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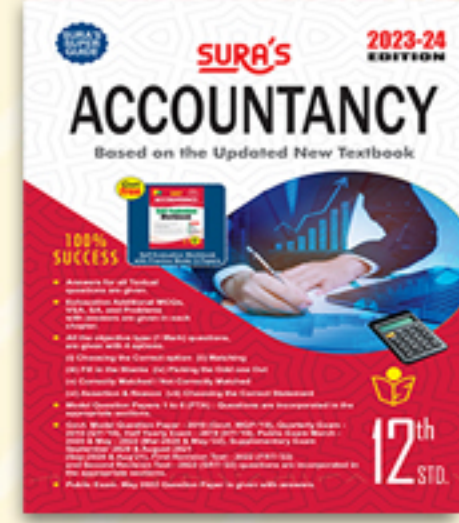
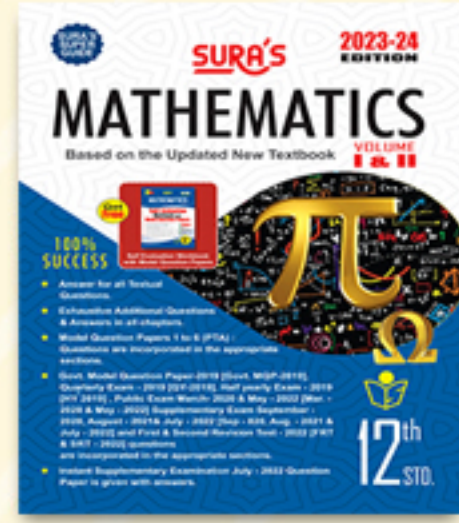
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**PREFACE**

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. 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.**

- Publisher

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*All the Best*

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CHAPTER

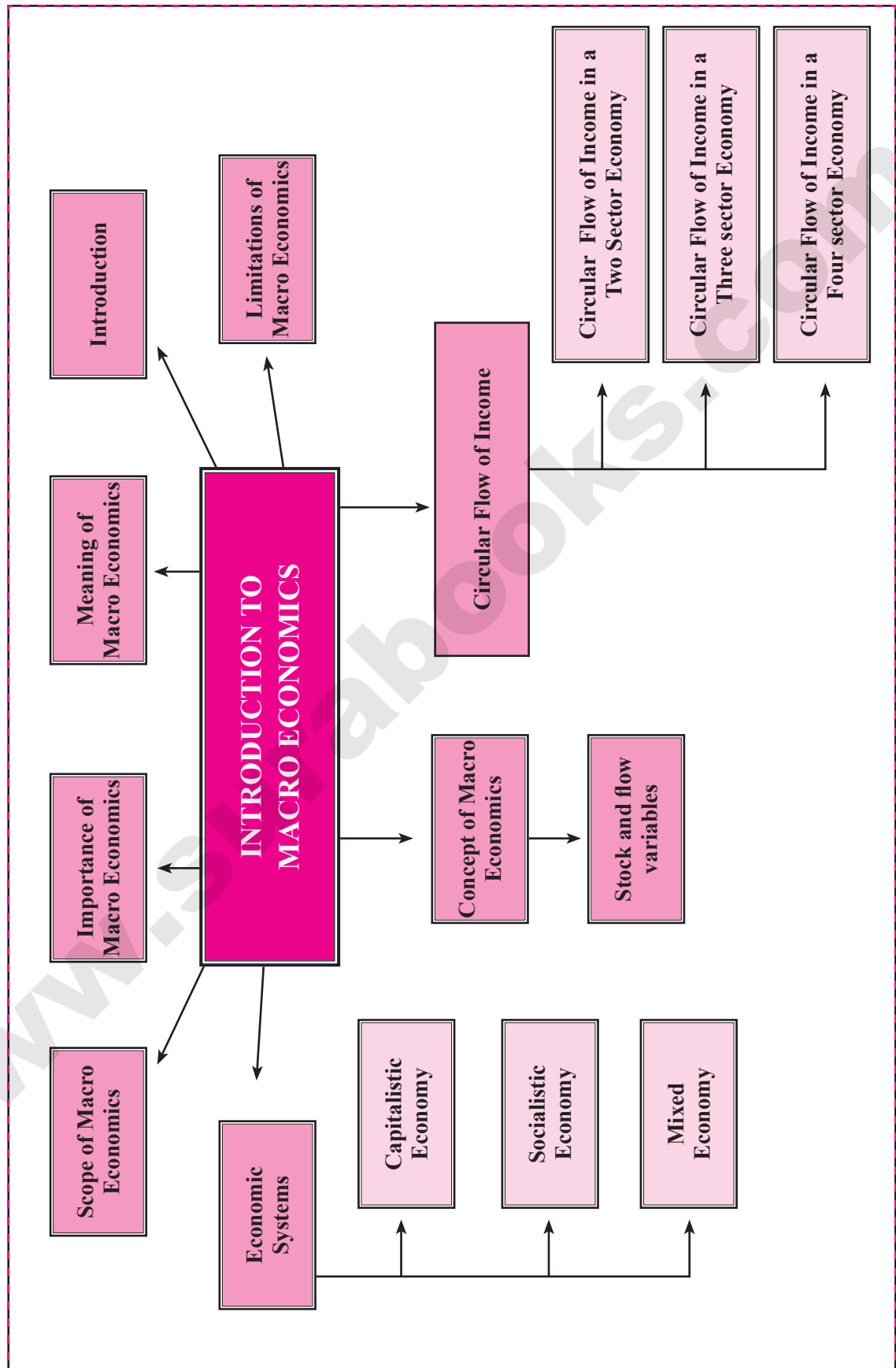
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# INTRODUCTION TO MACRO ECONOMICS

## 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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| 1.7   | Economic Systems                  |       |   |
| 1.7.1 | Capitalistic Economy (Capitalism) |       |   |
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# Concept Map





## *Important Terms*

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

## *Definitions*

<b>Macro Economics</b>	: According to - Dorn Busch, Fischer and Startz “ Macro Economics is very much about tying together facts and theories”.
<b>Economy</b>	: The term economy has been defined by A.J. Brown as, “A system by which people earn their living”.
<b>J.R. Hicks Definition of Economy</b>	: 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”.
<b>Capitalistic Economy</b>	: 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

1. The branches of the subject Economics is  
[PTA-6; FRT & May-'22]  
(a) Wealth and welfare  
(b) Production and consumption  
(c) Demand and supply  
(d) Micro and macro  
[Ans. (d) Micro and macro]
2. Who coined the word 'Macro'? [QY-'19]  
(a) Adam Smith (b) J M Keynes  
(c) Ragnar Frisch (d) Karl Marx  
[Ans. (c) Ragnar Frisch]
3. Who is regarded as Father of Modern Macro Economics?  
[Govt. MQP-'19; Mar & Sep-2020; FRT-'22]  
(a) Adam Smith (b) J M Keynes  
(c) Ragnar Frisch (d) Karl Marx  
[Ans. (b) J M Keynes]
4. Identify the other name for Macro Economics.  
[PTA-1; FRT, July-'22]  
(a) Price Theory (b) Income Theory  
(c) Market Theory (d) Micro Theory  
[Ans. (b) Income Theory]
5. Macro economics is a study of \_\_\_\_\_.  
[PTA-2 Mar-2020]  
(a) individuals (b) firms  
(c) a nation (d) aggregates  
[Ans. (d) aggregates]
6. Indicate the contribution of J M Keynes to economics.  
[May-'22]  
(a) Wealth of Nations (b) General Theory  
(c) Capital (d) Public Finance  
[Ans. (b) General Theory]
7. 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]
8. 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]
9. 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]
10. An economy consists of [PTA-4; HY-'19]  
(a) Consumption sector  
(b) Production sector  
(c) Government sector  
(d) All the above  
[Ans. (d) All the above]
11. 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]
12. 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'?

[FRT-'22]

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

[Ans. (a) Adam Smith]

### 14. The country following Capitalism is \_\_\_\_\_.

[PTA-3; Aug-'21]

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

[Ans. (b) America]

### 15. Identify The Father of Socialism.

[PTA-1; HY-'19; Aug-'21]

- (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; July-'22]

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

[Ans. (d) Mixed Economy]

### 17. Quantity of a commodity accumulated at a point of time is termed as \_\_\_\_\_.

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

[Ans. (b) stock]

### 18. Identify the flow variable. [QY-'19; Sep-2020]

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

[Ans. (c) income]

### 19. Identify the sectors of a Two Sector Model.

- (a) Households and Firms [PTA-4; FRT-'22]  
(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-'19; FRT-'22; May-'22]

