measured by using national income figures.

PART - D

ANSWER THE FOLLOWING QUESTIONS IN ABOUT A PAGE

35. Explain the importance of national income.

[Govt. MQP-2019; PTA-5; Mar-2020; Sep-2020]

Ans. Importance of National Income :

National income is of great importance for the economy of a country. Nowadays the national income is regarded as accounts of the economy, which are known as social accounts. It enables us.

- (i)** To know the relative importance of the various sectors of the economy and their contribution towards national income.
- (ii)** To formulate the national policies such as monetary policy, fiscal policy and other policies.
- (iii)** To formulate planning and evaluate plan progress. It is essential that the data pertaining to a country's gross income.
- (iv)** To build economic models both in short-run and long-run.
- (v)** To make international comparison, inter regional comparison and inter-temporal comparison for the growth of the economy during different periods.
- (vi)** To know a country's per capita income which reflects the economic welfare of the country.
- (vii)** To know the distribution of income for the various factors of production in the country.
- (viii)** To arrive at many macro economic variables namely, Tax - GDP ratio, Current Account Deficit - GDP ratio, Fiscal Deficit GDP ratio, Debt - GDP ratio etc.

36. Discuss the various methods of estimating the national income of a country. [PTA-1; QY-2019]

Ans. There are three methods of measuring national Income. They are,

- (i)** Production (or) Value added method.
- (ii)** Income method (or) Factor earning method.
- (iii)** Expenditure method.

And if these methods are done correctly, the following equation must hold.

Output = Income = Expenditure

(i) Product Method :

- (1)** Product method measures the output of the country. It is also called inventory method.
- (2)** Under this method, the gross value of output from different sectors like agriculture, industry, trade and commerce etc. is obtained for the entire economy during a year.

National Income



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- (3) The value obtained is actually the GNP at market prices.
- (4) Care must be taken to avoid double counting.
- (ii) **Income Method : (Factor Earning Method)**
- (1) This method approaches national income from the distribution side.
- (2) Under this method, national income is calculated by adding up all the incomes generated in the course of producing national product.
- (3) Factor incomes are grouped under labour income, capital income and mixed income.
- (4) National Income is calculated as domestic factor income plus net factor incomes from abroad. In short,

$$Y = w + r + i + \pi + (R-P)$$

w - wages, r - rent, i - interest,
 π - profit

- (iii) **The Expenditure Method : (Outlay method)**
- (1) Under this method, the total expenditure incurred by the society in a particular year is added together.
- (2) To calculate the expenditure of a society, it includes personal consumption expenditure, net domestic investment, government expenditure on consumption as well as capital goods and net exports.

$$GNP = C + I + G + (X-M)$$

C - Private consumption expenditure
 I - Private Investment Expenditure
 G - Government Expenditure
 X-M - Net Exports

37. What are the difficulties involved in the measurement of national income?

[PTA-2, 6; HY-2019]

Ans. Difficulties in measuring National Income :

In India, a special conceptual problem is posed by the existence of a large, unorganised and non-monetised subsistence sector where the barter system still prevails for transacting goods and services. Here, a proper valuation of output is very difficult.

(i) **Transfer payments :**

- (1) Government makes payments in the form of pensions, unemployment allowance, subsidies etc.
- (2) These are government expenditure. But they are not included in the national income.

(ii) **Difficulties in assessing depreciation allowance :**

- (1) The deduction of depreciation allowances, accidental damages, repair and replacement charges from the national income is not an easy task.
- (2) It requires high degree of judgement to assess the depreciation allowance and other charges.

(iii) **Unpaid services :**

- (1) A housewife renders a number of useful services like preparation of meals, serving, tailoring, cleaning, washing etc.,
- (2) She is not paid for them and her services are not directly included in national income.
- (3) Such services performed by paid servants are included in the national income.

(iv) **Income from illegal activities :**

- (1) Income earned through illegal activities like gambling, smuggling, illicit extraction of liquor etc., is not included in national income.
- (2) Such activities have value and satisfy the wants of the people, but they are not considered as productive from the point view of society.

(v) **Production for self-consumption and charging price :**

- (1) Farmers keep a large portion of food and other goods produced on the farm for self consumption.
- (2) The problem is whether that part of the produce which is not sold in the market can be included in national income or not.

