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19th EDITION

YEAR 2023-24



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**SYLLABUS
COVERED**

**CENTRAL BOARD OF
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DELHI**



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Contents



- Latest CBSE Syllabus 6 - 10
- Sample Question Paper-2022-23 Fully Solved (Issued by Board dated 16th Sep. 2022) 15 - 29
- Solved Paper-2022 (Delhi & Outside Delhi Sets) (To download Solved paper for Term-I 2021-22 & Latest Topper's Answers 2020, scan the QR Code given on Page 39) 30 - 39
- Supplement : New Typologies of Questions Introduced by CBSE for 2023-24 Examination 40 - 47

PART - A : INTRODUCTORY MACROECONOMICS

Unit 1 : National Income and Related Aggregates

1. National Income and Related Aggregates 1 - 34
 - ◆ Self Assessment Paper - 1 35 - 37

Unit 2 : Money and Banking

2. Money and Banking 38 - 60
 - ◆ Self Assessment Paper - 2 61 - 62

Unit 3 : Determination of Income and Employment

3. Aggregate Demand and Short-run Equilibrium Output 63 - 95
4. Problems and Measures of Excess and Deficient Demand 96 - 107
 - ◆ Self Assessment Paper - 3 108 - 109

Unit 4 : Government Budget and the Economy

5. Government Budget and the Economy 110 - 128
 - ◆ Self Assessment Paper - 4 129 - 130

Unit 5 : Balance of Payments

6. Balance of Payments 131 - 144

7. Foreign Exchange Rate 145 - 159
 - ◆ Self Assessment Paper - 5 160 - 161

PART - B : INDIAN ECONOMIC DEVELOPMENT

Unit 6 : Development Experience (1947-90) and Economic Reforms Since 1991

8. Development Experience (1947-90) and Economic Reforms Since 1991 162 - 219
 - ◆ Self Assessment Paper - 6 220 - 221

Unit 7 : Current Challenges Facing Indian Economy

9. Current Challenges Facing Indian Economy 222 - 265
 - ◆ Self Assessment Paper - 7 266 - 268

Unit 8 : Development Experience of India

10. Comparative Development Experiences of India with Its Neighbours 269 - 280
 - ◆ Self Assessment Paper - 8 281 - 283
 - ◆ Practice Paper - 1 284 - 289
 - ◆ Practice Paper - 2 290 - 295



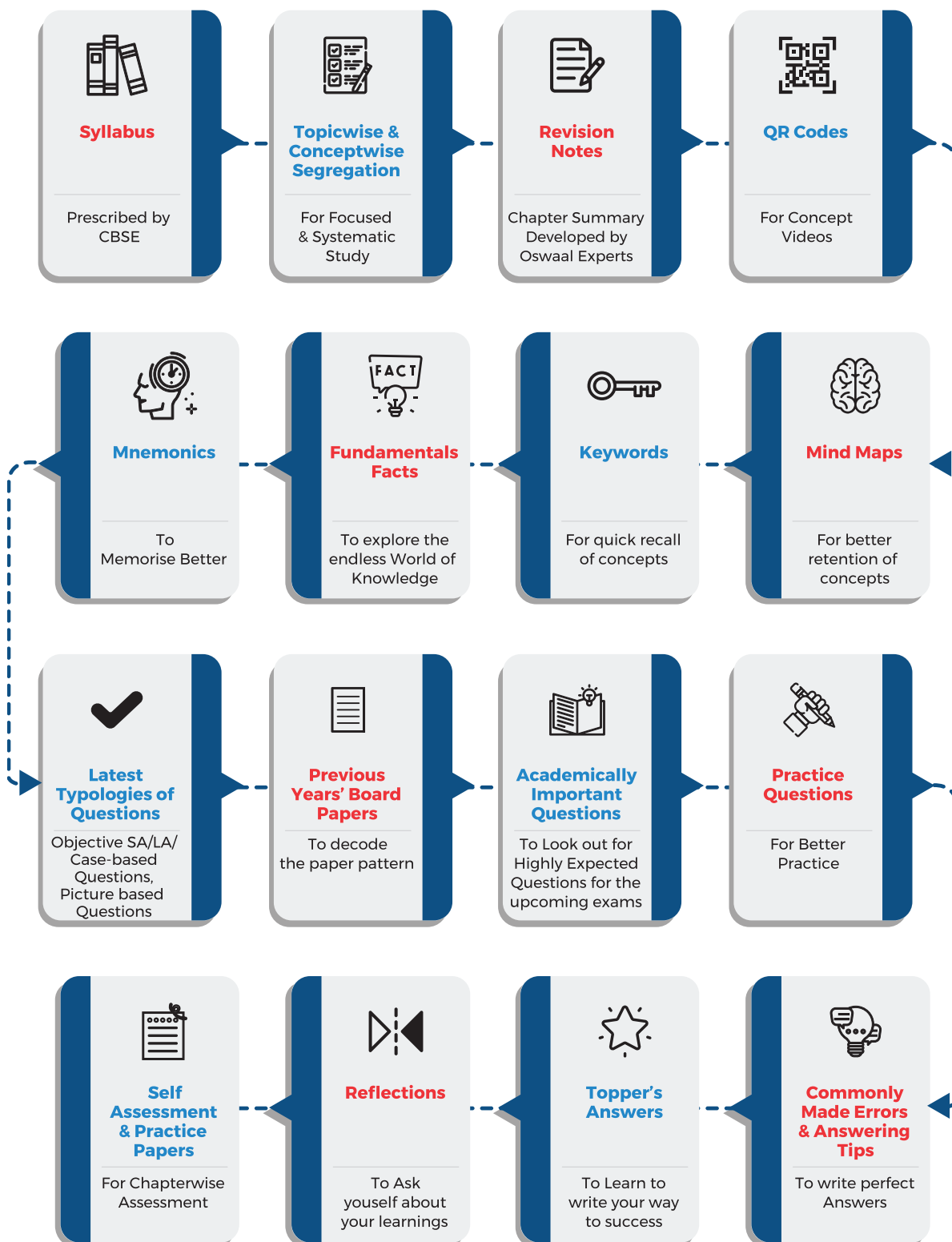
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- Do better than the previous year
- Perfect every concept, every topic, and every question from the very beginning

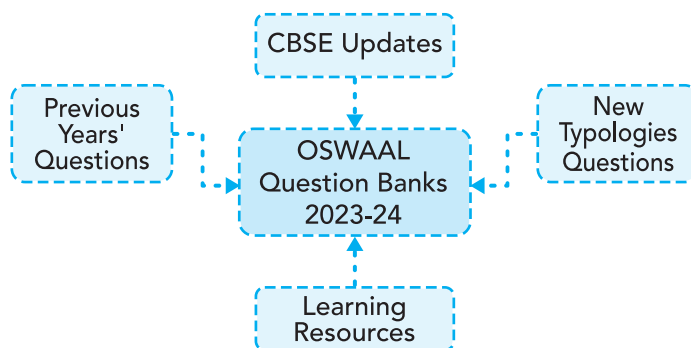
You said it, we heard it!

Practice means to perform, repeatedly in the face of all obstacles, some act of vision, of faith, of desire. Practice is a means of inviting the perfection desired.

-Martha Graham

As we usher into a brand-new Academic Year 2023-24, Oswaal Books, with its all-new Question Banks, empowers you to perfect your learning, consistently!

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This Question Bank would not have been made possible without the valuable contributions of the esteemed members of the Oswaal Editorial Board-Authors, Editors, Subject matter experts, Proofreaders & DTP operators who worked day and night to bring this incredible book to you. We are also highly grateful to our dear students for all their valuable and impeccable inputs in the making of this one-of-a-kind exam preparation tool.