**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 - '19; QY-'19; Mar-2020; July-'22]

**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-'19]

**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-'19; FRT-'22]

**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; FRT-'22]*

**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-'19; FRT & May-'22]*

**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; Aug-'21; July-'22]*

**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.

**(v) 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-'19; Sep-2020; FRT-'22]*

**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.





## 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



**CHAPTER**

**2**

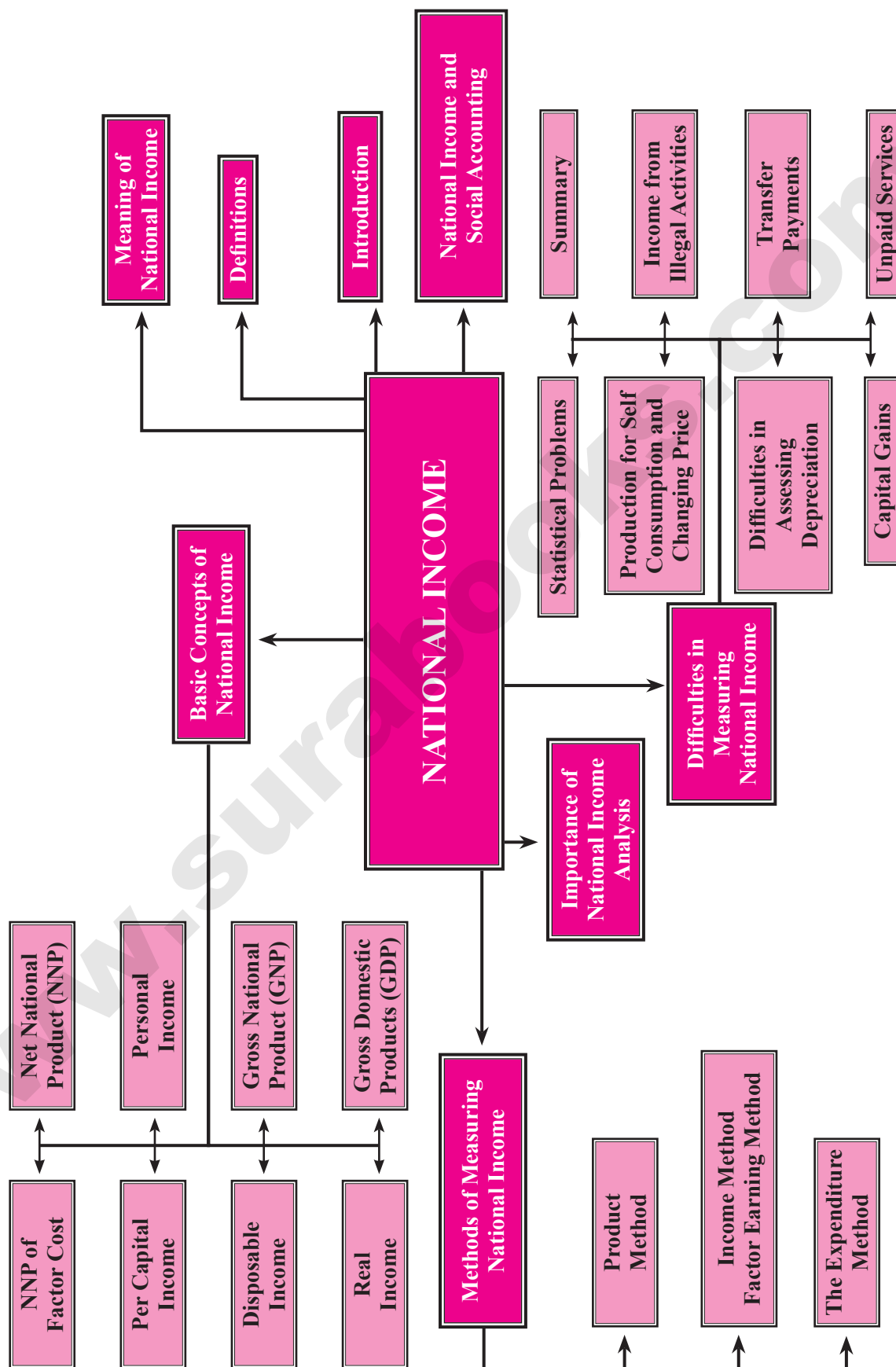
**NATIONAL INCOME**

**CHAPTER SNAPSHOT**

- |       |  |       |  |
|-------|--|-------|--|
| 2.1   | Introduction                           | 2.6   | Importance of National Income Analysis               |
| 2.2   | Meaning of National Income             | 2.7   | Difficulties in Measuring National Income            |
| 2.3   | Definitions                            | 2.7.1 | Transfer payments                                    |
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| 2.4.1 | Gross Domestic Product (GDP)           | 2.7.3 | Unpaid services                                      |
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| 2.4.4 | NNP at Factor Cost                     | 2.7.6 | Capital Gains  |
| 2.4.5 | Personal Income                        | 2.7.7 | Statistical problems                                 |
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# Concept Map







## *Important Terms*

<b>GNP</b>	: Total money value of final goods and services produced in a country during a particular year (one year) including depreciation and net exports.
<b>NNP</b>	: Total money value of final goods and services produced in a country during a particular year excluding depreciation including net exports.
<b>NNP at factor cost</b>	: The total of income payment made to factors of production.
<b>Personal Income</b>	: Total income received by the individuals of a country before payment of direct taxes.
<b>Disposable Income</b>	: It is the sum of the consumption and saving of individuals after the payment of income tax.
<b>Per capital Income</b>	: Annual average income of a person.
<b>Social Accounts</b>	: The accounts of national income considering the social cost generated by economic activities.
<b>Unpaid Services</b>	: Rendering useful services like preparation of meals, washing, learning bringing up children, services to their friends and relatives without payment.
<b>Capital Sector</b>	: It includes saving and investment activities.
<b>Transfer Payments</b>	: Government makes payments in the form of pensions unemployment allowance, subsidies, etc.
<b>Real Income</b>	: 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.
<b>Outlay Method</b>	: The total expenditure incurred by the society in a particular year is called total expenditure of a society.
<b>Factor Cost</b>	: 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.
<b>Market Price (MP)</b>	: The market price is the price that consumer will pay for the product when they purchase it from the sellers.
<b>Capital Gains</b>	: Capital gains are the difference between a higher selling price and a lower purchase price.
<b>Social Accounting</b>	: "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 Marshal 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. Percapita Income**

Percapita 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-'19; Mar-2020]

(a) Industry (b) Trade  
(c) Agriculture (d) Construction.

[Ans. (c) Agriculture]

3. National income is measured by using \_\_\_\_\_ methods. [QY-'19; FRT, July-'22]

(a) Two (b) Three  
(c) Five (d) Four

[Ans. (b) Three]

4. Income method is measured by summing up of all forms of \_\_\_\_\_. [FRT, July-'22]

(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; FRT-'22]

(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; Aug-'21; May-'22]

(a) Production  
(b) Population of a country  
(c) Expenditure  
(d) GNP [Ans. (b) Population of a country]

10.  $GNP = \text{_____} + \text{Net factor income from abroad.}$

(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-'19; HY-'19]

(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]

**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]**

## 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-'19; Sep-2020; FRT & May-'22]**

**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

**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 : NNP = GNP - depreciation allowance	Net Domestic Product = GDP - Depreciation.

**24. Trace the relationship between GNP and NNP.**

**[PTA-2]**

Ans.	S. No.	GNP	NNP
	1.	<b>Gross National Product (GNP)</b> 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.	<b>Net National Product (NNP)</b> refers to the value of the net output of the economy during the year. NNP is obtained by deducting the value of depreciation.
	2.	GNP at Market prices = GDP at market prices + Net Factor income from Abroad.	<div style="border: 1px solid black; padding: 5px; display: inline-block;"> <math display="block">\text{NNP} = \text{GNP} - \text{depreciation allowance}</math> </div>





## 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) NNP at Market Prices – Indirect taxes + Subsidies.
- (c) GNP – Depreciation allowance
- (d) Output = Income = 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]**

**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. GDP calculate 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]**

**9. GDP by expenditure at \_\_\_\_\_ price.**

- (a) Factor price
- (b) Market price
- (c) Real price
- (d) All the above

**[Ans. (b) Market price]**

**10. Net Domestic = GDP – \_\_\_\_\_.**

- (a) NNP
- (b) NDP
- (c) GNP
- (d) Depreciation

**[Ans. (d) Depreciation]**

**11. 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]**

**12. GNP includes \_\_\_\_\_ types of final goods and services.**

- (a) Two
- (b) Four
- (c) Five
- (d) Three

**[Ans. (c) Five]**

**13. 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]**

**14. 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]**

**15. 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]**

**16. 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]**

**17. NNP = \_\_\_\_\_ – Depreciation.**

- (a) GNP
- (b) GDP
- (c) NDP
- (d) All of these

**[Ans. (a) GNP]**

- 18.**  $NNP \text{ at factor cost} = NNP \text{ at Market Price} - \underline{\hspace{2cm}} + \text{Subsidies.}$   
 (a) Direct taxes (b) Canons of taxes  
 (c) Indirect taxes (d) None of these  
**[Ans. (c) Indirect taxes]**
- 19.**  $\underline{\hspace{2cm}}$  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]**
- 20.**  $\underline{\hspace{2cm}}$  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]**
- 21.** National Income expressed in terms of money at  $\underline{\hspace{2cm}}$  prices.  
 (a) Constant Price (b) Market Price  
 (c) Current Price (d) All the above  
**[Ans. (c) Current Price]**
- 22.**  $\text{Output} = \text{Income} = \underline{\hspace{2cm}}.$   
 (a) Price (b) Expenditure  
 (c) Income (d) None of these  
**[Ans. (b) Expenditure]**
- 23.**  $\text{Output} = \underline{\hspace{2cm}} = \text{Expenditure.}$   
 (a) Output (b) Expenditure  
 (c) Price (d) Income **[Ans. (d) Income]**
- 24.**  $\underline{\hspace{2cm}}$  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]**
- 25.** Income earned through illegal activities are  $\underline{\hspace{2cm}}.$   
 (a) gambling and smuggling  
 (b) illicit extraction of liquor  
 (c) gambling (d) All of these  
**[Ans. (d) All of these]**
- 26.**  $\underline{\hspace{2cm}}$  are excluded from national income.  
 (a) Capital Gains  
 (b) Social Accounting  
 (c) Statistical Problems  
 (d) None of these **[Ans. (a) Capital Gains]**
- 27.** Great care is required to calculate  $\underline{\hspace{2cm}}.$   
 (a) Capital Gains  
 (b) Social Accounting  
 (c) Double Counting  
 (d) Statistical Problems  
**[Ans. (c) Double Counting]**
- 28.**  $\underline{\hspace{2cm}}$  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]**
- 29.** Under social accounting method the economy is divided into  $\underline{\hspace{2cm}}$  sectors.  
 (a) four (b) two  
 (c) several (d) three **[Ans. (c) several]**
- 30.**  $\underline{\hspace{2cm}}$  provides the social goods like public health and education etc.  
 (a) Private (b) Government  
 (c) Unorganised sector (d) None of these  
**[Ans. (b) Government]**
- 31.** The growth of an economy is indicated by an  $\underline{\hspace{2cm}}.$   
 (a) Increase in general prices  
 (b) Increase in national income  
 (c) Increase in savings  
 (d) Increase in investment  
**[Ans : (b) Increase in national income]**
- 32.** The per capita income of an economy can be calculated by  $\underline{\hspace{2cm}}.$   
 (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]**
- 33.** The total money value of final goods and services produced in the country excluding depreciation is called  $\underline{\hspace{2cm}}.$   
 (a) NDP (b) GDP  
 (c) NNP (d) GNP **[Ans : (a) NDP]**
- 34.** The difference between NNP and NDP is  $\underline{\hspace{2cm}}.$   
 (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]**
- 35.** National income as commonly understood by every one refers to  $\underline{\hspace{2cm}}.$   
 (a) GNP (b) NNP  
 (c) GDP (d) NDP **[Ans : (b) NNP]**
- 36.** National income per person is used as an indicator of  $\underline{\hspace{2cm}}.$   
 (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]**
- 37.** National income was called 'national dividend' by  $\underline{\hspace{2cm}}.$   
 (a) Irving Fisher (b) Alfred Marshall  
 (c) Samuelson (d) J.M. Keynes  
**[Ans : (b) Alfred Marshall]**
- 38.**  $\underline{\hspace{2cm}}$  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]**