(vi) **Capital gains :**

- (1) The problem also arises with regard to capital gains.
- (2) Capital gains arise when a capital asset such as a house, other property, stocks or shares, etc. is sold at higher price than was paid for it at the time of purchase.
- (3) Capital gains are excluded from national income.

(vii) **Statistical problems :**

- (1) There are statistical problems, too. Great care is required to avoid double counting. Statistical data may not be perfectly reliable, when they are compiled from numerous sources.

- (2) Skill and efficiency of the statistical staff and cooperation of people at large are also equally important in estimating national income.

38. Discuss the importance of social accounting in economic analysis. [PTA-3, 4]

- Ans. (i)** National Income is also being measured by the social accounting method.
- (ii)** Under this method, the transaction among various sectors such as firms, households, government etc., are recorded and their interrelationships traced.
- (iii)** The social accounting framework is useful for economists as well as policy makers, because it represents the major economic flows and statistical relationships among various sectors of the economic system.
- (iv)** It becomes possible to forecast the trends of economy more accurately.

Social Accounting and Sector :

- (i)** Under this method, the economy is divided into several sectors.
- (ii)** A sector is a group of individuals or institutions having common interrelated economic transactions.
- (iii)** The economy is divided into the following sectors :
- (1)** Firms
 - (2)** Households

- (3)** Government
- (4)** Rest of the world and
- (5)** Capital sector.

- (iv)** “Firms” undertake productive activities. Thus, they are all organizations which employ the factors of production to produce goods and services.
- (v)** “Households” are consuming entities and represent the factors of production, who receive payment for services rendered by them to firms. Households consume the goods and services that are produced by the firm.
- (vi)** “The government sector” refers to the economic transactions of public bodies at all levels, centre, state and local.
- (vii)** The main function of the government is to provide social goods like defence, public health, education, etc.
- (viii)** “Rest of the world sector” relates to international economic transactions of the country. It contains income, export and import transactions, external loan transaction, and allied overseas investment income and payments.
- (ix)** “Capital sector” refers to saving and investment activities. It includes the transactions of banks, insurance corporations, financial houses, and other agencies of the money market.

PTA

QUESTIONS AND ANSWERS

MULTIPLE CHOICE QUESTIONS 1 MARK

- 1. Match the following and choose that correct answer by using code given below. [PTA-4]**

A	Product method	(i)	Economic welfare
B	Expenditure method	(ii)	Outlay method
C	Income method	(iii)	Factor earning method
D	PQLI	(iv)	Inventory method

Codes :

- (a) A - (ii), B - (i), C - (iv), D - (iii)
- (b) A - (iv), B - (ii), C - (iii), D - (i)
- (c) A - (iii), B - (iv), C - (ii), D - (i)
- (d) A - (i), B - (ii), C - (iv), D - (iii)

[Ans. (b) A - (iv), B - (ii), C - (iii), D - (i)]

ANSWER THE FOLLOWING QUESTIONS IN ONE OR TWO SENTENCES 2 MARKS

- 1. Give the expansion of PQLI. Write its components. [PTA-1]**

Ans. PQLI - Physical Quality of Life Index. It includes standard of living, life expectancy at birth and literacy.

ANSWER THE FOLLOWING IN ONE PARAGRAPH 3 MARKS

- 1. List out a few statistical problems in calculating national income [PTA-2]**

- Ans. (i)** Accurate and reliable data are not adequate as farm output in the subsistence sector is not completely informed.
- (ii)** In animal husbandry there are no authentic production data available.
- (iii)** Different languages, customs, etc., also create problems in computing estimates.

National Income



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- (iv) People in India are indifferent to the official inquiries. They are in most cases non-cooperative also.
- (v) Most of the statistical staff are untrained and inefficient.
- (vi) Therefore, national income estimates in our country are not very accurate or adequate.

ANSWER THE FOLLOWING QUESTIONS IN ONE PAGE **5 MARKS**

1. Give an account of the five types of final goods and services included in GNP. [PTA-4]

Ans. GNP is the total measure of the flow of final goods and services at market value resulting from current production in a country during a year, including net income from abroad.