All the best Students!! Be the perfectionist that you are!

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Syllabus

Latest Syllabus ECONOMICS (Code No: - 030) CLASS-XII

Theory : 80 Marks
Project : 20 Marks

Time : 3 Hours

Units		Marks	Periods
Part A	INTRODUCTORY MACROECONOMICS		
	National Income and Related Aggregates	10	30
	Money and Banking	06	15
	Determination of Income and Employment	12	30
	Government Budget and the Economy	06	17
	Balance of Payments	6	18
		40	
Part B	INDIAN ECONOMIC DEVELOPMENT		
	Development Experience (1947-90) and Economic Reforms since 1991	12	28
	Current Challenges facing Indian Economy	20	50
	Development Experience of India – A Comparison with Neighbours	08	12
	Theory Paper (40+40 = 80 Marks)	40	200
Part C	PROJECT WORK	20	20

Part A : Introductory Macroeconomics

Unit 1 : National Income and Related Aggregates

30 Periods

What is Macroeconomics?

Basic concepts in macroeconomics: consumption goods, capital goods, final goods, intermediate goods; stocks and flows; gross investment and depreciation.

Circular flow of income (two sector model); Methods of calculating National Income - Value Added or Product method, Expenditure method, Income method.

Aggregates related to National Income:

Gross National Product (GNP), Net National Product (NNP), Gross Domestic Product (GDP) and Net Domestic Product (NDP) - at market price, at factor cost; Real and Nominal GDP.

GDP and Welfare

Unit 2 : Money and Banking

15 Periods

Money - meaning and functions, supply of money - Currency held by the public and net demand deposits held by commercial banks.

Syllabus

Money creation by the commercial banking system.

Central bank and its functions (example of the Reserve Bank of India): Bank of issue, Govt. Bank, Banker's Bank, Control of Credit through Bank Rate, CRR, SLR, Repo Rate and Reverse Repo Rate, Open Market Operations, Margin requirement.

Unit 3 : Determination of Income and Employment **30 Periods**

Aggregate demand and its components.

Propensity to consume and propensity to save (average and marginal).

Short-run equilibrium output; investment multiplier and its mechanism.

Meaning of full employment and involuntary unemployment.

Problems of excess demand and deficient demand; measures to correct them - changes in government spending, taxes and money supply.

Unit 4: Government Budget and the Economy **17 Periods**

Government budget - meaning, objectives and components.

Classification of receipts - revenue receipts and capital receipts;

Classification of expenditure – revenue expenditure and capital expenditure.

Balanced, Surplus and Deficit Budget – measures of government deficit.

Unit 5 : Balance of Payments **18 Periods**

Balance of payments account - meaning and components;

Balance of payments – Surplus and Deficit

Foreign exchange rate - meaning of fixed and flexible rates and managed floating.

Determination of exchange rate in a free market, Merits and demerits of flexible and fixed exchange rate.

Managed Floating exchange rate system

Part B : Indian Economic Development

Unit 6 : Development Experience (1947-90) and Economic Reforms since 1991 **28 Periods**

A brief introduction of the state of Indian economy on the eve of independence.

Indian economic system and common goals of Five Year Plans.

Main features, problems and policies of agriculture (institutional aspects and new agricultural strategy), industry (IPR 1956; SSI – role & importance) and foreign trade.

Economic Reforms since 1991 :

Features and appraisals of liberalisation, globalisation and privatisation (LPG policy); Concepts of demonetization and GST

Unit 7 : Current challenges facing Indian Economy **60 Periods**

Human Capital Formation : How people become resource; Role of human capital in economic development; Growth of Education Sector in India

Rural development: Key issues - credit and marketing - role of cooperatives; agricultural diversification; alternative farming - organic farming

Employment: Growth and changes in work force participation rate in formal and informal sectors; problems and policies

Sustainable Economic Development: Meaning, Effects of Economic Development on Resources and Environment, including global warming.

Unit 8 : Development Experience of India : **12 Periods**

A comparison with neighbours:

India and Pakistan

India and China

Issues: economic growth, population, sectoral development and other human development indicators.

Part C : Project in Economics **20 Periods**

Prescribed Books:

1. Statistics for Economics, NCERT

Syllabus

2. Indian Economic Development, NCERT
3. Introductory Microeconomics, NCERT
4. Macroeconomics, NCERT
5. Supplementary Reading Material in Economics, CBSE

Note : The above publications are also available in Hindi Medium.



SUGGESTED QUESTION PAPER DESIGN

Economics (Code No. 030)

Class XII

Duration: 3 Hours

Marks: 80

S.No.	Typology of Questions	Marks	Percentage
1.	Remembering and Understanding: Exhibit memory of previously learned material by recalling facts, terms, basic concepts, and answers. Demonstrate understanding of facts and ideas by organizing, comparing, translating, interpreting, giving descriptions, and stating main ideas	44	55%
2.	Applying : Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way.	18	22.5%
3.	Analysing, Evaluating and Creating: Examine and break information into parts by identifying motives or causes. Make inferences and find evidence to support generalizations. Present and defend opinions by making judgments about information, validity of ideas, or quality of work based on a set of criteria. Compile information together in a different way by combining elements in a new pattern or proposing alternative solutions.	18	22.5%
Total		80	100%

Guidelines for Project Work in Economics (Class XI and XII)

The **objectives** of the project work are to enable learners to :

- Probe deeper into theoretical concepts learnt in classes XI and XII.
- Analyse and evaluate real world economic scenarios using theoretical constructs and arguments.
- Demonstrate the learning of economic theory.
- Follow up aspects of economics in which learners have interest.
- Develop the communication skills to argue logically.

The **expectations** of the project work are that :

- Learners will complete only **ONE** project in each academic session.
- Project should be of 3,500-4,000 words (excluding diagrams & graphs), preferably hand-written.

Syllabus

- It will be an independent, self-directed piece of study.

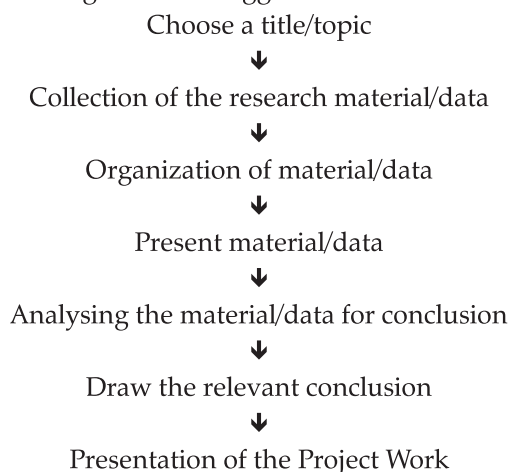
Role of the teacher :

The teacher plays a critical role in developing thinking skills of the learners. A teacher should:

- help each learner select the topic based on recently published extracts from the news media, government policies, RBI bulletin, NITI Aayog reports, IMF/World Bank reports etc., after detailed discussions and deliberations of the topic
- play the role of a facilitator and supervisor to monitor the project work of the learner through periodic discussions
- guide the research work in terms of sources for the relevant data
- educate learner about plagiarism and the importance of quoting the source of the information to ensure authenticity of research work
- prepare the learner for the presentation of the project work
- arrange a presentation of the project file

Scope of the project :

Learners may work upon the following lines as a suggested flow chart :



Expected Checklist :

- Introduction of topic/title
- Identifying the causes, consequences and/or remedies
- Various stakeholders and effect on each of them
- Advantages and disadvantages of situations or issues identified
- Short-term and long-term implications of economic strategies suggested in the course of research
- Validity, reliability, appropriateness and relevance of data used for research work and for presentation in the project file
- Presentation and writing that is succinct and coherent in project file
- Citation of the materials referred to, in the file in footnotes, resources section, bibliography etc.

