

GDP And Welfare - Evaluation & Multi-desc

Q.1. Saving is both a virtue as well as a vice. Explain how.

Ans. At the micro level, saving is a virtue. But it may be a vice at the macro level. If an individual saves more, he accumulates more wealth. It enhances his ability to earn more. But at the macro level, if everyone starts saving more, demand for goods and services may fall. It will adversely impact the inducement to invest. Consequently, the level of income and employment may shrink, pushing the economy into a state of depression.

Q.2. Explain the economic value of high component of net exports ($X - M$) in the total expenditure on final goods and services.

Ans. High component of ' $X - M$ ' in the total expenditure on final goods and services is a sign of higher exports than imports of the domestic economy. It implies:

- i. that the inflow of foreign exchange (on account of exports) is greater than the outflow of foreign exchange (on account of imports). Accordingly, balance of trade is favourable.
- ii. that the domestically produced goods are able to find markets abroad. So that, deficiency of domestic demand no longer remains a hurdle in the growth process of the domestic economy.
- iii. that we are, by and large, self-sufficient. Our imports are so limited that we don't have to depend much on other countries.

Briefly, high component of $X - M$ is a pointer to high rate of GDP growth.