GNP includes five types of final goods and services :

- (i) value of final consumer goods and services produced in a year to satisfy the immediate wants of the people which is referred to as consumption (C);

- (ii) gross private domestic investment in capital goods consisting of fixed capital formation, residential construction and inventories of finished and unfinished goods which is called as gross investment (I) ;
- (iii) goods and services produced or purchased by the government which is denoted by (G) ; and
- (iv) net exports of goods and services, i.e., the difference between value of exports and imports of goods and services, known as (X-M) ; Net factor incomes from abroad which refers to the difference between factor incomes (wage, interest, profits) received from abroad by normal residents of India and factor incomes paid to the foreign residents for factor services rendered by them in the domestic territory in India (R-P);
- (v) GNP at market prices means the gross value of final goods and services produced annually in a country plus net factor income from abroad (C + I + G + (X-M) + (R-P)).

GOVERNMENT EXAM QUESTIONS AND ANSWERS

MULTIPLE CHOICE QUESTIONS **1 MARK**

1. The new currency symbol (₹) in India was designed by [Govt. MQP-2019]

- (a) L. Sivakumar
- (b) T. Udaya Chandran
- (c) D. Udayakumar
- (d) Amartya Kumar Sen

[Ans. (c) D. Udayakumar]

2. The concept, National Income was first introduced by _____. [Govt. MQP-2019]

- (a) Alfred Marshall
- (b) J.M. Keynes
- (c) Richardo
- (d) Simon Kuznets

[Ans. (d) Simon Kuznets]

3. The individuals income after the payment of income tax is known as _____. [QY-2019]

- (a) nominal income
- (b) disposable income
- (c) real income
- (d) per capita income

[Ans. (b) disposable income]

4. Income method means _____. [QY-2019]

- (a) $y = w + r + i + \pi + (R - P)$
- (b) $y = w + i + r + \pi + R - P$
- (c) $y = w + r + \pi + i + R / P$
- (d) $y = w + r + i + \pi + R \times P$

[Ans. (a) $y = w + r + i + \pi + (R - P)$]

5. The concept, National Income was first introduced by _____. [Govt. MQP-2019]

- (a) Alfred Marshall
- (b) J.M. Keynes
- (c) Richardo
- (d) Simon Kuznets

[Ans. (d) Simon Kuznets]

PART - D

ANSWER THE FOLLOWING QUESTIONS IN ONE PAGE **5 MARKS**

1. Explain the basic concepts of national income. [QY-2019]

Ans. The following are some of the concepts used in measuring national income.

Gross Domestic Product (GDP): GDP is the total market value of final goods and services produced within the country during a year. This is calculated at market prices and is known as GDP at market prices.

$$\text{GDP by expenditure method at market prices} = C + I + G + (X - M)$$

Gross National Product (GNP): GNP is the total measure of the flow of final goods and services at market value resulting from current production in a country during a year, including net income from abroad.

Net National Product (NNP) (at Market price): Net National Product refers to the value of the net output of the economy during the year. NNP is obtained by deducting the value of depreciation, or replacement allowance of the capital assets from the GNP. It is expressed as,

$$\text{NNP} = \text{GNP} - \text{depreciation allowance.}$$

NNP at Factor cost : NNP refers to the market value of output. Whereas NNP at factor cost is the total of income payment made to factors of production.

$$\text{NNP at factor cost} = \text{NNP at Market prices} - \text{Indirect taxes} + \text{Subsidies.}$$

Personal Income : Personal income is derived from national income by deducting undistributed corporate profit, and employees' contributions to social security schemes and adding transfer payment.

$$\text{Personal Income} = \text{National Income} - (\text{Social Security Contribution and undistributed corporate profits}) + \text{Transfer payments}$$

Disposable Income : Disposable Income is also known as Disposable personal income. It is the individuals income after the payment of income tax.

$$\text{Disposable Income} = \text{Personal income} - \text{Direct Tax.}$$

As the entire disposable income is not spent on consumption,
Disposal income = consumption + saving.

Per Capita Income: The average income of a person of a country in a particular year is called Per Capita Income.

$$\text{Per capita income} = \frac{\text{National income}}{\text{Population}}$$

Real Income : National income is the final value of goods and services produced and expressed in terms of money at current prices.

$$\text{National Income at constant price} = \text{National Income at current price} \div P_1 / P_0$$

GDP deflator: GDP deflator is an index of price changes of goods and services included in GDP.

$$\text{GDP deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

ADDITIONAL QUESTIONS AND ANSWERS

PART - A

MULTIPLE CHOICE QUESTIONS **1 MARK**

(i) **Choose the Correct Option.**

1. **GNP stands for**

- (a) Net National Product
- (b) Gross Net Product
- (c) Gross Net Provident
- (d) Gross National Product

