CBSE Test Paper-03

Chapter 01 National Income and Related Aggregates

1. Net investment is equal to **(1)**
   a. Gross investment ÷ depreciation.
   b. Gross investment + depreciation.
   c. Net investment - depreciation.
   d. Gross investment - depreciation
2. Stock is a concept which **(1)**
   a. Cannot be measured at a particular point of time.
   b. is measured at a particular point of time.
   c. is measured after a particular point of time.
   d. is measured at a particular period of time.
3. Which of the following are not included while estimating domestic product of India **(1)**
   a. Financial help received by flood victims
   b. Capital gains
   c. Interest received on debentures
   d. Imputed rent of self occupied houses.
4. NDP_{mp} = GDP_{mp} - depreciation **(1)**
   a. Never
   b. 1
   c. FALSE
   d. Can’t say
5. What do you mean by injection? **(1)**
6. Define current transfers. **(1)**
7. Give the meaning of depreciation. **(1)**
8. Define investment. **(1)**

9. How will you treat the following while estimating National Income? Give reasons for your answer. **(3)**
   i. Capital gain on sale of a house.
   ii. Prize won in a lottery.
   iii. Interest on public debt.
10. Find Net Value Added at Market Price. **(3)**

S.No.	Contents	Rs. (in Crores)
(i)	Output Sold (units)	800
(ii)	Price Per Unit of Output	20
(iii)	Net Change in Stock	(-) 500
(iv)	Depreciation	1,000
(v)	Intermediate Cost	8,000

11. Define Indirect Taxes and Subsidies. **(4)**
12. Giving reasons, classify following into intermediate products and final products. **(4)**
    i. Furniture purchased by a school.
    ii. Chalks, dusters etc purchased by school.
13. Define intermediate goods and final goods. Can milk be an intermediate good? Give reason for your answer. **(4)**
14. Giving reasons explain how should the following be treated in estimation of National Income. **(6)**
    i. Payment of corporate tax by a firm.
    ii. Purchase of machinery by a factory for own use.
    iii. Purchase of uniforms for nurses by a hospital.
15. What is the difference between planned and unplanned inventory accumulation? Write down the relation between change in inventories and value added to a firm. **(6)**

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Answers

1. d. Gross investment -depreciation

   Explanation: Depreciation doesn't comprise investment.

2. b. is measured at a particular point of time.

   (c) is measured after a particular point of time.

   Explanation: Stock has no time dimensions.

3. b. Capital gains

   Explanation: Capital gains is not considered as income by economists.

4. b. 1

   Explanation: Depreciation does not add anything to domestic product.

5. It refers to the additions to the circular flow. Injections cause expansion of the circular flow. Example: Government expenditure, exports and investment.

6. It refers to those transfers which are paid in cash or kind from the current income of the payer and added to the current income of the recipient for consumption expenditure.

7. Depreciation can be defined as a fall in the value of fixed assets due to normal wear and tear due to usage, the passage of time or expected obsolescence. It is useful in differentiating between gross and net value.

8. Investment is a process of capital formation or a process of adding to the stock of capital.

   $I = \triangle K$ where

   I = Investment, K= Capital Stock

   $\triangle K$ = change in capital stock during the year.

9. i. As Capital gain on sale of a house was already included in the year when it was built, it will 'not be included' while estimating National Income.

   ii. As Prize won in a lottery is a transfer income, it will 'not be included' while estimating National Income.

iii. As the loan is taken for consumption purpose, interest on the public debt will 'not be included' while estimating National Income.

10. Sales = Output Sold (units) $\times$ Price Per Unit of Output
    Sales = 800 $\times$ 20 = Rs. 16,000 crores
    Now, Value of Output = Sales + Net Change in Stock
    Value of output = 16,000 + (- 500) = Rs. 15,500 crores
    Now, Gross Value Added at Market Price
    (GVA_{mp}) = Value of Output - Intermediate Cost
    (GVA_{mp}) = 15,500 - 8,000 = Rs. 7,500 crores
    Hence, Net Value Added at Market Price is given by:
    (NVA_{mp}) = GVA_{mp} - Depreciation
    = 7,500 - 1,000 crores = Rs. 6,500 crores

11. a. Indirect Taxes sre those taxes where the burden of the tax is shifted to the consumers of the product. For eg: GST (goods snd services tax). These taxes are paid by the household and business sector to the government through some other persons i.e. the producers of the goods and services. Indirect taxes raises the prices of the commodity in the market as the amount of tax is included in the market price.
    b. Subsidies refer to all grants on current account made by the government to household and business sector. Subsidies reduce the prices of the commodities. In the market, subsidies can be of three types:
        i. Cash subsidies to exporters for promoting exports.
        ii. Cash subsidies to producers for using labour intensive techniques.
        iii. Grants to producers for selling their products at a cheaper price to consumers.
12. i. Furniture purchased by the school — Final product
    Reason: Schools buy furniture for long-term use. It is a part of the capital formation (investment).
    ii. Chalks, dusters etc purchased by the school — Intermediate product
    Reason: These are meant to be used for further production of teaching services in the school.
13. **Intermediate goods:** The goods purchased by a firm for further use in the production

of other goods or for the purpose of reselling are known as intermediate goods. For example, steel used in the production of cars (purpose of further production)or milk purchased by a milk seller(purpose of reselling).

Final goods: The goods, which have crossed the boundary line of production and are ready for use by their final users are known as final goods. For example, clothes, milk consumed by a consumer. These goods are used either for consumption or investment. Final goods are neither resold not used for any further transformation. Milk can be a final good as well as an intermediate good. It totally depends upon the end use of the milk. Milk can be a final good if it is being consumed by a household and it can be an intermediate good for a firm which makes ice-creams or milk purchased by milk seller for further selling.

14. i. **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.
    ii. **Purchase of machinery by a factory for own use:** Purchase of machinery by a factory for own use is 'included' in the estimation of National Income as it is an investment expenditure.
    iii. **Purchase of uniforms for nurses by a hospital:** Purchase of uniforms for nurses by a hospital is a part of intermediate consumption. Hence it will 'not be included' in the computation of National Income.
15. **Planned Inventory:** In a situation of planned inventory accumulation, a firm will plan to raise its inventories by making changes in the stock inventories that have occurred in a planned way refers to the Planned Inventory.

    Unplanned Inventory: In a situation of unplanned inventory accumulation, due to an unexpected fall in sales, the firm will have unsold stock of goods by making changes in the stock of inventories that have occurred in an unexpected way.

    Relation between change in inventories and value added to a firm:

    Value-added of a firm (GVA) = Gross value of output produced by the firm – Value of intermediate goods used by the firm.

    OR

    GVA = Value of sales by the firm + Value of change in inventories – Value of intermediate goods used by the firm.