## National Income



## Sura's - XII Std - Economics

- 39. 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]**
- 40. \_\_\_\_\_ 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]**
- 41. 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]**
- 42. \_\_\_\_\_ employ factors of production to produce the goods and services.**  
 (a) Consumer (b) Business sectors  
 (c) House holds (d) Farmers  
**[Ans : (b) Business sectors]**
- 43. \_\_\_\_\_ 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]**
- 44. According to the year 2001, Indian per capita income is \_\_\_\_\_ dollar.**  
 (a) 520 (b) 460 (c) 240 (d) 900  
**[Ans : (b) 460]**
- 45. 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]**
- 46. 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]**
- 47. GDP indicates productive capacity for an \_\_\_\_\_.**  
 (a) economy (b) employment  
 (c) income (d) population  
**[Ans : (a) economy]**
- 48. 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]**
- 49. 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]**
- 50. Parallel economy refers to \_\_\_\_\_.**  
 (a) agricultural economy  
 (b) industries  
 (c) banking activities  
 (d) black money in circulation  
**[Ans : (d) black money in circulation]**
- 51. \_\_\_\_\_ is measured by using three method.**  
 (a) National Income  
 (b) Domestic Income  
 (c) Per capita Income (d) Personal Income  
**[Ans. (a) National Income]**
- 52. Secondary sector is \_\_\_\_\_.**  
 (a) Industry (b) Trade  
 (c) Agriculture (d) Manufacture  
**[Ans. (a) Industry]**
- 53. Tertiary sector is \_\_\_\_\_.**  
 (a) Industry (b) Banking  
 (c) Agriculture  
 (d) Import and Export  
**[Ans. (b) Banking]**
- 54. GDP = \_\_\_\_\_**  
 (a) GDP at Market Price + Net factor income from abroad  
 (b)  $GDP = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$   
 (c) GDP = GNP + Net factor income from abroad  
 (d) All the above  
**[Ans. (c) GDP = GNP + Net factor income from abroad]**
- 55. Disposable income = \_\_\_\_\_.**  
 (a)  $GDP \text{ deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$   
 (b) GNP – Depreciation allowance  
 (c) GDP – Depreciation  
 (d) Gross National Product  
**[Ans. (d) Gross National Product]**

## PART - D

### ANSWER THE FOLLOWING QUESTIONS IN

ONE PAGE

**5 MARKS**

#### 1. Discuss the method measuring the National Income by Income Method.

**Ans. (i)** Income method approaches National Income from the distribution side.

**(ii)** National income is calculated by adding up all the incomes generated in the course of producing national product.

##### Steps involved :

**(1)** Factor incomes are grouped under labour income, capital income and mixed income.

**(2)** 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       $\pi$  = profits

R = Exports      P = Imports

**(3)** This method is adopted for estimating the contributions of the remaining sector, viz.

**(4)** Data on income from abroad (the rest of the world sector or foreign sector) are obtained from the account of the balance of payments of the country.

##### Items not to be included :

**(1)** Transfer payments are not to be included in estimation of national income.

**(2)** The receipts from the sale of second hand goods should not be treated as part of national income.

##### Items to be included :

**(1)** Imputed value of rent for self occupied house or offices is to be included.

**(2)** Imputed value of services provided by owners of production unit (family labour) is to be included.

#### 2. Discuss the methods of measuring the National Income by Product Method.

##### Ans. Product Method :

**(i)** Product method measures the output of the country. It is also called inventory method.

**(ii)** It is obtained for the entire economy during a year.

**(iii)** The value obtained is actually the GNP at market prices.

**(iv)** Care must be taken to avoid double counting.  
**(v)** The value of the final product is derived by the summation of all the values added in the productive process.

**(vi)** To avoid double counting either the value of the final output should be taken in to the estimate of GNP.

**(vii)** In India the gross value of the farm output is obtained as follows.

**(1)** The output of each crop is measured by multiplying the area shown by the average yield per hectare.

**(2)** The total output of each commodity is valued at market prices.

**(3)** The net value of the agricultural output is measured by making deductions for the cost of seed, manures and fertilisers etc.,

**(4)** Net value of the output in these sectors is derived by making deductions for cost of materials used in the process of production and depreciation allowances etc., from gross value of output.

**(5)** For example, value of cotton enters value of yarn as cost and value of yarn in cloth and that of cloth in garments at every stage value added only should be calculated.

#### 3. Discuss the limitations of National Income as an index of economic welfare.

**Ans. (i)** The economic welfare depends upon the composition of a goods and services provided.

**(ii)** Higher GDP with greater environmental hazards such as air, water and soil pollution will be little economic welfare.

**(iii)** The production of war goods will show the increase in national output but not welfare.

**(iv)** An increase in per capita income may be due to employment of women and children or forcing workers to work for long hours. But it will not promote economic welfare.

**(v)** Therefore the physical quality of life index (PQLI) is considered a better indicator of economic welfare.

**(vi)** It includes standard of living, life expectancy at birth and literacy.





**CHAPTER**

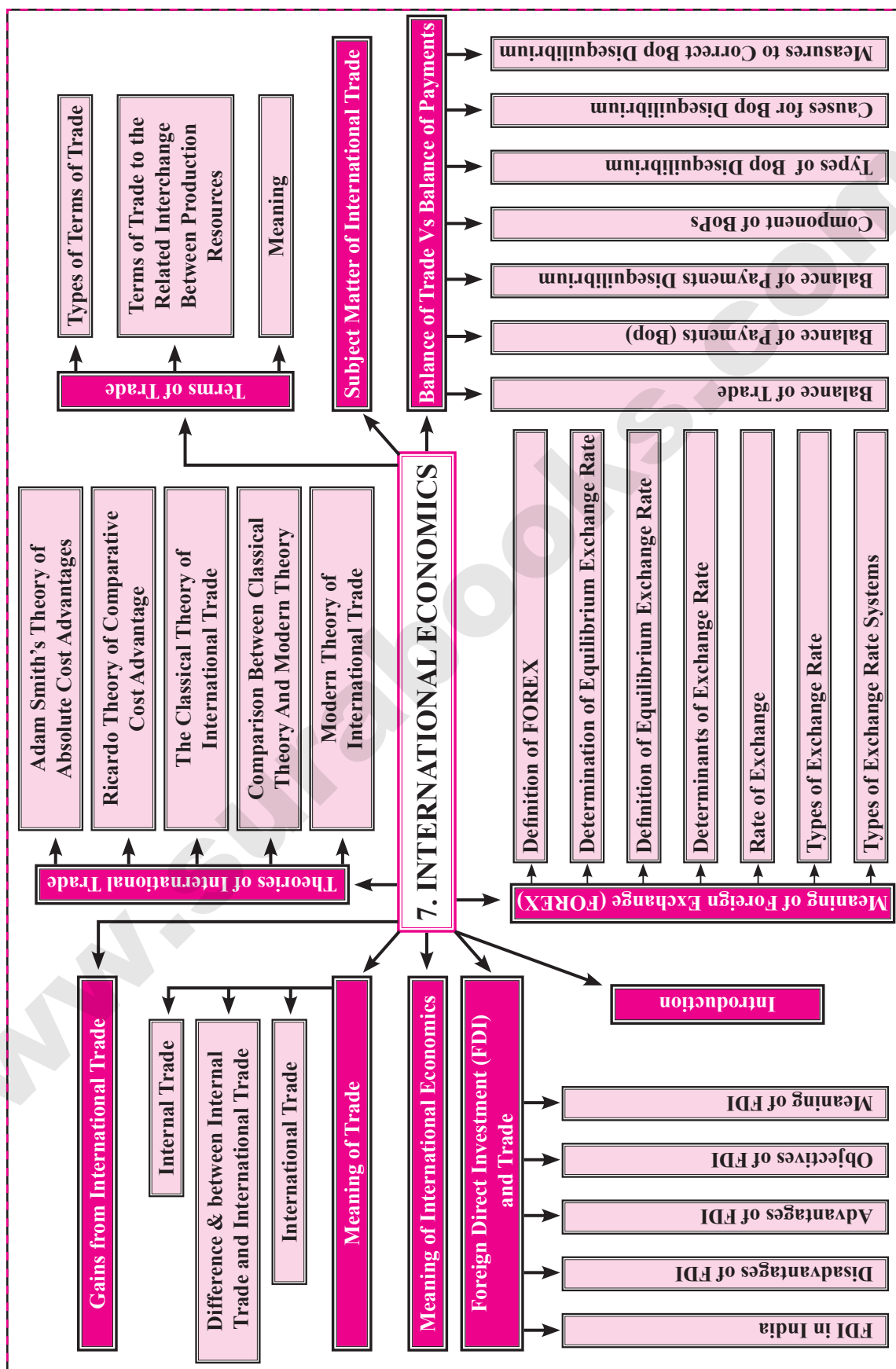
**7**

**INTERNATIONAL  
ECONOMICS**

**CHAPTER SNAPSHOT**

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|--|---|
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# Concept Map