[Ans. (d) Gross National Product]

2. **GDP stands for**

- (a) Gross Domestic Product
- (b) Gross Direct Product
- (c) Gross Domestic Provident
- (d) Gross Derived Product

[Ans. (a) Gross Domestic Product]

3. **Formula for calculating NNP at factor cost.**

(a) $\frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$

(b) $\text{NNP at Market Prices} - \text{Indirect taxes} + \text{Subsidies.}$

(c) $\text{GNP} - \text{Depreciation allowance}$

(d) $\text{Output} = \text{Income} = \text{Expenditure}$

[Ans. (b) NNP at Market Prices – Indirect taxes + Subsidies.]

4. **Value of output =**

- (a) Sales + Change in stock
- (b) Sales – Change in stock
- (c) Sales ÷ Change in stock
- (d) Sales × Change in stock

[Ans. (a) Sales + Change in stock]

National Income



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- 5. Per capita Income =**
 (a) National Income – Population
 (b) National Income + Population
 (c) National Income ÷ Population
 (d) National Income × Population
[Ans. (c) National Income ÷ Population]
- 6. A country which has no economic relations with other countries is termed as**
 (a) Open economy
 (b) Closed economy
 (c) Planned economy
 (d) Command economy
[Ans. (b) Closed economy]
- 7. National Income provides a comprehensive measure of _____ activities of a nation.**
 (a) Economic activity
 (b) Production activity
 (c) Consumption activity
 (d) Industrial activity
[Ans. (a) Economic activity]
- 8. Nobel laureate Simon Kuznets introduced the first concept of _____.**
 (a) Per capita Income (b) National Income
 (c) Domestic Income (d) Personal Income
[Ans. (b) National Income]
- 9. GDP calculated at market price is known as _____.**
 (a) GDP at factor price
 (b) NDP at factor price
 (c) GNP at factor price
 (d) GDP at Market price
[Ans. (d) GDP at Market price]
- 10. GDP by expenditure at _____ price.**
 (a) Factor price (b) Market price
 (c) Real price (d) All the above
[Ans. (b) Market price]
- 11. Net Domestic = GDP – _____.**
 (a) NNP (b) NDP
 (c) GNP (d) Depreciation
[Ans. (d) Depreciation]
- 12. GNP is the total measure of the flow of _____ and services.**
 (a) Semi goods
 (b) Semi finished good
 (c) Final goods (d) None of these
[Ans. (c) Final goods]
- 13. GNP includes _____ types of final goods and services.**
 (a) Two (b) Four
 (c) Five (d) Three
[Ans. (c) Five]
- 14. Goods and services produced in a year to satisfy immediate wants is known as _____.**
 (a) Production (b) Consumption
 (c) Distribution (d) Exchange
[Ans. (b) Consumption]
- 15. Inventories of finished and unfinished goods are called _____.**
 (a) Net Investment (b) Investment
 (c) Gross Investment (d) Both 'a' and 'b'
[Ans. (c) Gross Investment]
- 16. The difference between value of exports and imports of goods and services is known as _____.**
 (a) X–M (b) G+I
 (c) X × M (d) All the above
[Ans. (a) X–M]
- 17. GNP at Market prices = GDP at Market Price + _____.**
 (a) Net Market Income
 (b) Net Factor Income from abroad
 (c) Both 'a' and 'b'
 (d) Personal Income
[Ans. (b) Net Factor Income from abroad]
- 18. NNP = _____ – Depreciation.**
 (a) GNP (b) GDP
 (c) NDP (d) All of these
[Ans. (a) GNP]
- 19. NNP at factor cost = NNP at Market Price – _____ + Subsidies.**
 (a) Direct taxes (b) Canons of taxes
 (c) Indirect taxes (d) None of these
[Ans. (c) Indirect taxes]
- 20. _____ income is never equal to the national income.**
 (a) Disposal Income (b) Per capita Income
 (c) Personal Income (d) GDP Deflator
[Ans. (c) Personal Income]
- 21. _____ Income is the buying power of nominal income.**
 (a) Gross Income (b) Real Income
 (c) Per capita Income (d) National Income
[Ans. (b) Real Income]
- 22. National Income expressed in terms of money at _____ prices.**
 (a) Constant Price (b) Market Price
 (c) Current Price (d) All the above
[Ans. (c) Current Price]
- 23. Output = Income = _____.**
 (a) Price (b) Expenditure
 (c) Income (d) None of these
[Ans. (b) Expenditure]