Mode of presentation/submission of the Project :

At the end of the stipulated term, each learner will present the research work in the Project File to the External and Internal examiner. **The questions should be asked from the Research Work/ Project File of the learner. The Internal Examiner should ensure that the study submitted by the learner is his/her own original work.** In case of any doubt, authenticity should be checked and verified.

Syllabus

Marking Scheme :

Marks are suggested to be given as –

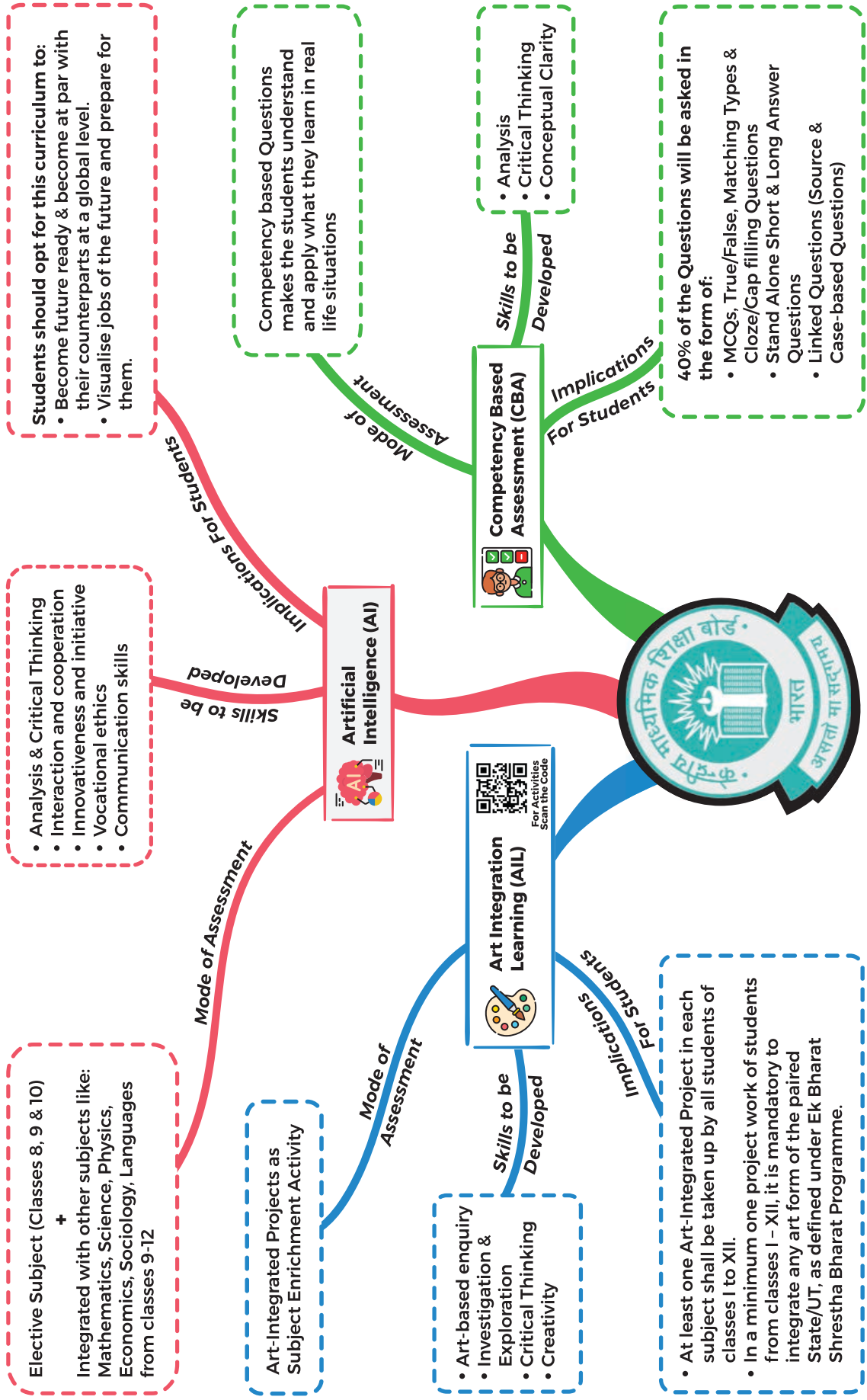
S. No.	Heading	Marks Allotted
1.	Relevance of the topic	3
2.	Knowledge content/research work	6
3.	Presentation technique	3
4.	Viva-voce	8
	Total	20 Marks

SUGGESTIVE LIST OF PROJECTS:

Class - XII	
● Micro and Small Scale Industries	● Food supply channel in India
● Contemporary employment situation in India	● Disinvestment policy of the government
● Goods and Services Tax Act and its impact on GDP	● Health expenditure (of any state)
● Human Development Index	● Inclusive growth strategy
● Self-help group	● Trends in credit availability in India
● Monetary policy committee and its functions	● Role of RBI in control of credit
● Government budget and its components	● Trends in budgetary condition of India
● Exchange rate determination – methods and techniques	● Currency war – reasons and repercussions
● Livestock – backbone of rural India	● Alternate fuel – types and importance
● Sarwa Siksha Abhiyan – Cost Ratio Benefits	● Golden Quadrilateral- cost ratio benefit
● Minimum support prices	● Relation between Stock Price Index and Economic Health of Nation
● Waste management in India – need of the hour	● Minimum Wage Rate – approach and application
● Digital India- step towards the future	● Rain Water Harvesting – a solution to water crises
● Vertical farming – an alternate way	● Silk Route- revival of the past
● Make in India – the way ahead	● Bumper Production- boon or bane for the farmer
● Rise of Concrete Jungle- trend Analysis	● Organic Farming – back to the nature
● Any other newspaper article and its evaluation on basis of economic principles	● Any other topic



NEP Derived Learning Resources Prescribed by CBSE for Year 2023-24



Hear it from our Happy Readers!



Good Book!

According to me, it is a brilliant book for CBSE students. It prepares students really well for the upcoming 2022-23 exams. Thankfully, Maths is no more a worry. Must buy!

Priyanka



All concepts have been explained with examples which simplifies the understanding of the concepts and makes practice very easy. It is worth the money.

Siddharth Gupta

This question bank is the best. It helps me to improve my skills and knowledge. My teacher recommended this book and it helps me a lot to increase my grades.

Avishake Kar



Great Book

This is really a nice book. It helps my son a lot in studies. Many of his friends recommended Oswaal Question Bank to him, so we bought it. It is good and helpful.

Amrik Singh Gujral



Very good book for 12th class preparation. This book contains Previous Years Questions which is very helpful in exams. It also includes VSAQs, SAQs and one mark questions for exam practice. One must read this book to achieve high percentile in exams.

Priya J.



Outstanding Book!

It is really an outstanding book. With this question bank, we are able to get 90+ % in CBSE Board. It is really helpful.

Om Lingyat



I would definitely recommend this book for 12th Boards. It is covering the latest and updated syllabus with great-quality of questions.

Aryan



Very good fantastic book!

Along with Previous Years Questions & Board Marking scheme answers this book also includes new typology of questions: MCQs, Assertion-Reason, VSA, SA, LA & case-based questions. Fantastic to study!!