## *Important Terms*

<b>International Economics</b>	: A special branch of economics which primarily deals with the basics of international trade.
<b>Internal Trade</b>	: A trade within the geographical boundary of a particular nation.
<b>International Trade</b>	: A trade between two or more countries and it is a trade beyond the geographical and political boundaries.
<b>Absolute Cost Differences</b>	: The difference in the actual costs of production of a commodities between two nations.
<b>Factor Endowment</b>	: Abundance in the availability of a factor in a country.
<b>Terms of Trade</b>	: The rate at which goods of one country are exchanged for that of another country ie ratio of export price and import price.
<b>Balance of Trade</b>	: The balance between the values of goods exchanged between two countries.
<b>Balance of Payments</b>	: The balance between the values of goods and services exchanged between two countries.
<b>Devaluation</b>	: It means official reduction in the value of a currency in terms of gold or other currencies.
<b>Foreign Exchange</b>	: The currency of another country.
<b>Exchange Rate</b>	: The rate at which one currency is exchanged for another currency.
<b>Fixed Exchange Rates</b>	: An exchange rate that is held within a narrow band by the monetary authorities.
<b>Flexible Exchange Rates</b>	: Flexible exchange rates are freely determined in an open market primarily by private dealings, and they like other market prices, vary from day by day.
<b>Foreign Direct Investment</b>	: The investment made by a multinational enterprise in a foreign country and an investment in a foreign country that involves some degree of control and participation in management.
<b>Foreign Institutional Investment (FII)</b>	: Foreign Institutional Investment is an investment in hedge funds, insurance companies, Pension funds and mutual funds.
<b>Foreign Portfolio Investment (FPI)</b>	: Foreign Portfolio Investment means the entry of funds into a nation.

## *Definitions*

<b>International Economics</b>	: “According to Dornbusch, Fischer and Startz defined as, Economies are linked internationally through trade in goods and through financial markets”.
<b>Absolute Cost Advantage</b>	: According to Adam Smith, the basis of international trade was absolute cost advantage. In Economics, the principle of absolute cost advantage refers to the ability of a business to produce more, sell more of goods or services than competitors, using the same amount of resource.
<b>Ricardo's Theory of Comparative Cost Advantage</b>	: According to Ricardo, a country can gain from trade when it produces at relatively lower costs. Even when a country enjoys absolute advantage in both goods, the country would specialize in the production and export of those goods, which are relatively more advantageous.
<b>International Trade</b>	: A capital abundant country will export capital intensive goods. While the labour abundant country will export the labour intensive goods.
<b>FOREX</b>	: FOREX is the System or process of converting one national currency into another, and of transferring money from one country to another.
<b>Equilibrium Exchange rate</b>	: According to Ragnar Nurkse, “The equilibrium exchange rate is that rate, which over a certain period of time, keeps the balance of payments in equilibrium.
<b>Foreign Direct Investment</b>	: An investment in a foreign country that involves some degree of control and participation in management. It corresponds to the investment made by a multinational enterprise in a foreign country.

## *Formulae*

S. NO.	TO CALCULATE	FORMULA
1.	Net Barter Terms of Trade	$T_n = (P_x / P_m) \times 100$
2.	Gross Barter Terms of Trade	$T_g = (Q_m / Q_x) \times 100$
3.	Income Terms of Trade	$T_y = (P_x / P_m) Q_x$
4.	Single Factoral Terms of Trade	$T_f = (P_x / P_m) F_x$
5.	Double Factoral Terms of Trade	$T_{ff} = (P_x / P_m) (F_x / F_m)$
6.	Balance of Payment (BoP) Account Chart	(Credit (Receipts) – Debit( <b>Payment</b> ) = Balance [ <b>Deficit</b> (-), <b>Surplus</b> (+)] <div style="border: 1px solid black; padding: 2px; display: inline-block;">Deficit if Debit &gt; Credit</div>
7.	Balance of Payments Disequilibrium	<div style="border: 1px solid black; padding: 2px; display: inline-block;"><math>R / P = I</math></div>





8.	Favourable BoP	$R / P > I$
9.	Unfavourable BoP	$R / P < I$
10.	Real Exchange Rate	Real Exchange rate = $\frac{eP_f}{P}$

## MODEL QUESTIONS

### PART - A

#### MULTIPLE CHOICE QUESTIONS

- 1. Trade between two countries is known as \_\_\_\_\_ trade** [PTA-3; Aug-'21; SRT & May-'22]

(a) External (b) Internal  
(c) Inter-regional (d) Home

[Ans. (a) External]

- 2. Which of the following factors influence trade?**

(a) The stage of development of a product  
(b) The relative price of factors of productions.  
(c) Government.  
(d) All of the above. [Ans. (d) All of the above.]

- 3. International trade differs from domestic trade because of** [PTA-5]

(a) Trade restrictions  
(b) Immobility of factors  
(c) Different government policies  
(d) All the above [Ans. (d) All the above]

- 4. In general, a primary reason why nations conduct international trade is because**

(a) Some nations prefer to produce one thing while others produce another  
(b) Resources are not equally distributed among all trading nations  
(c) Trade enhances opportunities to accumulate profits  
(d) Interest rates are not identical in all trading nations

[Ans. (b) Resources are not equally distributed among all trading nations]

- 5. Which of the following is a modern theory of international trade?**

(a) absolute cost  
(b) comparative cost  
(c) Factor endowment theory  
(d) none of these

[Ans. (c) Factor endowment theory]

- 6. Exchange rates are determined in**

[Govt. MQP & QY - '19; Mar-2020; SRT-'22]

(a) money market  
(b) foreign exchange market  
(c) stock market (d) capital market

[Ans. (b) foreign exchange market]

- 7. Exchange rate for currencies is determined by supply and demand under the system of**

[SRT-'22]

(a) Fixed exchange rate  
(b) Flexible exchange rate  
(c) Constant  
(d) Government regulated

[Ans. (b) Flexible exchange rate]

- 8. Net export equals \_\_\_\_\_.**

[PTA-4; QY-'19; HY-'19]

(a) Export  $\times$  Import (b) Export + Import  
(c) Export – Import  
(d) Exports of services only

[Ans. (c) Export – Import]

- 9. Who among the following enunciated the concept of single factorial terms of trade?**

(a) Jacob Viner (b) G.S.Donens  
(c) Taussig (d) J.S.Mill

[Ans. (a) Jacob Viner]

- 10. Terms of Trade of a country show \_\_\_\_\_.**

[PTA-6; SRT, July-'22]

(a) Ratio of goods exported and imported  
(b) Ratio of import duties  
(c) Ratio of prices of exports and imports  
(d) Both (a) and (c)

[Ans. (c) Ratio of prices of exports and imports]

- 11. Favourable trade means value of exports are \_\_\_\_\_ Than that of imports.**

[PTA-2; [HY-'19; May-'22]

(a) More (b) Less  
(c) More or Less (d) Not more than

[Ans. (a) More]

**12. If there is an imbalance in the trade balance (more imports than exports), it can be reduced by** [PTA-5]

- (a) decreasing customs duties
- (b) increasing export duties
- (c) stimulating exports
- (d) stimulating imports

[Ans. (c) stimulating exports]

**13. BOP includes** [PTA-1; Mar-2020; Sep-2020]

- (a) visible items only
- (b) invisible items only
- (c) both visible and invisible items
- (d) merchandise trade only

[Ans. (c) both visible and invisible items]

**14. Components of balance of payments of a country includes** [SRT-'22]

- (a) Current account
- (b) Official account
- (c) Capital account
- (d) All of above

[Ans. (d) All of above]

**15. In the case of BOT,**

- (a) Transactions of goods are recorded.
- (b) Transactions of both goods and services are recorded.
- (c) Both capital and financial accounts are included.
- (d) All of these

[Ans. (a) Transactions of goods are recorded.]

**16. Tourism and travel are classified in which of balance of payments accounts?**

- (a) merchandise trade account
- (b) services account
- (c) unilateral transfers account
- (d) capital account

[Ans. (b) services account]

**17. Cyclical disequilibrium in BOP occurs because of**

- (a) Different paths of business cycle.
- (b) The income elasticity of demand or price elasticity of demand is different.
- (c) long-run changes in an economy
- (d) Both (a) and (b).

[Ans. (d) Both (a) and (b)]

**18. Which of the following is not an example of foreign direct investment?**

- (a) the construction of a new auto assembly plant overseas
- (b) the acquisition of an existing steel mill overseas
- (c) the purchase of bonds or stock issued by a textile company overseas
- (d) the creation of a wholly owned business firm overseas

[Ans. (c) the purchase of bonds or stock issued by a textile company overseas]

**19. Foreign direct investments not permitted in India** [Aug-'21; July-'22]

- (a) Banking
- (b) Atomic energy
- (c) Pharmaceutical
- (d) Insurance

[Ans. (b) Atomic energy]

**20. Benefits of FDI include, theoretically**

- (a) Boost in Economic Growth
- (b) Increase in the import and export of goods and services
- (c) Increased employment and skill levels
- (d) All of these

[Ans. (d) All of these]

## PART - B

**ANSWER THE FOLLOWING QUESTIONS.**

**EACH QUESTION CARRIES 2 MARKS.**

**21. What is International Economics?**

[PTA-6; SRT, July-'22]

**Ans.** International Economics is that branch of economics which is concerned with the exchange of goods and services between two or more countries. Hence the subject matter is mainly related to foreign trade.