- 24. Output = _____ = Expenditure.**
(a) Output (b) Expenditure
(c) Price (d) Income
[Ans. (d) Income]
- 25. _____ reflects the economic welfare of the country.**
(a) Personal Income (b) Per capita Income
(c) Disposal Income (d) All of these
[Ans. (b) Per capita Income]
- 26. Income earned through illegal activities are _____.**
(a) gambling and smuggling
(b) illicit extraction of liquor
(c) gambling (d) All of these
[Ans. (d) All of these]
- 27. _____ are excluded from national income.**
(a) Capital Gains
(b) Social Accounting
(c) Statistical Problems
(d) None of these [Ans. (a) Capital Gains]
- 28. Great care is required to calculate _____.**
(a) Capital Gains
(b) Social Accounting
(c) Double Counting
(d) Statistical Problems
[Ans. (c) Double Counting]
- 29. _____ Framework is useful for economists as well as policy makers.**
(a) Social Accounting (b) Statistics
(c) Capital Gains (d) None of these
[Ans. (a) Social Accounting]
- 30. Under social accounting method the economy is divided into _____ sectors.**
(a) four (b) two
(c) several (d) three
[Ans. (c) several]
- 31. _____ provides the social goods like public health and education etc.**
(a) Private (b) Government
(c) Unorganised sector (d) None of these
[Ans. (b) Government]
- 32. The growth of an economy is indicated by an _____.**
(a) Increase in general prices
(b) Increase in national income
(c) Increase in savings
(d) Increase in investment
[Ans. (b) Increase in national income]
- 33. The per capita income of an economy can be calculated by _____.**
(a) Dividing GDP by population
(b) Dividing GNP by population
(c) Multiplying GNP by population
(d) Dividing GNP by number of people employed
[Ans. (b) Dividing GNP by population]
- 34. The total money value of final goods and services produced in the country excluding depreciation is called _____.**
(a) NDP (b) GDP
(c) NNP (d) GNP
[Ans. (a) NDP]
- 35. The difference between NNP and NDP is _____.**
(a) Depreciation
(b) Current transfers from rest of the world
(c) Indirect tax
(d) Net factor income from abroad
[Ans. (d) Net factor income from abroad]
- 36. National income as commonly understood by every one refers to _____.**
(a) GNP (b) NNP
(c) GDP (d) NDP
[Ans. (b) NNP]
- 37. National income per person is used as an indicator of _____.**
(a) standard of living of people
(b) poverty of the people
(c) the richness of people
(d) growth of industrialisation
[Ans. (a) standard of living of people]
- 38. National income was called 'national dividend' by _____.**
(a) Irving Fisher (b) Alfred Marshall
(c) Samuelson (d) J.M. Keynes
[Ans. (b) Alfred Marshall]
- 39. _____ is a measure of the total value of the goods and services produced in an economy for a year.**
(a) GNP (b) GDP
(c) National income (d) Per capita income
[Ans. (c) National income]
- 40. GDP = _____.**
(a) GNP + Depreciation
(b) GNP – Net income earned from abroad
(c) GNP – Depreciation
(d) NNP – Depreciation
[Ans. (b) GNP – Net income earned from abroad]
- 41. _____ is the total value of output produced and income received in a year by domestic residence of a country.**
(a) GDP (b) NNP
(c) NDP (d) GNP
[Ans. (d) GNP]
- 42. The income method of calculating national income includes the income of the _____.**
(a) farmers only
(b) businessmen only
(c) service sector only
(d) factors of production
[Ans. (d) factors of production]

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43. _____ employ factors of production to produce the goods and services.

- (a) Consumer (b) Business sectors
(c) House holds (d) Farmers

(Ans : (b) Business sectors)

44. _____ is not the correct indicator for the living standards of the people.

- (a) Per capita income
(b) National income
(c) Both

(d) None of the above (Ans : (c) Both)

45. According to the year 2001, Indian per capita income is _____ dollar.

- (a) 520 (b) 460 (c) 240 (d) 900

(Ans : (b) 460)

46. In _____ method, the measures of GDP are calculated for adding total value of output produced by all activities during a year.

