

CBSE Test Paper-05
Chapter 01 National Income and Related Aggregates

1. Real GNP is same as **(1)**
 - a. GNP at constant prices
 - b. Nominal GNP
 - c. GNP at current prices
 - d. GNP less Net factor income from abroad
2. Which of the following will you include while estimating national income by income method? **(1)**
 - a. Purchase of new car by a household
 - b. Increase in stocks
 - c. Purchase of share
 - d. Compensation of employees
3. Flow is a concept which is **(1)**
 - a. is measured at a particular period of time.
 - b. is measured after a particular point of time.
 - c. Cannot be measured at a particular point of time.
 - d. is measured at a particular point of time.
4. Second hand goods are **(1)**
 - a. Included in depreciation
 - b. Excluded from the GDP of a country
 - c. Included in the GDP of a country.
 - d. Included in net income from abroad.
5. Explain the meaning of non-market activities. **(1)**
6. Define national income. **(1)**
7. Define capital goods. **(1)**
8. Give two examples of microeconomic studies. **(1)**

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9. Explain with the help of an example, the basis of classifying goods into final goods and intermediate goods. **(3)**
10. Distinguish between real and nominal gross domestic product. **(3)**
11. What is Operating Surplus? **(4)**
12. What precautions should be taken while estimating national income by income method? **(4)**
13. How are the following treated while calculating national income? Give reasons for your answer. **(4)**
- i. Receipts from sale of land
 - ii. Profits earned by the branch of an Indian bank in France.
14. Giving reason, explain how should the following be treated in estimation of National Income. **(6)**
- i. Expenditure by a firm on payment of fees to a Chartered Accountant.
 - ii. Payment of corporate tax by a firm.
 - iii. Purchase of refrigerator by a firm for own use.
15. Yusuf made the following transactions in the financial year 2010-2011. Discuss the impact of each transaction on the National Income of the country. **(6)**
- i. He sold his personal car for Rs.80,000.
 - ii. Paid Rs.5,000 as commission to the broker on sale of car.
 - iii. Imported an Apple i-pod for Rs.7,000.
 - iv. Bought new car for Rs.9,00,000.
 - v. Purchased an antique painting for Rs.4,500.
 - vi. Purchased shares of Reliance Industries for 12,000.
 - vii. Paid interest of Rs.2,000 on loan taken from ICICI to buy the new car.

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Answers

1. a. GNP at constant price
2. d. Compensation of employees
Explanation: Compensation of employees is a factor income .
3. a. is measured at a particular period of time.
Explanation: Flows always pertain to specific period of time in economics.
4. b. Excluded from the GDP of a country .
Explanation: Second hand goods don't add to the current flow of goods in an economy. They have been calculated in the GDP of a previous year. Counting them in GDP would lead to double counting.
5. It refers to those activities which are not performed with the motive of monetary exchange or which do not involve sale of goods and services i.e, a teacher teaching his own son or mother is cooking food for her kids etc.
6. National income refers to net money value of all the final goods and services produced by the normal residents of a country during a period of an accounting year.
7. Capital goods are those fixed assets of the producers which are repeatedly used in the process of production for several years and which are of high value. Use of these goods leads to depreciation. These are durable producer goods.
Example: Plant and machinery.
8. (i) Demand (ii) Supply.
9. The basis of classification is the end-use of the product, not the product itself. A product can be an intermediate good as well as a final good, depending upon its nature of use. Goods which are used by the producers in the process of production such as raw material or goods purchased for resale are known as intermediate goods, e.g. shirt purchased by a firm for resale. These goods are still within the production boundary. Goods which are outside the boundary line of production and are ready for use by the final users are called final goods, e.g shirt purchased by a consumer.
Another example, milk is an intermediate good when it is used in dairy shops for resale. Same milk becomes a final good when it is used by the households.

10. Real and Nominal Gross Domestic Product

Basis	Real GDP	Nominal GDP
Definition	It refers to the total market value of the output at the base year prices.	It refers to the total market value of the output at the current year prices.
Changes	Its value can change only when the volume or quantity of output changes over time.	Its value can change only with change in the prices over time.
Indication	It can be treated as an index of economic growth i.e., higher real GDP indicates higher economic growth.	It can not be treated as an index of economic growth. In fact, it indicates inflation.

11. Operating surplus is the sum of income earned by a firm during production process from property and entrepreneurship. It arises from household enterprises, corporate and quasu corporate enterprises and govt enterprises. Main components of operating surplus are:

- a. Income from property: This type of income is classified in following three parts :
 - i. Rent: From land, building and imputed rent of self-occupied houses.
 - ii. Interest: From bank deposits and loans etc.
 - iii. Royalty
- b. Income from entrepreneurship: It is earned by entrepreneurs in the form of profits. Corporate profits are classified in three parts
 - i. Dividends
 - ii. Corporation Tax
 - iii. Undistributed profits

12. While using the income method for computing National Income, the following precautions should be taken:

- i. Income from illegal activities like smuggling, theft, gambling etc, should not be included.
- ii. Corresponding to production for self-consumption, the generation of income should be taken into account
- iii. Brokerage on the sale/purchase of shares and bonds is to be included.
- iv. Income in terms of windfall gains should not be included.

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- v. Transfer earnings like old age pensions, unemployment allowances, scholarships, pocket expenses etc, should not be included.
 - vi. Income from the sale of shares, bonds and debentures will not be included as such transactions do not contribute to the current flow of goods and services.
 - vii. Payments out of past savings are not included in the National income.
 - viii. Indirect taxes are not included in national income at factor cost.
13. i. **Receipts from sale of land:** It should not be included in the estimation of national income as land is a free gift of nature.
- ii. **Profits earned by the branch of an Indian bank in France:** It should be included in the estimation of national income as profit earned by the branch of an Indian bank in France is a part of factor income from rest of the world.
14. i. **Expenditure by a firm on payment of fees to a Chartered Accountant:** Expenditure by a firm on payment of fees to a Chartered Accountant is an intermediate cost. Hence, it will 'not be included' while the estimation of National Income.
- ii. **Payment of corporate tax by a firm:** Corporate profit already forms part of national income. Hence, payment of corporate tax is 'not included' in national income as it is a mere transfer payment.
- iii. **Purchase of refrigerator by a firm for own use:** Purchase of refrigerator by a firm for own use will be 'included' while the estimation of National Income, as it is a part of Private Final Consumption Expenditure.
15. i. No, it will not be included in national income as sale of second hand goods are not included in national income because it leads to double counting.
- ii. Yes, this amount will be included in National Income as it is the income of broker for his productive services.
- iii. Yes, National Income will be less by this amount of import.
- iv. Yes, it will be included as it is a part of private final consumption expenditure.
- v. No impact as it is not a transaction involving goods production of goods for current year.
- vi. No impact as it involves a change of title only and does not contribute to any productive activity.
- vii. No impact as it is a non-factor payment because the loan is not used for production but for consumption.