Sumit

PART- A: INTRODUCTORY MACROECONOMICS

UNIT - 1 : NATIONAL INCOME AND RELATED AGGREGATES

CHAPTER

1

NATIONAL INCOME AND RELATED AGGREGATES



Syllabus

What is Macroeconomics?

Basic concepts in macroeconomics: consumption goods, capital goods, final goods, intermediate goods; stocks and flows; gross investment and depreciation.

Circular flow of income (two sector model); Methods of calculating National Income - Value Added or Product method, Expenditure method, Income method.

Aggregates related to National Income: Gross National Product (GNP); Net National Product (NNP), Gross and Net Domestic Product (GDP and NDP) - at market price, at factor cost; Real and Nominal GDP.

GDP and Welfare

In this chapter you will study

Concept of Macroeconomics.

Types of Goods and their difference

Circular Flow of Income in a 2-sector economy.

Concept of National Income.

Various Methods of calculating National Income

Precautions that needs to be followed for different methods of National Income Calculation.

GDP and welfare

Why GDP is not an appropriate indicator of Welfare

List of Topics

Topic-1: Macroeconomics with Basic Concepts and Circular Flow of Income

Page No. 1

Topic-2 : National Income Accounting

Page No. 9

Topic-3 : GDP & Welfare

Page No. 23

Topic-1

Macroeconomics with Basic Concepts and Circular Flow of Income

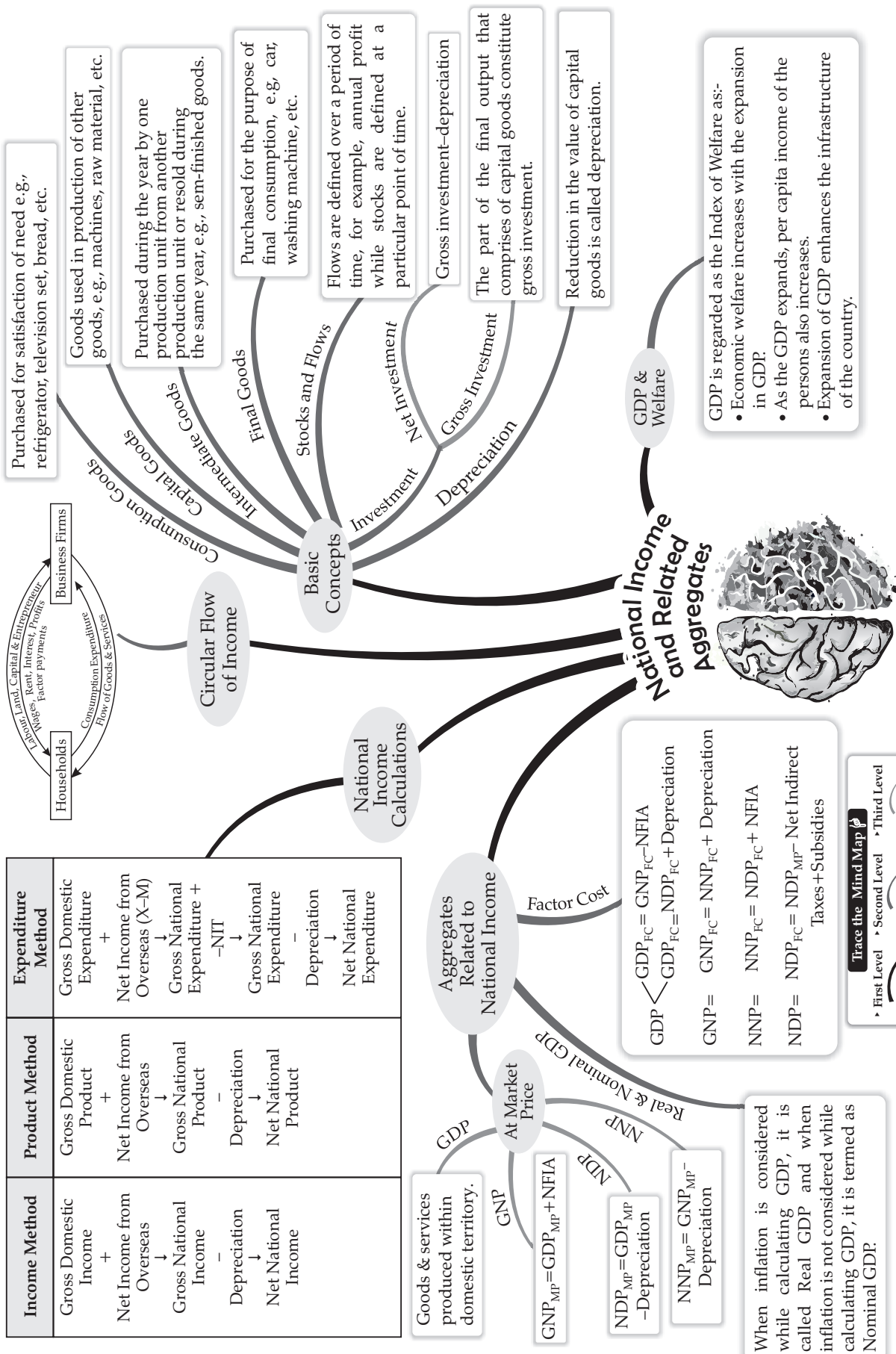
Concepts Covered • *Meaning of Macroeconomics,* • *Basic concepts in macroeconomics;* • *Circular Flow of Income in a 2-sector economy..*



Revision Notes

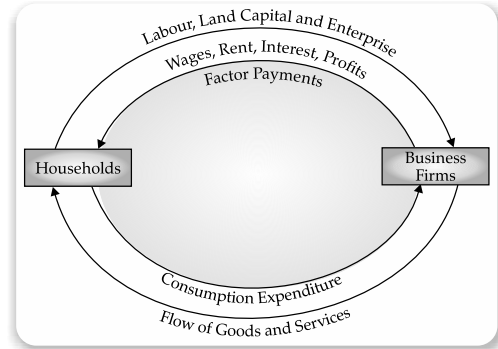
➤ Macroeconomics refers to that branch of economics that deals with economic problems or economic issues at the level of an economy as a whole, e.g. it

deals with aggregates like national income, general price level, etc.



- **Consumption Goods:** Goods which are used by the consumers to satisfy human wants directly are called consumption goods.
- **Capital Goods:** All goods which are used in the production of other goods either as fixed assets or as inventory/ stock are called Capital Goods.
- **Final Goods:** Those goods which are purchased either for final consumption by consumers (consumer goods) or for investment by producers (capital goods) are final goods.
- **Intermediate Goods:** Those goods and services which are purchased as raw material for further production or for resale in the same year.
- **Stock:** Stock is a quantity measurable at a particular "point of time", e.g. wealth, assets, money, inventory, etc. A stock variable is nothing but an accumulated sum of flows.
- **Flow:** Flow is a quantity that can be measured over a specific "period of time", e.g. national income, change in stock, etc.
- **Gross Investment:** Total addition made to physical stock of capital during a period of time. It includes depreciation. It is also known as Gross Capital Formation.
- **Net Investment:** Net addition made to the real stock of capital during a period of time.
- **Depreciation:** It means fall in value of fixed capital goods due to normal wear and tear, expected obsolescence and efflux of time.
- **Circular flow of income:** Circular flow of income refers to the flow of activities of production, income generation and expenditure involving different sectors of the economy.
- **2-Sector Model of Circular Flow:** It is assumed that:
 - (i) Domestic economy comprises only 2 sectors, the **producers** and the **households**.
 - (ii) The households spend their entire income, so that there is no savings.