- (a) Expenditure (b) Income
(c) Product (d) All the above

(Ans : (c) Product)

47. In _____ method, the measures of GDP are calculated by adding all the expenditures made in the economy.

- (a) Income (b) Expenditure
(c) Product (d) All the above

(Ans : (b) Expenditure)

48. GDP indicates productive capacity for an _____.

- (a) economy (b) employment
(c) income (d) population

(Ans : (a) economy)

49. Transfer earnings is referred to _____.

- (a) Pension payments to retired persons
(b) Income paid as rent to landlord
(c) An interest payments to a capitalist
(d) Medical payments made to an employee of a company

(Ans : (a) Pension payments to retired persons)

50. The value of net national product will be more than the value of net domestic product, if _____.

- (a) imports exceed exports
(b) exports exceed imports
(c) exports equal imports
(d) none of the above

(Ans : (b) exports exceed imports)

51. Parallel economy refers to _____.

- (a) agricultural economy
(b) industries
(c) banking activities
(d) black money in circulation

(Ans : (d) black money in circulation)

52. _____ is measured by using three method.

- (a) National Income
(b) Domestic Income
(c) Per capita Income (d) Personal Income

[Ans. (a) National Income]

53. Secondary sector is _____

- (a) Industry (b) Trade
(c) Agriculture (d) Manufacture

[Ans. (a) Industry]

54. Tertiary sector is _____

- (a) Industry (b) Banking
(c) Agriculture
(d) Import and Export

[Ans. (b) Banking]

55. GDP = _____

- (a) GDP at Market Price + Net factor income from abroad

$$(b) \text{ GDP} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

- (c) GDP = GNP + Net factor income from abroad

- (d) All the above

[Ans. (c) GDP = GNP + Net factor income from abroad]

56. Disposable income = _____.

$$(a) \text{ GDP deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

- (b) GNP – Depreciation allowance

- (c) GDP – Depreciation

- (d) Gross National Product

[Ans. (d) Gross National Product]

(ii) Match the following and choose the correct answer by using codes given below.

1.	(A)	GDP by expenditure method at market prices	(i)	Personal income – Direct tax
	(B)	Net domestic product	(ii)	GNP – Depreciation allowance
	(C)	NNP	(iii)	C + I + G + (X – M)
	(D)	Disposable income	(iv)	GDP – Depreciation

Codes :

- (a) A - (i), B - (ii), C - (iv), D - (iii)

- (b) A - (iii), B - (iv), C - (ii), D - (i)

- (c) A - (iv), B - (iii), C - (ii), D - (i)

- (d) A - (ii), B - (iii), C - (iv), D - (i)

[Ans. (b) A - (iii), B - (iv), C - (ii), D - (i)]

2.	(A)	GDP deflator	(i)	$\frac{\text{National Income}}{\text{Population}}$
	(B)	Per capita income	(ii)	Double counting
	(C)	National income at constant price	(iii)	$\frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$
	(D)	Product method	(iv)	National Income at current price $\div P_1/P_0$

Codes :

- (a) A - (iv), B - (iii), C - (ii), D - (i)
 (b) A - (ii), B - (iv), C - (i), D - (iii)
 (c) A - (iii), B - (ii), C - (iv), D - (i)
 (d) A - (iii), B - (i), C - (iv), D - (ii)

[Ans. (d) A - (iii), B - (i), C - (iv), D - (ii)]

3.	(A)	Primary sector	(i)	Industry sector
	(B)	Secondary sector	(ii)	GNP
	(C)	Tertiary sector	(iii)	Agriculture
	(D)	Largest figure	(iv)	Service sector

Codes :

- (a) A - (iv), B - (iii), C - (ii), D - (i)
 (b) A - (iii), B - (i), C - (iv), D - (ii)
 (c) A - (ii), B - (i), C - (iv), D - (iii)
 (d) A - (iii), B - (iv), C - (i), D - (ii)

[Ans. (b) A - (iii), B - (i), C - (iv), D - (ii)]

4.	(A)	GNP	(i)	3 Types
	(B)	Methods of Measuring National Income	(ii)	5 Types
	(C)	Basic concepts	(iii)	Transfer payments
	(D)	Difficulties in calculating national income	(iv)	GND, GDP, NNP & NDP

Codes :

- (a) A - (iv), B - (iii), C - (ii), D - (i)
 (b) A - (iii), B - (iv), C - (i), D - (ii)
 (c) A - (ii), B - (i), C - (iv), D - (iii)
 (d) A - (iii), B - (ii), C - (iv), D - (i)