**22. Define International trade.** [PTA-4]

**Ans. (i)** International trade refers to the trade or exchange of goods and services between two or more countries.

**(ii)** In other words, it is a trade among different countries or trade across political boundaries.

**(iii)** It is also called as 'external trade' or 'foreign trade' or 'inter-regional trade'.

**23. State any two merits of trade.**

**Ans. (i)** Trade is one of the powerful forces of economic integration.

**(ii)** The term 'trade' means exchange of goods, wares or merchandise among people.

**24. What is the main difference between Adam Smith and Ricardo with regard to the emergence of foreign trade?**

**Ans.**

S. No.	Adam Smith Foreign Trade	Ricardo Foreign Trade
1.	According to Adam Smith the basis of International trade was absolute cost advantage.	Ricardo demonstrates that the basis of trade is the comparative cost difference.
2.	Trade between two countries would be mutually beneficial when one country produces a commodity at an absolute cost advantage.	Trade can take place even if the absolute cost difference is absent but there is comparative cost difference.





**25. Define Terms of Trade.**

**Ans.** The gains from international trade depend upon the terms of trade which refers to the ratio of export prices to import prices.

Terms of Trade (TOT) =

$$\frac{\text{Index of Export Prices}}{\text{Index of Import Prices}} \times 100$$

**26. What do you mean by Balance of Payments?**

[Govt. MQP - '19]

**Ans. (i)** Balance of Payments (BoP) is a systematic record of a country's economic and financial transactions with the rest of the world over a period of time.

**(ii)** When a payment is received from a foreign country, it is a credit transaction while a payment to a foreign country is a debit transaction.

**27. What is meant by Exchange Rate?**

[PTA-2; Aug-'21; SRT-'22]

**Ans.** FOREX refers to foreign currencies. The mechanism through which payments are effected between two countries having different currency systems is called FOREX system. It covers methods of payment, rules and regulations of payment and the institutions facilitating such payments

**PART - C**

**ANSWER THE FOLLOWING QUESTIONS.  
EACH QUESTION CARRIES 3 MARKS.**

**28. Describe the subject matter of International Economics.**

[PTA-1; QY-'19; SRT, July-'22]

**Ans.** The subject matter of International Economics are,

**(i) Pure Theory of Trade :**

This component explains the causes for foreign trade, composition, direction and volume of trade, determination of the terms of trade and exchange rate, issues related to balance of trade and balance of payments.

**(ii) Policy Issues :**

Under this part, policy issues such as free trade vs. protection, methods of regulating trade, capital and technology flows, use of taxation, subsidies and dumping, exchange control and convertibility,

foreign aid, external borrowings and foreign direct investment, measures of correcting disequilibrium in the balance of payments etc are covered.

**(iii) International Cartels and Trade Blocs :**

This part deals with the economic integration in the form of international cartels, customs unions, monetary unions, trade blocs, economic unions and the like. It also discusses the operation of Multi National Corporations (MNCs).

**(iv) International Financial and Trade Regulatory Institutions :**

The financial institutions like International Monetary Fund IMF, IBRD, WTO etc which influence international economic transactions and relations shall also be the part of international economics.

**29. Compare the Classical Theory of international trade with Modern Theory of International trade.**

**Ans.**

S. No.	Classical Theory of International Trade	Modern Theory of International Trade
1.	The Classical theory explains the phenomenon of International Trade on the basis of labour theory of value.	The Modern theory explains the phenomenon of international trade on the basis of general theory of value.
2.	It presents a one factor (labour) model.	It presents a multi-factor (Labour and Capital) model.
3.	It attributes the differences in the comparative costs to differences in the productive efficiency of workers in the two countries.	It attributes the differences in comparative costs to the differences in factor endowments in two countries.

**30. Explain the Net Barter Terms of Trade and Gross Barter Terms of Trade.**

**Ans. (I) Net Barter Term of Trade :**

**(i)** This type was developed by Taussig in 1927.

**(ii)** The ratio between the prices of exports and of imports is called the "net barter terms of trade".

## ADDITIONAL QUESTIONS AND ANSWERS

### PART - A

#### **MULTIPLE CHOICE QUESTIONS** **1 MARK**

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

**1. IMF stands for**

- (a) Indian Managing Fund
- (b) Indian's Marketing Fund
- (c) International Monetary Fund
- (d) International Marketing Fund

**[Ans. (c) International Monetary Fund]**

**2. Absolute Cost Advantage was developed by**

- (a) Adam Smith
- (b) Ricardo
- (c) J.R.Hicks
- (d) Doltan

**[Ans. (a) Adam Smith]**

**3. Comparative cost advantage was developed by**

- (a) Adam Smith
- (b) Ricardo
- (c) J.S.Mill
- (d) J.R.Hicks

**[Ans. (b) Ricardo]**

**4. International trade was developed by**

- (a) Adam Smith and Ricardo
- (b) Eli Heckscher and Bertil Ohlin
- (c) Ricardo and A.C. Pigou
- (d) Adam Smith and Ohlin

**[Ans. (b) Eli Heckscher and Bertil Ohlin]**

**5. \_\_\_\_\_ includes both visible and invisible items.**

- (a) Balance of payment
- (b) Balance of Trade
- (c) Foreign Trade
- (d) None of these.

**[Ans. (a) Balance of payment]**

**6. \_\_\_\_\_ equals Export – Import**

- (a) Gross Import
- (b) Gross Export
- (c) Net Import
- (d) Net Export

**[Ans. (d) Net Export]**

**7. \_\_\_\_\_ are determined in foreign exchange rate.**

- (a) Rate of interest
- (b) Exchange rate.
- (c) Net Exports
- (d) All the above.

**[Ans. (b) Exchange rate.]**

**8. \_\_\_\_\_ means value of exports is more than that of imports.**

- (a) Unfavorable trade
- (b) International trade
- (c) Favorable trade
- (d) External trade

**[Ans. (c) Favorable trade]**

**9. \_\_\_\_\_ refers to the exchange of goods and services with the political and geographical boundaries of a nation.**

- (a) Internal Trade
- (b) External Trade
- (c) Foreign Trade
- (d) Global trade

**[Ans. (a) Internal Trade]**

**10. Trade is of \_\_\_\_\_ types**

- (a) One
- (b) Two
- (c) Three
- (d) Four

**[Ans. (b) Two]**

**11. The official reserve assets of a country include its \_\_\_\_\_.**

- (a) Gold stock
- (b) Shares
- (c) Debenture
- (d) General reserve

**[Ans. (a) Gold stock]**

**12. \_\_\_\_\_ is one of the types of BoP disequilibrium.**

- (a) Income terms of trade
- (b) Devaluation
- (c) Structural
- (d) FDI

**[Ans. (c) Structural]**

**13. \_\_\_\_\_ investment may also help increase competition.**

- (a) Gold
- (b) Foreign
- (c) Inter Country
- (d) Money

**[Ans. (b) Foreign]**

**14. There are \_\_\_\_\_ major exchange rate system.**

- (a) two
- (b) three
- (c) four
- (d) five

**[Ans. (a) two]**

**15. \_\_\_\_\_ refers to foreign currencies.**

- (a) BOT
- (b) FOREX
- (c) BOP
- (d) FUND

**[Ans. (b) FOREX]**

**16. High \_\_\_\_\_ level is responsible for high imports and low exports**

- (a) Domestic price
- (b) Domestic expenses
- (c) Domestic profit
- (d) Domestic earnings

**[Ans. (a) Domestic price]**

**17. A country's \_\_\_\_\_ also determines the exchange rate.**

- (a) Terms of trade
- (b) Trade
- (c) Policy issue
- (d) Internal trade

**[Ans. (a) Terms of trade]**

**18. The modern theory explains the phenomenon of international trade on the basis of \_\_\_\_\_.**

- (a) Labour theory of value
- (b) Factor endowment theory
- (c) General theory of value
- (d) Ricardo theory

**[Ans. (c) General theory of value]**

**19. Viner has devised another concept called \_\_\_\_\_.**

- (a) The single factorial terms of trade
- (b) Net Barter terms of trade
- (c) Gross Barter terms of trade
- (d) Internal trade

**[Ans. (a) The single factorial terms of trade]**





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

**1.**

(A)	Internal Trade	(i)	Trade between two countries
(B)	External Trade	(ii)	Taussig & Haberler
(C)	Subject Matter of International Trade	(iii)	IMF, IBRD & WTO
(D)	Financial Intuitions	(iv)	Trade within the nation

**Codes :**

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

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

**2.**

(A)	Absolute Cost Advantage	(i)	Visible Trade
(B)	Comparative cost advantage	(ii)	Adam Smith (1776)
(C)	Modern theory of International trade	(iii)	Ricardo - 1817
(D)	Balance of Trade	(iv)	Eli Heckscher and Bertil Ohlin

**Codes :**

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

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

**3.**

(A)	Net Barter Terms of trade	(i)	G.S.Dorrance
(B)	Gross Barter Terms of Trade	(ii)	$T_n = (P_x / P_m) \times 100$
(C)	Income Terms of trade	(iii)	Viner
(D)	The single Factoral Terms of Trade	(iv)	Taussig