- (iii) Domestic economy is a **closed economy** (no exports and imports).
- (iv) There is no government in the economy.
- Production in the producing sector generates income for the households who are owners of the factors of production. Expenditure by the households generates demand for further production. These movements keep chasing each other continuously moving in a circle.



- **Significance of Circular Flow of Income:** (i) It reflects structure of an economy, (ii) It shows interdependence among different sectors, (iii) It shows injections and leakages from flow of money, (iv) It helps in estimation of national income and related aggregates.

Scan to know more about this topic



Circular Flow of Income



Key Words

- Producers:** The entity in the economy that produces goods and services.
- Household:** The entity in the economy that supply labour and consume the goods produced.
- Closed Economy:** The economy which does not indulge in foreign trade



OBJECTIVE TYPE QUESTIONS

(1 mark each)

A Multiple Choice Questions

- Q. 1. Inventory is a concept whereas the change in inventory is a concept.
- (A) stock, flow
 - (B) flow, stock
 - (C) stock, stock
 - (D) flow, flow
- 🔗 [CBSE SQP 2021]
- Q. 2. Which of the following is not a 'factor payment'?
- (A) Free uniform to defence personnel
 - (B) Salaries to the Members of Parliament
 - (C) Rent paid to the owner of a building

- (D) Scholarship given to the students

📄 [Delhi Set – I, II, III, 2020]

Ans. Option (D) is correct.

Explanation: Factor Payments are made to the factors of production, thus scholarship is not a factor payment, instead it is a transfer payment.

- Q. 3. Goods purchased for the following purpose are final goods:
- (A) for satisfaction of wants
 - (B) for investment in firm
 - (C) both (A) and (B)
 - (D) none of the above

🔗 [OD Comptt., Set-I, II, III 2017]

Q. 4. Which of the following is a stock?

- (A) Savings
(B) Production
(C) Consumption of fixed capital
(D) Capital

[OD Set-I, II, III Comptt. 2016]

Ans. Option (D) is correct.

Explanation: Capital is measured at a particular point of time.

Q. 5. Which of the following is a flow?

- (A) Deposits in a bank
(B) Capital
(C) Depreciation
(D) Wealth

[Delhi Set-I, II, III Comptt. 2016]

Q. 6. Identify the correctly matched pair of the items in Column A to those in Column B:

Column A	Column B
1. Money Flow	(a) Depreciation
2. Real Flow	(b) Factor Services
3. Trade Flow	(c) House Work by House wife
4. Capital Flow	(d) Inventory

- (A) 1 – (a) (B) 2 – (b)
(C) 3 – (c) (D) 4 – (d)

Ans. Option (B) is correct.

Explanation: Real flow refers to the flow of factor services and goods and services among different sectors of the economy.

Q. 7. Which of the following is a stock?

- (A) Wealth (B) Savings
(C) Exports (D) Profits

[OD Set-I, II, III Comptt. 2015]

Ans. Option (A) is correct.

Explanation: Wealth is the accumulated value of economic goods or past savings measured at a given point of time.

Q. 8. Identify the correctly matched pair of items in Column A to those in Column B:

Column A	Column B
1. Money Flow	(a) Consumption Expenditure
2. Real Flow	(b) Between Households
3. Trade Flow	(c) Only Domestic Economy
4. Capital Flow	(d) Inventory

- (A) 1 – (a) (B) 2 – (b)
(C) 3 – (c) (D) 4 – (d)

Ans. Option (A) is correct.

Explanation: Money flow refer to the payments for services.

Q. 9. Unforeseen obsolescence of fixed capital assets during production is:

- (A) Consumption of fixed capital
(B) Capital loss
(C) Income loss
(D) None of the above

[Foreign Set-I, II, III Comptt. 2016]

Ans. Option (B) is correct.

Explanation: Capital loss is non-recurring in nature. Unforeseen obsolescence of fixed capital assets during production is a capital loss that may happen due to natural calamities, war, unexpected decrease in demand, etc.

Q. 10. Identify the correctly matched pair of items in Column A to those in Column B:

Column A	Column B
1. Markets in the Economy	(a) Producers only
2. National Income	(b) Macroeconomics
3. Total Cost	(c) Both Micro and Macroeconomics
4. Net National Product	(d) Microeconomics

- (A) 1 – (a) (B) 2 – (b)
(C) 3 – (c) (D) 4 – (d)

Ans. Option (B) is correct.

Explanation: Macroeconomics is the study of behaviour of an economy as a whole. National Income is the value of total final goods produced by an economy. Thus, the study of National Income is related to macroeconomics.

Q. 11. Read the following Statements 1 and 2 and choose the correct alternative:

Statement 1: Bread purchased by a housewife for making sandwiches is a final good.

Statement 2: Cement purchased by a household to build his house is an intermediate good.

- (A) Both the statements are true.
(B) Both the statements are false.
(C) Only Statement 1 is true.
(D) Only Statement 2 is true.

Ans. Option (C) is correct.

Explanation: Cement purchased by the household to build a house is a final good as it is **not** purchased for resale but is purchased to build his own house.

Q. 12. Read the following Statement 1 and 2 and choose the correct alternatives:

Statement 1: Households sell labour and get wages in return.

Statement 2: Firms sell products and get profits in return.

- (A) Both the statements are true.
(B) Both the statements are false.
(C) Only Statement 1 is true.
(D) Only Statement 2 is true.

Ans. Option (A) is correct.

Explanation: Circular Flow of income in a two sector economy : Households are owners of factor of production, they provide factor services to the firms (producing units). Firms provide factor payments in exchange of their factor services. So, factor payments flow from firms (producing units) to households. Households purchase goods and services from firms (producing units) for which they make payment to them. So, consumption expenditure (spending on goods and services) flows from households to the firms.

Concept Applied

Circular flow of Income

B Assertion & Reason

Directions: In the following questions, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as: A I

- (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). A I
- (B) Both Assertion (A) and Reason (R) are true but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true but Reason (R) is false.
- (D) Assertion (A) is false but Reason (R) is true.

Q. 1. Assertion (A): The flour purchased by a baker is considered an intermediate good.

Reason (R): The flour is used for the production of bread, cakes and biscuits to be sold to the consumer. U

Ans. Option (A) is correct.

Explanation: Goods used in the production of final goods are known as intermediated goods.

Q. 2. Assertion (A): Refrigerator used at home is considered as Capital Good.

Reason (R): Refrigerator is a one-time purchase for

the household and will not be purchased for a very long time. U

Ans. Option (D) is correct.

Explanation: Capital goods includes those fixed or tangible assets that are purchased by producers or businesses to produce goods and services.

Q. 3. Assertion (A): Car purchased by the hotel for the purpose of tourism facilitation is a Capital Good.

Reason (R): The car is purchased by the hotel to provide long term service to the consumers. U

Ans. Option (A) is correct.

Explanation: Capital goods includes those fixed or tangible assets that are purchased by producers or businesses to produce goods and services.

Q. 4. Assertion (A): Furniture purchased by a household is considered a final good.

Reason (R): Furniture will not be used for further production. U

Ans. Option (A) is correct.

Explanation: Final goods are used for direct consumption by consumers or producers.

Q. 5. Assertion (A): The cement purchased by the constructor is considered an intermediate good.

Reason (R): The cement is used for the construction of the building to be sold to consumer. U



SUBJECTIVE TYPE QUESTIONS



Very Short Answer Type Questions (1 mark each)

Q. 1. Define Macroeconomics. A I R

Q. 2. Define intermediate goods. [CBSE SQP 2020] R

Ans. Intermediate goods refers to that good which is purchased during the year by a firm for the purpose of further production/resale.