[Ans. (b) A - (iii), B - (iv), C - (i), D - (ii)]

5.	(A)	The financial year in India	(i)	Industrial
	(B)	Tertiary Sector	(ii)	April 1 to March 31
	(C)	NNP	(iii)	Service
	(D)	Secondary Sector	(iv)	Net National Product

Codes :

- (a) A - (iv), B - (iii), C - (ii), D - (i)
 (b) A - (ii), B - (iii), C - (iv), D - (i)
 (c) A - (iv), B - (i), C - (iii), D - (ii)
 (d) A - (iii), B - (ii), C - (iv), D - (i)

[Ans. (b) A - (ii), B - (iii), C - (iv), D - (i)]

6.	(A)	GNP	(i)	Agriculture
	(B)	PQLI	(ii)	Income Method
	(C)	Primary Sector	(iii)	Economic Welfare
	(D)	Distribution side	(iv)	Gross National Product

Codes :

- (a) A - (ii), B - (iii), C - (iv), D - (i)
 (b) A - (ii), B - (i), C - (iv), D - (iii)
 (c) A - (iv), B - (iii), C - (i), D - (ii)
 (d) A - (iii), B - (ii), C - (iv), D - (i)

[Ans. (c) A - (iv), B - (iii), C - (i), D - (ii)]

(iii) State whether the Statements are true or false.

1. (i) Production generates income.
 (ii) Income generates expenditure.

- (a) Both (i) and (ii) are true
 (b) Both (i) and (ii) are false
 (c) (i) is true but (ii) is false
 (d) (i) is false but (ii) is true

[Ans. (a) Both (i) and (ii) are true]

2. (i) National wealth is both man - made and nature's gift.
 (ii) In a four sector economy, flow of income takes place between firms of and households.

- (a) Both (i) and (ii) are true
 (b) Both (i) and (ii) are false
 (c) (i) is true but (ii) is false
 (d) (i) is false but (ii) is true

[Ans. (c) (i) is true but (ii) is false]

3. (i) Disposable income is the sum of the consumption and savings of an individuals after the payment of income tax.
 (ii) Per capita income is nothing but an annual average income of a person.

- (a) Both (i) and (ii) are true
 (b) Both (i) and (ii) are false
 (c) (i) is true but (ii) is false
 (d) (i) is false but (ii) is true

[Ans. (a) Both (i) and (ii) are true]

National Income



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4. (i) The concept of national income was first introduced by Simon Kuznets.
(ii) National income means the total value of all final goods and services produced.

- (a) Both (i) and (ii) are true
(b) Both (i) and (ii) are false
(c) (i) is true but (ii) is false
(d) (i) is false but (ii) is true

[Ans. (a) Both (i) and (ii) are true]

5. Methods of measuring National Income

- (i) Product Method
(ii) Revenue Method

- (a) Both (i) and (ii) are true
(b) Both (i) and (ii) are false
(c) (i) is true but (ii) is false
(d) (i) is false but (ii) is true

[Ans. (c) (i) is true but (ii) is false]

6. Difficulties in measuring National Income.

- (i) Production for self-consumption and changing price.

- (ii) Statistical Problem

- (a) Both (i) and (ii) are true
(b) Both (i) and (ii) are false
(c) (i) is true but (ii) is false
(d) (i) is false but (ii) is true

[Ans. (a) Both (i) and (ii) are true]

7. (i) In the calculation of national income output and value methods are the same

- (ii) National income is calculated according to output, income and expenditure methods are different.

- (a) Both (i) and (ii) are true
(b) Both (i) and (ii) are false
(c) (i) is true but (ii) is false
(d) (i) is false but (ii) is true

[Ans. (c) (i) is true but (ii) is false]

- (iv) Which one of the following is correctly matched?

1.	(a)	Methods of measuring national income	-	Three Methods
	(b)	Expenditure Method	-	Output Method
	(c)	Income Method	-	Value Method
	(d)	Product Method	-	Factor Earning Method

[Ans. (a) Methods of measuring national income - Three Methods]

2.	(a)	Inputs	=	Factors of production
	(b)	MP	=	FC - Indirect Taxes + Subsidies
	(c)	FC	=	MP - Direct Taxes + Subsidies
	(d)	GNP	=	C - I - G - (X - M)

[Ans. (a) Inputs = Factors of production]

- (v) Which one of the following is Not correctly matched?

