CBSE Test Paper-02

Chapter 01 National Income and Related Aggregates

1. Investment is a **(1)**
   a. Non economic concept
   b. Stock concept
   c. Hypothetical concept
   d. Flow concept

2. Consider the following statements and identify the right ones. **(1)**

   i. Personal income refers to the income of individuals of a country.
   ii. The income at their disposal after paying direct taxes is called disposable income
   a. I only
   b. None of these
   c. ii only
   d. both

3. Which of the following will you include while estimating national income by expenditure method? **(1)**
   a. Purchase of new car by a household
   b. Change in stocks
   c. Net indirect taxes
   d. Purchase of raw materials by a producer

4. GDPfc is equal to **(1)**

   a. NDP_{fc} + depreciation
   b. NDP_{mp} - depreciation
   c. NDP_{fc} + subsidies
   d. NDP_{mp} + depreciation

5. Define flows. **(1)**

6. Giving reasons for categorising the following into stock and flow. **(1)**

a. Capital
b. Saving
c. GDP
d. Wealth

7. What are stock variables? **(1)**

8. What are capital transfers from abroad? **(1)**

9. If thè Real GDP is Rs. 500 and Price Index (base = 100) is 125, calculate the Nominal GDP. **(3)**

10. Find Net Value Added at Market Price. **(3)**

S.no.	**Contents**	**Rs. (in Crores)**
(i)	Depreciation	700
(ii)	Output sold (units)	900
(iii)	Price per unit of output	40
(iv)	Closing stock	1,000
(v)	Opening stock	800
(vi)	Sales tax	3,000
(vii)	Intermediate cost	20,000

11. Calculate gross value added of factor cost: **(4)**

(i) Units of output sold (units)	1000
(ii) Price per unit of output (Rs.)	30
(iii) Depreciation (Rs.)	1000
(iv) Intermediate cost (Rs.)	12000
(v) Closing Stock (Rs.)	3000
(vi) Opening Stock (Rs.)	2000

(vii) Excise duty (Rs.)	2500
(viii) Sales Tax (Rs.)	3500

12. Find National Income from the given details. **(4)**

S.no.	Contents	(Rs. in Crores)
(i)	Wages and Salaries	1,000
(ii)	Net Current Transfers to Abroad	20
(iii)	Net Factor Income Paid to Abroad	10
(iv)	Profit	400
(v)	National Debt Interest	120
(vi)	Social Security Contributions by Employers	100
(vii)	Current Transfers from Government	60
(viii)	National Income Accruing to Government	150
(ix)	Rent	200
(x)	Interest	300
(xi)	Royalty	50

13. Giving reason, explain how should the following be treated in estimation of National Income **(4)**

    i. Interest paid by banks on deposits by individuals.
    ii. National debt interest.

14. Calculate Gross National Product at Factor Cost from the following data by **(6)**

    i. Income method and
    ii. Expenditure method.

S.no.	Contents	(Rs. in crores)
(i)	Private Final Consumption Expenditure	1,000

(ii)	Net Domestic Capita! Formation	200
(iii)	Profits	400
(iv)	Compensation of Employees	800
(v)	Rent	250
(vi)	Government Final Consumption Expenditure	500
(vii)	Consumption of Fixed Capital	60
(viii)	Interest	150
(ix)	Net Current Transfer from Rest of the World	(-) 80
(x)	Net Factor Income from Abroad	(-) 10
(xi)	Net Exports	(-) 20
(xii)	Net Indirect Taxes	80

15. Explain that Domestic territory is bigger than the political frontiers of a country. **(6)**

Answers

1. d. Flow concept
   Explanation: It's measured after a period of time.
2. d. both
   Explanation: both
3. a. Purchase of new car by a household
   Explanation: Car is a final good.
4. a. NDPfc+depreciation
   Explanation: NDP_{fc} = GDP_{fc}-depreciation. Gross in economics stands for total.

5. Flow variables are defined as any quantity measured over a particular period of time, e.g. income or expenditure over a time period of one month or one year. National income in the year 2018 is flow variables. Flow variables are time dimensional as they are measured for a period of time.