[CBSE SQP Marking Scheme, 2020] 1

Q. 3. What do you mean by stock? R

Ans. Stock is a quantity measurable at a particular "point of time". 1

Q. 4. Give any two examples of flow concept. A [Delhi Set I,II,III – 2019]

Ans. National income, Investment change in inventories, production process, etc. (any other relevant example)

[CBSE Marking Scheme, 2019] $\frac{1}{2} + \frac{1}{2} = 1$



Short Answer Type Questions-I (3 marks each)

Q. 1. Explain Circular Flow of Income in a two sector economy. R [Delhi Set – I, II, III, 2020]

Q. 2. "Subsidies to the producers, should be treated as

transfer payments.' Defend or refute the given statement with valid reason.

A I C [Delhi Set – I, II, III, 2020]

Ans. The given statement is defended, as subsidy is a transfer payment. Subsidy is the financial assistance provided by the government to producers to fulfil their social welfare objectives. Government does not get anything in consideration for the same. It does not contribute to the current flow of goods and services and hence do not contribute to any value addition. (no marks to be allotted if reason is not given or is wrongly given)

[CBSE Marking Scheme, 2020] [3]



Commonly Made Error

- Many students tend to refute the statement and say that subsidies are not transfer payments.




Answering Tip

- It needs to be kept in mind that even though subsidy does not contribute to the current flow of goods and services, but still as it is a financial assistance provided by the government, it is a transfer payment.

Q. 3. What are capital goods? How are they different from consumption goods?

 [Delhi & OD Re-Exam 2018]

Q. 4. Define intermediate consumption and explain it with an example. How is it different from final consumption?  [OD Set-I Re-Exam, 2018]

Ans. Intermediate Consumption refers to the expenditure incurred by a production unit on purchasing those goods and services from other production units which are meant for resale or for using up completely during the same year.

For example: Milk purchased by a hotel because it is purchased from another production unit for resale indirectly. (or any other relevant example)

Whereas, Final Consumption refers to the expenditure on goods and services meant for final consumption and investment.

[CBSE Marking Scheme, 2018] [3]

Q. 5. Which among the following are capital goods and which are consumer goods and why:

- (i) A car used as a taxi
- (ii) Refrigerator in a hotel
- (iii) Air-conditioner in a house

 [Delhi & OD Re-exam Set - I, 2018]




Ans. (i) **A car used as a taxi:** It is a capital good because it is used for producing services for generating income.

(ii) **Refrigerator in a hotel:** It is a capital good because it is used for providing services over a period of time to the production unit.

(iii) **Air-conditioner in a house:** It is a consumer good because it is used for satisfaction of a want by a household.

[CBSE Marking Scheme, 2018] $1 \times 3 = 3$

Q. 6. Which among the following are final goods and which are intermediate goods? Give reasons.

- (i) Milk purchased by a tea stall
- (ii) Bus purchased by a school
- (iii) Juice purchased by a student from the school canteen.    [Delhi & OD 2018]

Q. 7. Distinguish between stock and flow variables with suitable examples.


  [Delhi & OD Re-Exam 2018]

OR

Distinguish between stocks and flows. Give an example of each. 

[OD Set III 2017; Comptt. 2014; OD Set III 2017]

[Foreign Set I 2017]

Q. 8. Explain with the help of an example, the basis of classifying goods into final goods and intermediate goods.  [OD Set-I 2017]

Ans. Goods are classified as final goods and intermediate goods on the basis of the end use. If goods are purchased for consumption or investment, these would be classified as final goods. For example, machine purchased for use in a factory is a final good. Milk purchased by households is also final good as it is purchased for consumption.

When a good is purchased for resale or for using it up completely in production during the year, it is called intermediate good. For example, raw material purchased for producing goods.

(Any other relevant example)
[CBSE Marking Scheme, 2017] [3]

OR



Topper's Answer, 2017

21. Final goods are those goods ~~with~~ which are used for final consumption / investment by the consumer. It has crossed the production boundary.

Intermediate goods are those goods which are being used in the process of production from one production unit to another production unit, to be resold or added to capital stock at the end of the year. They have not yet crossed the production boundary.

Consider the example of purchase of milk:

If milk is purchased by a household for consumption it is a final good as it has ~~crossed~~ crossed the production boundary and is not further processed.

If milk is purchased by a sweet shop for making milk cake, it is ~~a final good~~ an intermediate good as it is being used to produce cake. It has not crossed the production boundary and is meant for ^{further processing and} resale.

Hence, this is the basis of classifying goods into final and intermediate goods.



Short Answer Type Questions-II (4 marks each)

Q. 1. Distinguish between:

- Final good and Intermediate good.
- Consumption good and Capital good.

[U] [OD Set-I, II, III Comptt. 2016]

Ans. (i) Goods purchased for consumption or investment are final goods and goods purchased for completely using up in production during the year or for resale are intermediate goods. 2

- Goods purchased for satisfaction of wants are consumer goods. Final goods that are used for producing other goods are capital good. [CBSE Marking Scheme, 2016] 2

Q. 2. Define intermediate goods and final goods. Can milk be an intermediate good? Give reasons for your answer. [AI] [OD Set-III Comptt. 2015]

Ans. Goods purchased by a production unit from other production units for resale or for using them completely during the same year are intermediate goods. Goods purchased for consumption / investment are final goods. Milk purchased by a restaurant is an intermediate good, because it is purchased for reselling.

[CBSE Marking Scheme, 2015] 4

Concept Applied

Concept of intermediate and final goods

Q. 3. What are the principles of circular flow of income and product? [R]



Long Answer Type Questions (6 marks each)

Q.1. (a) "Circular flow of income in a two-sector economy is based on the axiom that one's expenditure is other's income." Support your answer with valid reasons.

- Distinguish between 'value of output' and 'value added'. [E] [O.D. Set -III 2020]

Ans. (a) In a two sector economy households and firms exist to run the economy. Households render factor services to the firms and earn factor incomes from them. Whereas; firms produce and sell goods and services to households and earn their income by an equal magnitude. Thus, in a circular income mode, the axiom that one's expenditure is other's income holds true. (to be marked as a whole) (Diagram not mandatory)

- Value of output is the estimated money value of all the goods and services, inclusive of change in stock and production for self consumption. Whereas; Value added is the excess of value of output over the value of intermediate consumption. [2] [CBSE Marking Scheme, 2020]

OR



Topper's Answer, 2020

(b)

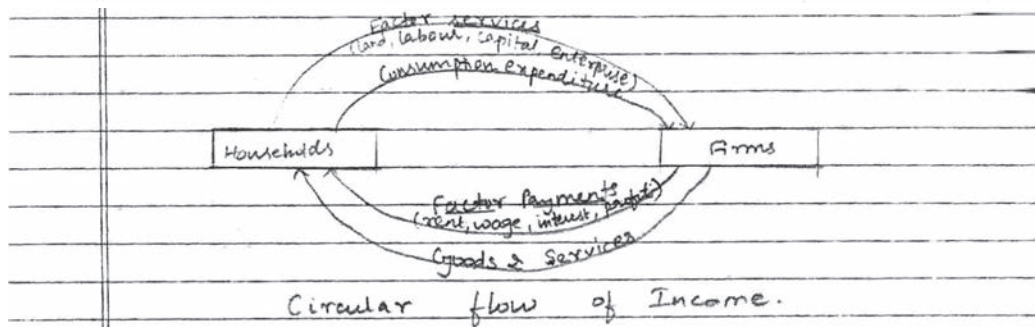
- In a two sector economy with only households and firms, circular flow of income is based on axioms that "one's expenditure is other's income".
- In a circular flow of income, the firms produce goods and services and pay the factors of production given by households for their services in the form of rent, wages, interest, profit. Thus, leading to income generation.

iii) It is assumed that neither households nor the firms save their income, profits.

iv) The households spend their entire income on consumption which comes back to the firm. Thus the household's expenditure is the income of the firms.