1.	(a)	Net Domestic Product	=	GNP - Depreciation
	(b)	Gross Domestic Product	=	C + I + G + (X - M)
	(c)	Percapital Income	=	$\frac{\text{GDP}}{\text{Total Population}}$
	(d)	GDP deflator	=	$\frac{\text{GDP}}{\text{Real GDP}}$

[Ans. (d) GDP deflator = $\frac{\text{GDP}}{\text{Real GDP}}$]

2.	(a)	Disposal Income	=	Consumption - Saving
	(b)	Output	=	Income = Expenditure
	(c)	NNP	=	GNP - Depreciation allowance
	(d)	NNP at factor cost	=	NNP at marked price - Indirect taxes + Subsidies.

[Ans. (a) Disposal Income = Consumption - Saving]

- (vi) Assertion and Reason.

1. Assertion (A) : The expenditure method is also called as outlay method.

Reason (R) : The total expenditure incurred by the society in a particular year is added together.

- (a) Both A and R are true and R is the Correct explanation of A
(b) Both A and R are true but R is not the correct explanation of A
(c) A is the true but R is false
(d) A is false but R is true

[Ans. (a) Both A and R are true and R is the Correct explanation of A]

2. Assertion (A) : Income method approaches national income from the distribution side.

Reason (R) : National income is calculated by adding all the expenditure generated in the economy.

- (a) Both A and R are true and R is the Correct explanation of A
- (b) Both A and R are true but R is not the correct explanation of A
- (c) A is the true but R is false
- (d) A is false but R is true

[Ans. (c) A is the true but R is false]

3. Assertion (A) : Product method measures the output of an economy.

Reason (R) : The value of the final product is derived by the summation of all the values added in the productive process.

- (a) Both A and R are true and R is the Correct explanation of A
- (b) Both A and R are true but R is not the correct explanation of A
- (c) A is the true but R is false
- (d) A is false but R is true

[Ans. (a) Both A and R are true and R is the Correct explanation of A]

(vii) Pick the Odd one Out.

1. Concepts of National Income

- (a) Gross National Product
- (b) Gross Domestic Product
- (c) Net National Product
- (d) Output = Income = Expenditure

[Ans. (d) Output = Income = Expenditure]

2. Methods of measuring National Income

- (a) Product Method
- (b) Consumption Method
- (c) Income Method
- (d) Expenditure Method

[Ans. (b) Consumption Method]

3. Per Capita Income

- (a) The total income of a country
- (b) The average income of a person
- (c) National Income / Population
- (d) GDP / Population

[Ans. (a) The total income of a country]

4. Labour Income

- (a) Wages
- (b) Divident
- (c) Salaries
- (d) Fringe benefits

[Ans. (b) Divident]

5. Capital Income

- (a) Interest
- (b) Profit
- (c) Fringe benefit
- (d) Divident

[Ans. (c) Fringe benefit]

PART - B

ANSWER THE FOLLOWING QUESTIONS IN ONE OR TWO SENTENCES 2 MARKS

1. Write the formula for calculating NDP.

Ans. Net Domestic Product = GDP – Depreciation.

2. What are the methods of measuring National Income?

- Ans. (i)** Production or Value added method.
(ii) Income method or Factor Earning method.
(iii) Expenditure Method or outlay method.

3. What do you mean by Real Income?

Ans. (i) Nominal income is national income expressed in terms of a general price level of a particular year. In other words, real income is the buying power of nominal income.

(ii) The real income is derived as follows.

$$\text{National Income at constant price} = \frac{\text{National Income at current price}}{P_1/P_0}$$

4. What do you mean by National Income?

Ans. National Income means the total money value of all final goods and services produced in a country during a particular period of time.

5. What is GDP? Write the formula.

Ans. GDP is the total market value of final goods and services produced within the country during a year.

$$\text{GDP by expenditure methods at market prices} = C + I + G + (X - M)$$

6. Write the formula for Personal Income.

Ans. Personal Income = National Income – (Social Security contribution and undistributed corporate profits) + Transfer Payments.

7. What do you mean by Disposable Income?

Ans. Disposable Income is an individuals income after the payment of income tax. This is the amount available for households for consumption.

8. Write a short note on Capital Gains.

Ans. Capital gains arise when a capital asset such as a house, other property, stocks or shares, etc. is sold at higher price than was paid for it at the time of purchase. Capital gains are excluded from national income.