**Codes :**

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

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

**4.**

(A)	Balance of Payments Disequilibrium	(i)	$R/P < 1$
(B)	Balance of Payment Equilibrium	(ii)	$R/P > 1$
(C)	Unfavorable Balance of payment	(iii)	$R/P \neq 1$
(D)	Favorable Balance of payment	(iv)	$R/P = 1$

**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 - (ii), B - (i), C - (iv), D - (iii)

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

**5.**

(A)	FDI	(i)	IBRD
(B)	International Economic Organisation	(ii)	Foreign Direct Investment
(C)	FOREX	(iii)	$eP_f / P$
(D)	Real Exchange rate	(iv)	Foreign Currency

**Codes :**

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

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

**6.**

(A)	Subject matter of international economics	(i)	International financial institution
(B)	WTO	(ii)	Cartels
(C)	Powerful forces	(iii)	Trade
(D)	Economic integration	(iv)	Pure theory of trade

**Codes :**

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

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

**7.**

(A)	Policy Issues	(i)	Goods and services within a country
(B)	Internal Trade	(ii)	1776
(C)	Inter Regional Trade	(iii)	Geographical boundaries
(D)	Adam Smith	(iv)	Free Trade

**Codes :**

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

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

**8.**

(A)	Foreign Trade	(i)	Production of cloth
(B)	China	(ii)	1817
(C)	Theory of comparative cost	(iii)	Trade between two or more countries
(D)	Taxation published	(iv)	Ricardo

**Codes :**

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

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

**9.**

(A)	Factor endowment theory	(i)	Imports
(B)	Export embody	(ii)	Modern theory
(C)	Scarce factor	(iii)	Abundant factor
(D)	Based on Ricardian Theory	(iv)	Heckscher and Ohlin

**Codes :**

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

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

**10.**

(A)	Labour Cost	(i)	One factor (labour)
(B)	Modern Theory	(ii)	Endowments
(C)	Factor	(iii)	Unrealistic
(D)	Classical Theory of International Trade	(iv)	International Trade

**Codes :**

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

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

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

**1. Exchange Control:**

- (i) **Exchange control means the state intervention in the forex market.**  
 (ii) **It is popular method employed to influence the balance of payments position of a country.**

- (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. Gains from International Trade**

- (i) **Improvement in the techniques of production**  
 (ii) **Decreased Production.**  
 (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) Internal trade refers to the exchange of goods and services within political and geographical boundaries of a nation.  
 (ii) International trade also known as domestic 'trade'.**

- (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]**

**(i) Nominal Exchange Rate :**

$$\text{Nominal Exchange Rate} = \frac{75}{1} = 75$$

This is the bilateral nominal exchange rate.

**(ii) Real Exchange Rate :**

$$(1) \quad \text{Real Exchange Rate} = \frac{eP_f}{P}$$

$P$  = Price level in India

$P_f$  = Price levels in abroad (say US)

$e$  = Nominal Exchange Rate

- (2) If a pen costs ₹50 in India and it costs 5 USD in the US.

$$\therefore \text{Real Exchange Rate} = \frac{75 \times 5}{50} = 7.5$$

- (3) If real exchange rate is equal to 1, the currencies are at purchasing power parity.

- (4) If the price of the pen in US is 0.66 USD, then the real exchange rate

$$= \frac{0.66 \times 75}{50} = 0.99$$

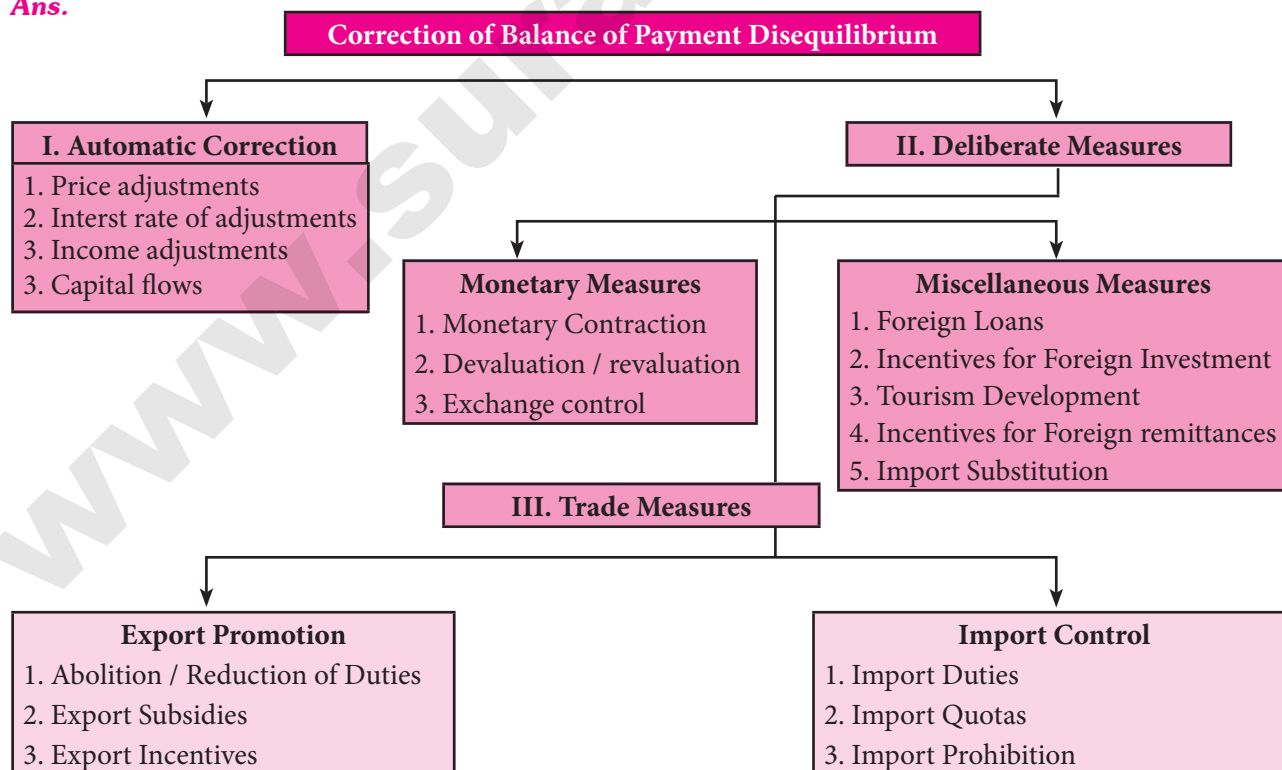
Then it could be said that the USD and Indian rupee are at purchasing power parity.

**3. Explain the disadvantages of FDI.**

- Ans. (i)** Private foreign capital tends to flow to the high profit areas rather than to the priority sectors.
- (ii)** The technologies brought in by the foreign investor may not be appropriate to the consumption needs, size of the domestic market etc.
- (iii)** Foreign investment, sometimes, have unfavorable effect on the Balance of Payments of a country because when the drain of foreign exchange by way of royalty, dividend, etc. is more than the investment made by the foreign concerns.
- (iv)** Foreign capital sometimes interferes in the national politics.
- (v)** Foreign investors sometimes engage in unfair and unethical trade practices.
- (vi)** Often, there are several costs associated with encouraging foreign investment.
- (vii)** Foreign investment in some cases leads to the destruction or weakening of small and medium enterprises.

**4. Draw the flow chart for correction of Balance Payment Disequilibrium.**

**Ans.**





CHAPTER

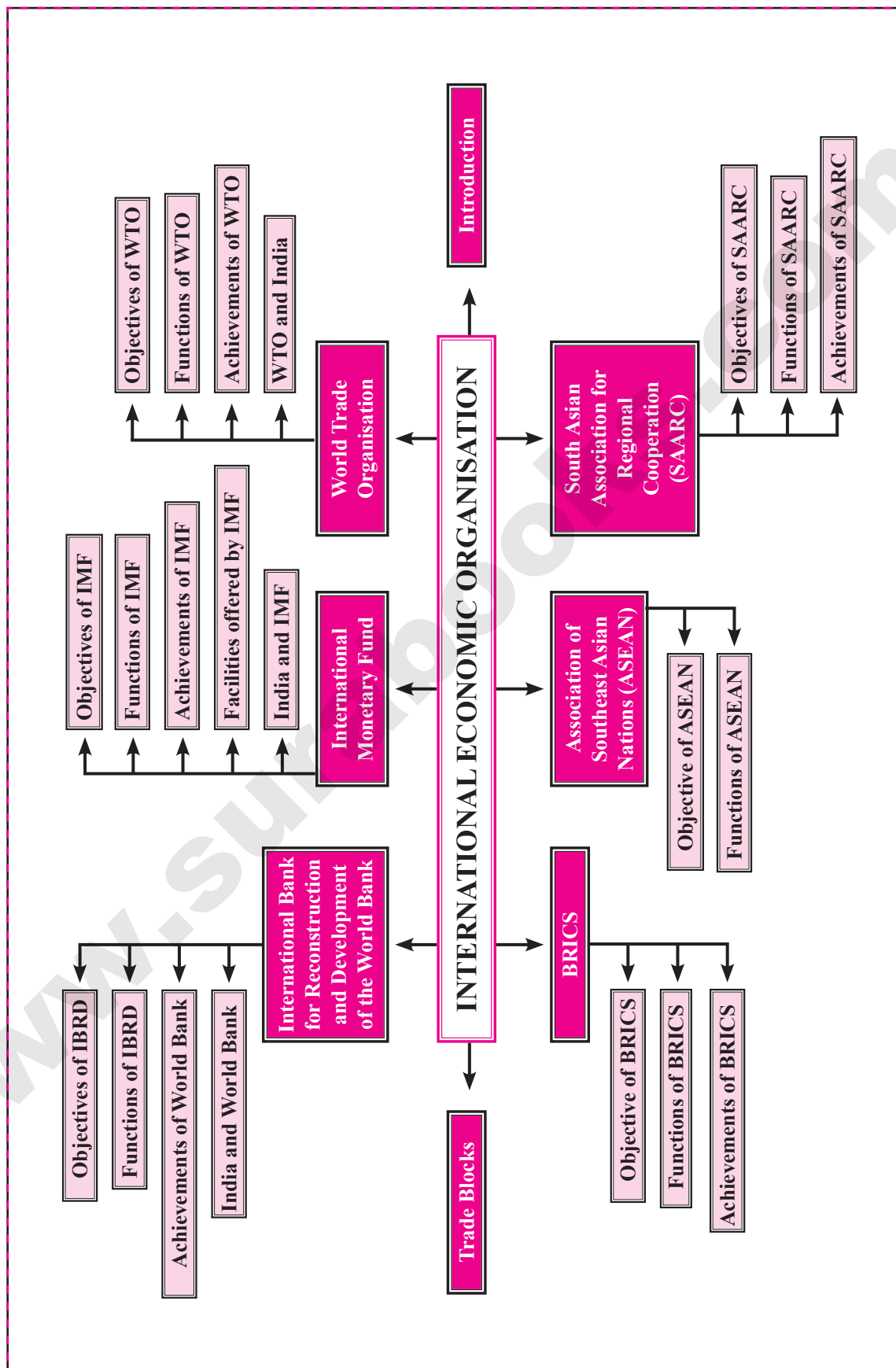
8

# INTERNATIONAL ECONOMIC ORGANISATIONS

## CHAPTER SNAPSHOT

- |       |   |       |   |
|-------|---|-------|---|
| 8.1   | Introduction  | 8.4.3 | Achievements of WTO                                       |
| 8.2   | International Monetary Fund.  | 8.4.4 | WTO and India   |
| 8.2.1 | Objectives of IMF   | 8.5   | Trade Blocks  |
| 8.2.2 | Functions of IMF  | 8.6   | South Asian Association for Regional Co-operation (SAARC) |
| 8.2.3 | Facilities offered by IMF   | 8.6.1 | Objectives of SAARC                                       |
| 8.2.4 | Achievements of IMF   | 8.6.2 | Functions of SAARC  |
| 8.2.5 | India and IMF   | 8.6.3 | Achievements of SAARC                                     |
| 8.3   | International Bank for Reconstruction and Development (IBRD) or World Bank. | 8.7   | Association of South East Asian Nations (ASEAN)           |
| 8.3.1 | Objectives of IBRD  | 8.7.1 | Objectives of ASEAN                                       |
| 8.3.2 | Functions of IBRD   | 8.7.2 | Functions of the ASEAN                                    |
| 8.3.3 | Achievements of World Bank  | 8.8   | BRICS   |
| 8.3.4 | India and World Bank  | 8.8.1 | Objectives of BRICS                                       |
| 8.4   | World Trade Organization  | 8.8.2 | Functions of BRICS  |
| 8.4.1 | Objectives of WTO   | 8.8.3 | Achievements of BRICS                                     |
| 8.4.2 | Functions of WTO  |       |   |

# Concept Map





## *Important Terms*

<b>International Monetary Fund</b>	: The IMF was established to assist the member nations to tide over the Balance of Payments disequilibrium in the short term.
<b>SARRC</b>	: The South Asian Association for Regional Co-operation (SAARC) is an organisation of South Asian nations, which was established on 8 December 1985 for the promotion of economic and social progress, cultural development within the South Asia region and also for friendship and co-operation with other developing countries.
<b>ASEAN</b>	: ASEAN was established on 8 August 1967 in Bangkok by the five original member countries: Indonesia, Malaysia, Philippines, Singapore and Thailand.
<b>BRICS</b>	: BRICS is the acronym for an Association of five major emerging national economies : Brazil, Russia, India, China and South Africa.
<b>Multi Fibre Agreement</b>	: The Multi fibre agreement governed the world trade in textiles and garments since 1974.
<b>Structural Adjustment facility</b>	: Providing additional balance of payments assistance on concessional terms to the poorer member nations to undertake strong macro economic and structural programmes.
<b>Special Drawing Rights</b>	: International Monetary reserve currency created by IMF.
<b>Trade related Intellectual property Rights (TRIP)</b>	: TRIPs include copyright, trade mark, patents geographical indications, industrial designs and invention of microbial plants.
<b>Trade Related Investment Rights (TRIMs)</b>	: TRIMs are related to conditions or restrictions imposed in respect of foreign investment in the country.
<b>Multilateral trade agreement</b>	: It is a multinational, legal or trade agreements between countries. It is an agreement between more than two countries but not many.
<b>Trade Blocks</b>	: They are a set of countries which engage in international trade together and are usually related through a free trade agreement or other associations.
<b>Free trade Area</b>	: A region encompassing a trade bloc whose member countries have signed a Free Trade Agreement (FTA)
<b>Customs union</b>	: Free trade area (zero tariffs among members) with a common external tariff.
<b>Common market</b>	: A group formed by countries within geographical area to promote duty free trade and free movement of labour and capital among its members.

## *Definitions*

<b>International Bank for Reconstruction and Development</b>	: IBRD is an International financial institution that offers loans to middle – income developing countries. The IBRD is the first of five member institution that is otherwise called the World Bank and headquartered in Washington, D.C United States.
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## MODEL QUESTIONS

### PART - A

#### MULTIPLE CHOICE QUESTIONS

1. **International Monetary Fund was an outcome of** [PTA-5; Aug-'21; SRT-'22]  
 (a) Pandung Conference  
 (b) Dunkel Draft  
 (c) Bretton Woods Conference  
 (d) Doha Conference  
**[Ans. (c) Bretton Woods Conference]**
2. **International Monetary Fund is having its headquarters at** [Govt. MQP & QY - '19; Sep-2020; SRT-'22]  
 (a) Washington D.C.  
 (b) New York  
 (c) Vienna  
 (d) Geneva  
**[Ans. (a) Washington D.C.]**
3. **IBRD is otherwise called** [Govt. MQP & HY-'19; SRT-'22]  
 (a) IMF  
 (b) World Bank  
 (c) ASEAN  
 (d) International Finance Corporation  
**[Ans. (b) World Bank]**
4. **The other name for Special Drawing Rights is** [PTA-4; HY-'19; July-'22]  
 (a) Paper gold  
 (b) Quotas  
 (c) Voluntary Export Restrictions  
 (d) None of these  
**[Ans. (a) Paper gold]**
5. **The organization which provides long term loan is** [PTA-3]  
 (a) World Bank  
 (b) International Monetary Fund  
 (c) World Trade Organisation  
 (d) BRICS  
**[Ans. (a) World Bank]**
6. **Which of the following countries is not a member of SAARC?**  
 (a) Sri Lanka  
 (b) Japan  
 (c) Bangladesh  
 (d) Afghanistan  
**[Ans. (b) Japan]**
7. **International Development Association is an affiliate of**  
 (a) IMF  
 (b) World Bank  
 (c) SAARC  
 (d) ASEAN  
**[Ans. (b) World Bank]**
8. \_\_\_\_\_ relates to patents, copyrights, trade secrets, etc., [PTA-2]  
 (a) TRIPS  
 (b) TRIMS  
 (c) GATS  
 (d) NAMA  
**[Ans. (a) TRIPS]**
9. **The first ministerial meeting of WTO was held at**  
 (a) Singapore  
 (b) Geneva  
 (c) Seattle  
 (d) Doha  
**[Ans. (a) Singapore]**
10. **ASEAN meetings are held once in every \_\_\_\_\_ years**  
 (a) 2  
 (b) 3  
 (c) 4  
 (d) 5  
**[Ans. (b) 3]**
11. **Which of the following is not the member of SAARC?** [QY-'19]  
 (a) Pakistan  
 (b) Sri Lanka  
 (c) Bhutan  
 (d) China  
**[Ans. (d) China]**
12. **SAARC meets once in \_\_\_\_\_ years.** [SRT-'22]  
 (a) 2  
 (b) 3  
 (c) 4  
 (d) 5  
**[Ans. (a) 2]**
13. **The headquarters of ASEAN is**  
 (a) Jaharta  
 (b) New Delhi  
 (c) Colombo  
 (d) Tokyo  
**[Ans. (a) Jaharta]**
14. **The term BRIC was coined in** [Sep-2020]  
 (a) 2001  
 (b) 2005  
 (c) 2008  
 (d) 2010  
**[Ans. (a) 2001]**
15. **ASEAN was created in** [PTA-6]  
 (a) 1965  
 (b) 1967  
 (c) 1972  
 (d) 1997  
**[Ans. (b) 1967]**
16. **The Tenth BRICS Summit was held in July 2018 at**  
 (a) Beijing  
 (b) Moscow  
 (c) Johannesburg  
 (d) Brasilia  
**[Ans. (c) Johannesburg]**
17. **New Development Bank is associated with** [PTA-5; May-'22]  
 (a) BRICS  
 (b) WTO  
 (c) SAARC  
 (d) ASEAN  
**[Ans. (a) BRICS]**
18. **Which of the following does not come under 'Six dialogue partners' of ASEAN?** [SRT-'22]  
 (a) China  
 (b) Japan  
 (c) India  
 (d) North Korea  
**[Ans. (d) North Korea]**
19. **SAARC Agricultural Information Centre (SAIC) works as a central information institution for agriculture related resources was founded on**  
 (a) 1985  
 (b) 1988  
 (c) 1992  
 (d) 1998  
**[Ans. (b) 1988]**
20. **BENELUX is a form of** [PTA-1]  
 (a) Free trade area  
 (b) Economic Union  
 (c) Common market  
 (d) Customs union  
**[Ans. (d) Customs union]**



**PART - B**

**ANSWER THE FOLLOWING QUESTIONS  
(2 MARKS)**

**21. Write the meaning of Special Drawing rights.**

*[Govt. MQP - '19; Sep-2020; Aug-'21]*

- Ans. (i)** Special Drawing Rights are a form of international reserves created by the IMF in 1969 to solve the problem of international liquidity.
- (ii)** They are allocated to the IMF members in proportion to their Fund quotas.
- (iii)** SDRs are used as a means of payment by Fund members to meet balance of payments deficits and their total reserve position with the Fund.
- (iv)** Thus SDRs act both as an international unit of account and a means of payment.
- (v)** Special Drawing Rights (SDRs) is otherwise called as 'Paper Gold'.

**22. Mention any two objectives of ASEAN.**

*[PTA-5; Mar-2020]*

- Ans. (i)** To accelerate the economic growth, social progress and cultural development in the region.
- (ii)** To serve as a centre of information and as an ASEAN link with other international organizations.

**23. Point out any two ways in which IBRD lends to member countries.**

*[PTA-1; SRT-'22]*

**Ans.** The Bank advances loans to member in three ways.

- (i)** Loans out of its own fund.
- (ii)** Loans out of borrowed capital.
- (iii)** Loans through Bank's guarantee.

**24. Define Common Market.**

*[PTA-3; QY-'19]*

**Ans.** Common market is established through trade packs. A group formed by countries within a geographical area to promote duty free trade and free movement of labour and capital among its members.

**25. What is Free trade area?**

*[PTA-6; HY-'19]*

- Ans. (i)** A free trade area is the region encompassing a trade bloc whose member countries have signed a free trade agreement (FTA).
- (ii)** Such agreements involve cooperation between at least two countries to reduce trade barriers. E.g. SAFTA, EFTA.

**26. When and where was SAARC Secretariat established?**

*[SRT-'22]*

**Ans.** The SAARC Secretariat was established in Kathmandu (Nepal) on 16th January 1987.

**27. Specify any two affiliates of World Bank Group.**

*[July-'22]*

- Ans. (i)** International Development Association. (IDA).
- (ii)** International Finance corporation. (IFC)

**PART - C**

**ANSWER THE FOLLOWING QUESTIONS  
(3 MARKS)**

**28. Mention the various forms of economic integration.**

**Ans. (i)** **Economic integration** takes the form of Free Trade Area, Customs Union, Common Market and Economic Union.

**(ii)** **A free trade** area is the region encompassing a trade bloc whose member countries have signed a free-trade agreement (FTA). e.g. SAFTA, EFTA.

**(iii)** **A customs union** is defined as a type of trade block which is composed of a free trade area with no tariff among members and (zero tariffs among members) with a common external tariff. e.g. BENELUX

**(iv)** **Common market** is established through trade pacts. A group formed by countries within a geographical free movement of labour and capital among its members. e.g. European Common Market (ECM)

**(v)** **An economic union** is composed of a common market with a customs union. The participant countries have both common policies on product regulation, freedom of movement of goods, services and the factors of production and a common external trade policy. (e.g. European Economic Union)

EU > CM > CU > FTA

**29. What are trade blocks?**

*[PTA-1] [QY-'19]*

**Ans. (i)** Some Countries create business opportunities for themselves by integrating their economies in order to avoid unnecessary competition among them.

**(ii)** Trade block covers different kinds of arrangements between countries for mutual benefits.

**(iii)** Economic integration takes the form of Free Trade Area, Customs union, Common Market and Economic union.

**30. Mention any three lending programmes of IMF.**

*[PTA-4; SRT, July-'22]*

**Ans. (i)** **Basic Credit Facility** : The IMF provides Financial assistance to its member nations to overcome their temporary difficulties relating to balance of payment.

**(ii)** **Extended Fund Facility** : Under this arrangement, the IMF provides additional borrowing facility up to 140% of the member's quota, over and above the basic credit facility.

**(iii)** **Buffer Stock Facility** : The Buffer Stock financing facility was started in 1969. The

**12<sup>th</sup>**  
**STD**

**INSTANT SUPPLEMENTARY EXAM - JULY 2022**  
**PART - III ECONOMICS**

Reg. No.

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**TIME ALLOWED : 3.00 HOURS]**

**(with Answers)**

**[MAXIMUM MARKS : 90**

**Instructions :**

- (1) Check the question paper for fairness of printing. If there is any lack of fairness, inform the Hall Supervisor immediately.
- 2) Use **Blue** or **Black** ink to write and underline and pencil to draw diagrams.

**PART - I**

**Note :** (i) Answer **all** the questions. [20 × 1 = 20]

- (ii) Choose the most appropriate answer from the given **four** alternatives and write the option code and the corresponding answer.

1. The other name for Macro economics:  
(a) Price Theory (b) Income Theory  
(c) Market Theory (d) Micro Theory
2. An economic system where the economic activities of a nation are done both by the private and public together is termed as \_\_\_\_\_.  
(a) Capitalistic Economy  
(b) Socialistic Economy  
(c) Globalisitic Economy  
(d) Mixed Economy
3. National income is measured by using \_\_\_\_\_ methods.  
(a) Two (b) Three  
(c) Five (d) Four
4. Income Method is measured by summing up of all forms of \_\_\_\_\_.  
(a) Revenue (b) Taxes  
(c) Expenditure (d) Income
5. Aggregate supply =  
(a)  $C + I + G$   
(b)  $C + S + G + (X - M)$   
(c)  $C + S + T + (X - M)$   
(d)  $C + S + T + R_f$
6. In disguised unemployment, the marginal productivity of Labour is \_\_\_\_\_.  
(a) Zero (b) One  
(c) Two (d) Positive

7. The sum of the MPC and MPS is \_\_\_\_\_.  
(a) 1 (b) 2  
(c) 0.1 (d) 1.1
8. Arrange the following plans in correct chronological order :  
(i) Jawaharlal Nehru Plan  
(ii) People's Plan  
(iii) Vishveshwarya Plan  
(iv) Bombay Plan  
(a) (iv), (iii), (ii), (i)  
(b) (iii), (i), (iv), (ii)  
(c) (i), (iv), (iii), (ii)  
(d) (ii), (i), (iv), (iii)
9. Inflation means:  
(a) Prices are rising  
(b) Prices are falling  
(c) Value of money is increasing  
(d) Prices are remaining the same
10. During depression the level of economic activity becomes extremely:  
(a) high (b) bad  
(c) low (d) good
11. The Chairperson of NITI Aayog is \_\_\_\_\_.  
(a) Prime Minister (b) President  
(c) Vice-President (d) Finance Minister
12. Expansion of ATM:  
(a) Automated Teller Machine  
(b) Adjustment Teller Machine  
(c) Automatic Teller Mechanism  
(d) Any Time Money
13. Foreign direct investments which is not permitted in India is \_\_\_\_\_.  
(a) Banking  
(b) Atomic energy  
(c) Pharmaceutical  
(d) Insurance



14. Terms of Trade of a country show \_\_\_\_\_.  
(a) Ratio of goods exported and imported  
(b) Ratio of import duties  
(c) Ratio of price of exports and imports  
(d) Both (a) and (c)
15. The other name for Special Drawing Rights is \_\_\_\_\_.  
(a) Paper gold  
(b) Quotas  
(c) Voluntary Export Restrictions  
(d) None of these
16. GST is equivalence of :  
(a) Sales Tax (b) Corporation tax  
(c) Income Tax (d) Local Tax
17. Ecosystems are the foundation of \_\_\_\_\_.  
(a) Ionosphere (b) Lithosphere  
(c) Biosphere (d) Mesosphere
18. As income increases, consumption will \_\_\_\_\_.  
(a) fall (b) not change  
(c) fluctuate (d) increase
19. Central Bank is \_\_\_\_\_ authority of any country.  
(a) Monetary (b) Fiscal  
(c) Wage (d) National income
20. The word 'Statistics' is used as \_\_\_\_\_.  
(a) Singular (b) Plural  
(c) Singular and Plural  
(d) None of the above

### **PART - II**

**Note :** Answer **any** 7 questions. Question No. 30 is **Compulsory.**  $7 \times 2 = 14$

21. Define full employment.
22. What is Public Revenue?
23. Define inflation.
24. What is credit creation?
25. What is International Economics?
26. Specify any two affiliates of World Bank Group.
27. Define Average propensity to consume.
28. Define Multiplier.
29. Define economic planning.
30. How are economies classified?

### **PART - III**

**Note :** Answer **any** 7 questions. Question No. 40 is **Compulsory.**  $7 \times 3 = 21$

31. Outline the major merits of capitalism.
32. Write a short note on Expenditure method.
33. What do you mean by aggregate demand? Mention its components.
34. Differentiate autonomous and induced investment.
35. What is money supply?
36. Describe the subject matter of International Economics.
37. Explain any three lending programmes of IMF.
38. Explain the types of Air Pollution.
39. Explain any three functions of NITI Aayog.
40. Explain the two kinds of measures of dispersions.

### **PART - IV**

**Note :** Answer **all** the questions.  $7 \times 5 = 35$

41. (a) Illustrate the functioning of an economy based on its activities.  
(OR)  
(b) Explain the role of Commercial Banks in economic development.
42. (a) Discuss the various methods of estimating the national income of a country.  
(OR)  
(b) Explain the scope of public finance.
43. (a) Critically examine the Say's Law of Market.  
(OR)  
(b) Explain the importance of sustainable development and its goals.
44. (a) Describe the different phases of Trade cycle.  
(OR)  
(b) Describe the functions of Reserve Bank of India.
45. (a) Discuss the differences between Internal trade and International trade.  
(OR)  
(b) Explain the functions of WTO and its role in India's Socio-economic development.