CBSE Test Paper-04

Chapter 01 National Income and Related Aggregates

1. water in a tank is a **(1)**
   a. Flow concept
   b. Non economic concept
   c. Stock concept
   d. Hypothetical concept
2. An example of consumption goods is **(1)**
   a. machine
   b. plant
   c. Coal
   d. Fruits
3. Can the change in inventories be in positive? **(1)**
   a. Never
   b. Yes
   c. Can’t say
   d. No
4. Can the net factor income earned from abroad be negative? **(1)**
   a. Never
   b. Yes
   c. No
   d. Can’t say

5. Define net investment. **(1)**

6. Define capital formation. **(1)**

7. What is macroeconomics? **(1)**

8. Differentiate between factor payments and transfer payments with the help if examples. **(1)**

9. Which of the following expenditure incurred are on intermediate products and which are on final products ? You must state reason for your answer: **(3)**

i. Purchase of ticket for train journey by an individual
ii. Purchase of eatables by a firm
iii. Purchase of a car by an employer for office use by his employees

10. Giving reasons, explain whether the following are included in National Income. **(3)**
    i. Profits earned by a branch of foreign bank.
    ii. Interest paid by an individual on a loan taken to buy a car.
    iii. Expenditure on machine for installation in a factory.
11. Giving reason, explain the treatment assigned to the following while estimating National Income. **(4)**
    i. Family members working free on the farm owned by the family.
    ii. Payment of interest on borrowings by general government.
12. Calculate Net Value Added at Factor Cost from the following data. **(4)**

S.no.	**Contents**	**(Rs. in Lakhs)**
(i)	Intermediate Consumption	300
(ii)	Change in Stock	50
(iii)	Net Indirect Taxes	70
(iv)	Sales	500
(v)	Consumption of Fixed Capital	20
(vi)	Imports	40

13. Distinguish between 'factor income' and 'tranfer income. **(4)**

14. Explain the problem of double counting in estimating National Income, with the help of an example. Also, explain two alternative ways of avoiding the problem while estimation of National Income. **(6)**

15. Will the following be included in the domestic product of India? Give reasons for your answer. **(6)**
    i. Profits earned by foreign companies in India.
    ii. Salaries of Indians working in the Russian Embassy in India.
    iii. Profits earned by a branch of State Bank of India in Japan.

Answers

1. c. Stock concept
   Explanation: It is static.
2. d. Fruits
   Explanation: Because fruits once eaten are over. They don't lead to further production.
3. b. Yes
   Explanation: If current period's ending inventory is greater than last Period's ending inventory
4. b. Yes
   Explanation: If income earned from abroad by citizens falls short of income earned by non residents in the Concerned country.
5. Net investment refers to increase in the stock of capital during an accounting year. If expenditure on the replacement of worn out fixed assets (depreciation) is excluded from the gross investment, we get net investment. Net investment is a net rise in the production capacity of the economy. Accordingly, GDP growth is accelerated.
   Net investment = Gross investment - Depreciation.
6. Capital formation refers to addition to the capital stock of an economy during an accounting year.
7. Macroeconomics is defined as that branch of economics which studies economic activities (including economic issues or economic problems) at the level of the economy as a whole i.e., problem of inflation or of unemployment.
8. Factor payments are the payments made to factors of production in return for their services rendered. For eg: rent, wages, interest on loans .
   Transfer payments are the payments made to households and enterprises by govt or vice versa without any promise to supply goods and services. For eg; old age pension,

scholarships etc are transfer payments from govt to households or enterprises while income tax, wealth tax are transfer payments from households to govt.

9. i. Final Product : It is private final consumption expenditure.
   ii. Intermediate Product: Because they were not purchased for investment. It is intermediate consumption.
   iii. Final Product: Used for investment.
10. i. As the profits earned by a branch of the foreign bank is a factor income paid to abroad. It will 'not be included' while estimating' National Income.
   ii. As the loan is taken for consumption purpose, interest paid by an individual on loan taken to buy a car will 'not be included' while estimating National Income.
   iii. As the expenditure on machines for installation in a factory is a capital formation by factory management, it will be 'included' while estimating National Income.
11. i. **Family members working free on the farm owned by the family:** It should be 'included' in the estimation of national income as the imputed value of the product of the farm should be considered as mixed income. So, it is a part of mixed-income of self-employed.
   ii. **Payment of interest on borrowings by general government:** It should not be included in the estimation of National Income as the borrowings by the government is considered for consumption purpose.

12. **Value of output** = **Sales** + **Change in Stock**
    Value of output = 500 + 50 = 550
    Gross Value Added at Market Price (GVA_{MP}) = **Value of output - intermediate Consumption**
    (GVA_{MP}) = 550 - 300 = Rs. 250 lakhs
    Net Value Added at Factor Cost (NVA_{fc}) = **GVA_{mp} - Consumption of Fixed Capital - Net Indirect Taxes (NIT)**
    NVA_{FC} = 250 - 20 - 70 = Rs. 160 lakhs

13. Factor income is the income received by owners of the factors of production in the form of rent,wages, interest and profit for the services rendered in the production process. Transfer payments are those unilateral payments corresponding to which there is no value addition in the economy e.g gifts and donations.

14. Double counting means counting value of the same commodity more than once. According to output method (an alternative to value added method) of calculating national income, the value of only final goods and services produced by all the production units in the economy during a year should be taken. In other words, the value of intermediate goods should not be taken into account. But in actual practice, the value of intermediate goods which have entered as inputs in the production of final goods (e.g., wheat used in bread, raw cotton used in garments) also gets included separately because every producer treats the sale of its commodity as final product irrespective of what happens to it after sale. As a result, there occurs double counting leading to overestimation of national income.
    The problem of double counting can be avoided by the use of following methods of calculating Gross Domestic Product (GDP):
    i. Final output or Final product method In this method, only final products (goods and services) are added to obtain the GDP. Intermediate products are ignored. Here, final products are only those products which are ready for end use or consumption by their final users (consumers or producers)
    ii. Value Added Method The value added by a firm is the difference between the value of output and the value of intermediate products of each firm of the country. The sum of 'value added' by all the firms gives us the GDP of the country. Hence, the problem of double counting is avoided Value Added by a Firm = Value of Output of the Firm - Intermediate Consumption of the Firm.
15. i. **Profits earned by foreign companies in India** : As the foreign companies have earned profit in India, i.e. from the domestic territory of India, this will be included in the estimation of domestic product.
    ii. **Salaries of Indians working in Russian Embassy in India** : As Russian Embassy in India is not a part of India's domestic territory,this will not be included in the domestic product of India.
    iii. **Profits earned by a branch of State Bank of India in Japan** : This will not be included m the domestic income of India as it is not located within the domestic territory of India.