6. i. Capital: Stock - Because it is measured at a particular point of time.
   ii. Saving: Flow - Because it is measured over a period of time.
   iii. GDP: Flow - Measured over a period of time.
   iv. Wealth: Stock-Because itis measured at a particular point of time.

7. Stock variables related to a point of time and not time dimensional. They influence the flow.
   For example: capital and wealth.

8. It refers to those transfers in cash or kind which are paid by rest of the world for the purposes of gross capital formation on long term expenditure.

9. Real GDP = Rs. 500
   Price Index =125
   Nominal GDP = ?
   Nominal GDP in terms of Real GDP and Price index is given by

$$\text{Nominal GDP} = \frac{\text{Price index}}{100} \times RealGDP$$

$$\text{Nominal GDP } = \frac{125}{100} \times 500$$

Therefore, Nominal GDP = 125 $\times$ 5 = Rs. 625

10. **Formula to calculate Net Value Added at Market Price:**

    NVA_{mp}= (Output sold $\times$ Price per unit of uutput) + (Closing stock - Opening stock) - Intermediate cost - Depreciation.
    = (900 $\times$ 40) + (1,000 - 800) - 20,000 - 700
    = 36,000 + 200 - 20,000 - 700 = 36,200 - 20,700.
    = Rs. 15,500 crores.
    From the value of output we subtract intermediate cost to get gross value added and from that we subtract depreciation to get net value added.

11. GVA_{FC} (i × ii) + (v - vi) - (iv) - (vii + viii)

    = (1000 × 30) + [3000 - 2000] - 12000 - [2500 + 3500]
    = Rs. 13000

12. **National Income or Net National Product at Factor Cost (NNP_{FC})**

    = Wages and Salaries + Social Security Contributions by Employers + Rent + Interest + Royalty + Profit - Net Factor Income Paid to Abroad
    = 1,000 + 100 + 200 + 300 + 50 + 400 - 10
    = Rs. 2,040 crore

13. i. **Interest paid by banks on deposits by individuals:** It should be 'included' in the estimation of National Income as banks use their funds for productive purposes and interest paid by banks on deposits will be treated as factor payment.
    ii. **National debt interest:** It should not be included in the estimation of National Income as the government borrows for consumption purpose not for productive purposes.

14. Calculation of Gross National Product at Factor Cost :

By Income Method	By Expenditure Method

GNP_{FC} = Compensation of Employees + Profits + Rent + Interest + Consumption of Fixed Capital + Net Factor Income from Abroad	GNP_{FC} = Private Final Consumption Expenditure + Government Final Consumption Expenditure + Net Domestic Capital Formation + Consumption of Fixed Capital + Net Exports - Net Indirect Taxes + Net Factor Income from Abroad
= 800 + 400 + 250 + 150 + 60 + (-10) = **Rs. 1,650 crores**	= 1,000 + 500 + 200 + 60 + (- 20) - 80 + (- 10) = 1,760 - 110 = **Rs. 1,650 crores**

15. In layman terms, the domestic territory of a nation is understood to be the territory lying within the political frontiers (or boundaries) of a country. But in national income accounting, the term domestic territory is used in a wider sense. Based on ‘freedom’ criterion, the scope of economic territory is defined to cover:

    i. Ships and aircrafts owned and operated by normal residents between two or more countries. For example, Indian Ships moving between China and India regularly are part of domestic territory of India. Similarly, Planes operated by Air India between Russia and Japan are part of the domestic territory of India. Similarly, planes operated by Malaysian Airlines between India and Japan are a part of the domestic territory of Malaysia.
    ii. Fishing vessels, oil and natural gas rigs and floating platforms operated by the residents of a country in the international waters where they have exclusive rights of operation. For example, Fishing boats operated by Indian fishermen in international waters of Indian Ocean will be considered a part of domestic territory of India.
    iii. Embassies, consulates and military establishments of a country located abroad. For example Indian Embassy in Russia is a part of the domestic territory of India. ‘Consulate’ is an office or building used by consul (an officer commissioned by the government to reside in a foreign country to promote the interest of the country to which he belongs).