At the same time, firms spend on production and income is received by the households.

Circular flow of income is illustrated below.



(b)	Basis	Value of Output (VOP)	Value added.
	Meaning	Value of output refers to the final value of the goods and services produced in an economy in a period of time.	Value added refers to the addition of value to the raw material or intermediate products received in different stages of production by enterprises.
	Formula	$VOP = \text{Sales} + \text{Stock}$ (or) $VOP = \text{Price} \times \text{Quantity of goods sold}$	$\text{Value added} = VOP - \text{Intermediate Consumption.}$



Commonly Made Error

- Generally, students get confused and draw improper directions of flows..



Answering Tip

- Understand the direction of flow of income and practice the diagram.

Q. 2. Which among the following are final goods and which are intermediate goods? Give reasons.

- Apple purchased by a juice factory.
- Bus purchased by a tour and travel company.
- Potatoes purchased by a restaurant from the market.
- Cloth purchased by a household to make curtains.
- Pencil purchased by a student.

(vi) Dal purchased by a housewife to cook for lunch. [A]

Ans. (i) It is an intermediate good. This is because the apple will be used to further process it to make it into juice, which will be sold to a consumer. [1]

(ii) It is a final good. This is because the service of the bus will be provided to the customers. It will not go into further processing. [1]

(iii) It is an intermediate good. This is because the restaurant will use it to make a dish and sell it to the final consumer. [1]

(iv) This is a final good. This is because the household will not sell the curtains in the market. [1]

(v) This is a final good. This is because the student will use the pencil for personal use and not for resale. [1]

(vi) It is a final good. This is because housewife will cook the dal for personal use and not for resale. [1]

Q. 3. Define Real Flow. Explain how money flows are opposite to real flows. [U]

Topic-2

National Income Accounting

Concepts Covered • *Methods of calculating National Income and their precautions.*



Revision Notes

- **National Income:** National Income is the sum total of factor incomes earned by normal residents of a country.
 - **Measurement of National Income:** In every economy, the circular flow of production, income and expenditure remains in operation continuously due to economic activities. Production generates income which creates demand and hence, expenditure. In this way, the national income of a country may be measured by three alternative methods. These are: (a) In the form of flow of goods and services, (b) In the form of income flow, (c) In the form of expenditure flow.
- ### Amazing Facts

India's GDP in 2020 stood at 2.62 lakh crores USD.
- **Value Added Method or Production Method:** Product Method or Valued Added Method is the method which measures the national income by estimating the contribution of each producing enterprise to produce in the **domestic territory** of the country in an accounting year. For measuring national income by this method, we have to estimate the following components:
 - **Net Domestic Product at Market Price (NDP_{MP}):** Gross Valued Added by [Primary Sector + Secondary Sector + Tertiary Sector] - Depreciation
 - **Net National Product at Factor Cost (NNP_{FC}) or NI:** $NDP_{MP} - \text{Net Indirect Tax} + \underline{\text{Net Income from Abroad}}$.
 - **Value Added Method (Product Method):** Gross Value Added at Market Price (GVA_{MP}) = Sales + Change in Stock – Intermediate Consumption.
 $GDP_{MP} = GVA_{MP}$ of all sectors + Depreciation + Net Indirect Taxes
 OR
 Value of output – Intermediate consumption
 $NVA_{FC} = GVA_{MP} - \text{Depreciation} - \text{Net Indirect Taxes (NIT)}$
 - **Precautions while using Value Added Method:**
 - (i) The value of intermediate goods should not be included.
 - (ii) Purchase and sale of second hand goods should not be included.
 - (iii) Imputed or estimated value of self-consumed goods should be included but self-consumed services should not be included.
 - (iv) Own account production should be included.
 - (v) Commission earned on account of sale and purchase of second hand goods is included.
 - **Income Method:** It measures national income in term of payments made in the form of wages, rent, interest and profit to the primary factors of production, *i.e.*, labour, land, capital and enterprise respectively for their productive services in an accounting year.
 - **Net Domestic Income or Net Domestic Product at Factor Cost:** Compensation to Employees + Operating Surplus + Mixed Income from Self Employment.
 $\text{National Income} = \text{Net Domestic Income} + \text{Net Income from Abroad}$.
 - **Precautions while using Income Method:**
 - (i) Income from illegal activities like smuggling, theft, gambling, etc., should not be included.
 - (ii) Imputed rent of owner occupied structure and value of production for self-consumption is included but value of self-consumed services like those of housewife is not included.
 - (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.
 - (v) Transfer earning like old age pensions, unemployment allowances, scholarships, pocket expenses, etc. should not be included.
 - **Expenditure Method:** By this method, the total sum of expenditures on the purchase of final goods and services produced during an accounting year within an economy is estimated to obtain the value of GDP.
 - **Final Expenditure:** It is the expenditure on the purchase of final goods and services, during an accounting year. It is broadly classified into four categories:
 - (i) Private final consumption expenditure,
 - (ii) Government final consumption expenditure,
 - (iii) Investment expenditure,
 - (iv) Net exports, *i.e.*, difference between exports and imports during an accounting year.
 - **Computation of National Income (by expenditure method)** $NNP_{FC} = GDP_{MP} - \text{Depreciation} + NFIA - \text{Net Indirect Tax}$. Where, $GDP_{MP} = \text{Private Final Consumption Expenditure} + \text{Government Final Consumption Expenditure} + \text{Gross Domestic Capital Formation} + \text{Net Exports (Exports – Imports)}$. Where, $\text{Gross Domestic Capital Formation} = \text{Gross Domestic Fixed Capital Formation} + \text{Change in Stock (Closing Stock – Opening Stock)}$
 - **Precautions while using Expenditure Method:**
 - (i) Only final expenditure is to be taken into account to avoid error of **double counting**.
 - (ii) Expenditure on second hand goods is not to be included.

(iii) Expenditure on **transfer payments** by the government is not to be included.

(iv) Imputed value of expenditure on goods produced for self consumption should be taken into account.

(v) Expenditure on shares and bonds is not to be included in total expenditure.

➤ **Gross Domestic Product (GDP):** It is the total value of all the final goods and services by all the enterprises (both resident and non-resident) within the domestic territory of a country in a particular year.

➤ **Gross Domestic Product at Market Price (GDP_{MP}):** Private Final Consumption Expenditure (C) + Government Final Consumption Expenditure (G) + Investment Expenditure (I) or Gross Capital Formation + Net Exports (X - M).

Net Domestic Product at Market Price (NDP_{MP}) = GDP_{MP} - Depreciation

Net Domestic Product at Factor Cost (NDP_{FC}) = GDP_{MP} - Indirect Taxes + Subsidies

National Income = GDP_{MP} - Depreciation - Net Indirect Taxes + Net Income from Abroad

➤ **Nominal Gross Domestic Product:** When the goods and services are produced by all producing units in the domestic territory of a country during an accounting year and valued at current year's prices or current prices, it is called Nominal GDP or GDP at current prices. It is influenced by change in both physical output and price level. It is not considered a true indicator of economic development.

➤ **Real Gross Domestic Product:** When the goods and services are produced by all producing units in the domestic territory of a country during an accounting year and valued at base year's prices or constant price, it is called real GDP or GDP at constant prices. It changes only by change in physical output and not by change in price level. It is called a true indicator of economic development.

➤ **Gross National Product:** It is defined as the total value of all final goods and services produced in a country in a particular year, plus the income which is earned by its citizens who are located abroad and minus the income of non-residents located within the country.

GNP_{MP} = GDP_{MP} + Net Factor Income from Abroad

➤ **Net National Product at Factor Cost (NNP_{FC}):** It is the sum total of **factor incomes** (rent + interest + profits + wages) earned by normal residents of a country during the period of an accounting year. It is also known as the National Income.

NNP_{FC} = GNP_{FC} - Depreciation

OR

NNP_{FC} = NDP_{FC} + NFIA

➤ **Net National Product at Market Price (NNP_{MP}):** It refers to market value of final goods and services produced during the year inclusive of **Net Factor Income from Abroad** but exclusive of depreciation.

NNP_{MP} = GDP_{MP} - Depreciation + NFIA



Mnemonics

Concept 1: Value Added Method

Mnemonics: PST and Denit discussed about GDP of MP.

Interpretations:

GDP of MP: GDPMP

P: Gross Value added by **Primary Sector**

S: Gross Value added by **Secondary Sector**

T: Gross Value added by **Tertiary Sector**

De: Depreciation

nit: Net Indirect Taxes

Concept 2: Net Domestic Income or Net

Domestic Product at Factor Cost Mnemonics

CM of Orrisa dictated to NIA deptt.

Interpretations:

C: Compensation of Employees

M: Mixed Income of Self-employed

Orrisa: Operating Surplus

NIA deptt.: Net Income from Abroad

Concept 3: Gross Domestic Product at Market Price

Mnemonics: Students of GIC College decorated X-mas tree.

Interpretations:

G: Government Expenditure

I: Investment Expenditure

C: Consumption Expenditure (Private)

X-mas: Export - Imports



Key Words

Net Factor Income from Abroad (NFIA): This is the difference between the income earned from abroad for rendering factor services by the normal residents of the country to the rest of the world and the income paid for the factor services rendered by non-residents in the domestic territory of a country.

Factor Income: These are incomes received by the owners of factors of production for rendering their factor services to the producers.

Transfer Payments: These are all those unilateral payments corresponding to which there is no value addition in the economy, e.g., gifts, donations, etc.

Domestic Territory: Domestic or Economic territory is the geographical territory administered by a government within which persons, goods and capital circulate freely.

Market Price: It is the price at which a commodity is sold and purchased in the market.

Double Counting: Counting the value of the same product more than once in calculation of National Income

Example 1

Find Net Value Added at Factor Cost:

S.No	Items	(₹ in crore)
(i)	Intermediate Cost	15,000
(ii)	Output Sold (units)	9,000
(iii)	Price per unit of output	4
(iv)	Consumption of Fixed Capital	2,000
(v)	Excise Duty	4,000
(vi)	Change in stock	(-1,000)

Solution:

$$\begin{aligned}
 NVA_{FC} &= (ii \times iii) + (vi) - (i) - (v) - (iv) \\
 &= [\text{Output} \times \text{Price}] + [\text{Change in Stock}] - \\
 &\quad [\text{Intermediate Cost}] - [\text{Excise Duty}] - \\
 &\quad [\text{Consumption of Fixed Capital}] \\
 &= [₹ 9,000 \times 4] + [- ₹ 1,000] - [₹ 15,000] - \\
 &\quad [₹ 4,000] - [2,000] \\
 &= ₹ 36,000 - ₹ 1,000 - ₹ 15,000 - ₹ 4,000 \\
 &\quad - ₹ 2,000 \\
 &= ₹ 36,000 - ₹ 22,000
 \end{aligned}$$

$$NVA_{FC} = ₹ 14,000 \text{ crore}$$

**OBJECTIVE TYPE QUESTIONS****(1 marks each)****A Multiple Choice Questions**

Q. 1. If in an economy the value of Net Factor Income from Abroad is ₹ 200 crores and the value of Factor Income to Abroad is ₹ 40 crores. Identify the value of Factor Income from Abroad:

- (A) ₹ 200 crores (B) ₹ 160 crores
(C) ₹ 240 crores (D) ₹ 180 crores

A [CBSE SQP 2021]

Ans. Option (C) is correct.

Explanation: Net Factor Income from Abroad = Factor Income from Abroad – Factor Income to Abroad

$$₹ 200 = \text{Factor Income from Abroad} - ₹ 40$$

$$\text{Factor Income from Abroad} = ₹ 200 + ₹ 40$$

$$= ₹ 240 \text{ crores}$$

Q. 2. The sum of factor payments is equal to _____.

- (A) Gross Domestic Income
(B) National Income
(C) Per Capital Real Income
(D) Per Capital National Income

R [O.D. Set-I, II, III, 2020]

Ans. Option (B) is correct.

Explanation: The factor payments indicates the value added to the factor/inputs of production, as these are the payments made to factor of production. Thus, the sum of all the factor payments also constitutes National Income.

Q. 3. Which of the following statements is incorrect?

- (A) Gross Domestic Product (GDP) at Market Price = GDP at Factor Cost + Net Indirect Taxes
(B) Net National Product (NNP) at Market Price = NNP at Factor Cost.
(C) Gross National Product (GNP) at Market Price = GDP at Market Price + Net Factor Income from Abroad

(D) Net National Product (NNP) at Factor cost = National Income

U [Delhi Set-II, 2020]

Q. 4. Identify the correctly matched pair of items in Column A to those in Column B:

Column A	Column B
1. Total of factor payments	(a) Value Added Method
2. Value Added	(b) Stock Variable
3. Festival gifts	(c) Transfer payments
4. Final expenditure incurred by the government	(d) Consumption expenditure

(A) 1 – (a)

(B) 2 – (b)

(C) 3 – (c)

(D) 4 – (d)

U

Concept Applied

Components of national income

Ans. Option (C) is correct.

Explanation: When there are no goods or services exchanged for the payment of money, it is known as transfer payment.

Q. 5. Foreign embassies in India are a part of India's:

- (A) Economic territory
(B) Geographical territory
(C) Both (A) and (B)
(D) None of the above

U [Delhi Compt., Set I, II, III 2017]

Ans. Option (B) is correct.

Explanation: According to United Nation, "Economic territory is the geographical territory administered by a government within which persons, goods and capital circulate freely." Since, Foreign Embassies can't be administered by Indian Government, these are a part of India's geographical territory.

Q. 6. National Income is the sum of factor incomes accruing to:

- (A) Nationals
- (B) Economic territory
- (C) Residents
- (D) Both residents and non-residents

  [OD Set I, II, III 2016]

Q. 7. Identify the correctly matched pair of items in Column A to those in Column B:



Column A	Column B
1. Sales + Intermediate Consumption	(a) Value Added
2. Operating Surplus	(b) Interest
3. Cooking Gas (LPG)	(c) Heavily taxed
4. Free medical treatment	(d) Wages in kind

- (A) 1 – (a)
- (B) 2 – (b)
- (C) 3 – (c)
- (D) 4 – (d)

Ans. Option (D) is correct.

Explanation: Wages and salaries in kind consist of wages/salaries in the form of goods and services that are not necessary in the workplace and that can be used by employees on their own time, and on their own initiative, to meet their own needs or those of their family members.

Q. 8. Which of the following affects national income?

- (A) Goods and Services Tax
 - (B) Corporation Tax
 - (C) Subsidies
 - (D) None of the above
-   [Delhi and OD 2018]

Q. 9. Identify the correctly matched pair of items in Column A to those in Column B:

Column A	Column B
1. Income Tax	(a) Forced Transfer
2. Services of House-wives	(b) Market Activities
3. Retirement Pension	(c) