GDP And Welfare - Very Short (Hots & Application)

Q.1. Should we treat subsidies to the producers as transfer payments?

Ans. No, subsidies to the producers should not be treated as transfer payments. Transfer payments are those payments corresponding to which there is no value addition in the economy, like scholarships to the students or old-age pensions. In the case of subsidies, value addition has already occurred. In fact, subsidies tend to lower the market value of the goods produced. Accordingly, these are added to the market price (while indirect tax is deducted) to make it equal to the factor cost. Subsidies are a part of NNPFC which is why these are deducted from factor cost to equate it with market price.

Q.2. Is net of exports (X – M) a part of net factor income from abroad?

Ans. No, it is not. Income from exports is a part of domestic income. Because, what we export is a part of domestic product. Imports are just the opposite of exports. Thus, net of exports is a component of domestic product or expenditure on domestic product.

Q.3. Rajiv purchases a generator for his office. Giving reasons, answer the following questions:

(i) Purchase of a generator by Rajiv is an intermediate expenditure.

(ii) Expenditure on the maintenance of the generator is an intermediate expenditure.

Ans. (i) No, purchase of a generator by Rajiv is a final investment expenditure because generator is a fixed asset for the office/firm.

(ii) Yes, expenditure on the maintenance of the generator is an intermediate expenditure. Because, things purchased for repair and maintenance are used up during the period of one year and are therefore, treated as intermediate consumption.