

Basic Concepts of Economics

1 Mark Questions

1. Give the meaning of capital goods. (Compartment 2014)

or

Define capital goods. (Delhi 2012; All India 2010)

Ans. The goods which are repeatedly used in the process of production. They are the fixed assets of the producer, e.g. building, plant and machinery. They help to convert intermediate goods into finished goods. *

2. Give two examples of intermediate goods. (All India 2013)

Ans. Two examples of intermediate goods are:

- (i) Steel used in the car.
- (ii) Mobile sets purchased by a mobile dealer.

3. Define consumption goods. (All India 2012)

Ans. Goods which are directly used for satisfaction of human wants and which are not used in production and for other purpose are known as consumer goods or consumption goods, e.g. ice-cream and milk used by the households.

4. Define intermediate goods. (Delhi 2011 c)

Ans. The goods purchased by a firm for the use in production of other goods or for the purpose of reselling are known as intermediate goods, e.g. steel used in the production of cars and those finished goods which are meant for resale, such as milk purchased by a milk seller.

5. Define final product. (Delhi 2010 c)

Ans. The goods, which have crossed the boundary line of production and are ready for use by their final users, known as final goods, e.g. clothes, milk consumed by a consumer.

Final goods are often classified as:

- (i) Final consumer goods
- (ii) Final producer goods

4 Marks Questions

6. Giving reasons, classify the following into intermediate products and final products

(i) Furniture purchased by a school.

(ii) Chalks, dusters, etc purchased by school (Delhi 2012)

Ans. (i) Furniture purchased by school — Final product.

Reason: Schools buy furniture's for long-term use and it can be considered an investment.

(ii) Chalks, dusters, etc purchased by school — Intermediate good

Reason: Chalks, dusters, etc; are purchased by a school for use in their day-to-day consumption. This is meant for further production in the form of services.

7. Give reason and identify whether the following are final expenditures or intermediate expenditure.

(i) Expenditure on maintenance of an office building.

(ii) Expenditure on improvement of machine in a factory. (All India 2012)

Ans. (i) Expenditure on maintenance of an office building — Intermediate expenditure.

Reason: Expenditure on maintenance of office building is for production purpose. Expenditure on improvement of machine in a factory — Final expenditure

Reason: Expenditure on improvement of machine in a factory is a kind of capital investment, so it should be considered as final expenditure.

8. Giving reasons, classify the following into intermediate products and final products.

(i) Computers installed in an office.

(ii) Mobile sets purchased by a mobile dealer.

(Delhi 2011)

Ans. (i) Computers installed in an office — Final product

Reason Offices buy computers as long-term durable products and are investment for them.

(ii) Mobile sets purchased by a mobile dealer — Intermediate products

Reason: A mobile dealer purchases mobile sets for reselling purpose. That's why it is considered as intermediate products.

9. Giving reasons, classify the following into intermediate and final goods.

(i) Machine purchased by a dealer of machines.

(ii) A car purchased by a household. (All India 2010)

Ans. (i) Machine purchased by a dealer of machines — Intermediate goods

Reason: A dealer purchases machines for reselling purpose, so it is an example of intermediate goods. (ii) A car purchased by a household — Final goods

Reason: A household purchases a car for consumption purpose, so it is an example of final goods.

10. Distinguish between intermediate and final goods. Give two examples of each. (All India 2010)

Ans. Difference between intermediate goods and final goods

Basis	Intermediate goods	Final goods
Meaning	These goods may be used as raw materials for the production of other goods during the accounting year.	These goods are not used as raw materials for the production of other goods during the accounting year.
Purpose	These goods may be resold by the firms to make profits during the accounting year.	These goods are not resold by the firms to make profits during the accounting year.
Production boundary	These goods remain within the boundary line of production and are not ready for the use by their final users.	These goods are outside the boundary line of production and are ready for use by their final users.
Examples	(i) Steel used in the production of cars. (ii) Sugar used in the making of candies	(i) A microwave oven sold to a consumer. (ii) A mixer grinder sold to a consumer.

(1 × 4 = 4)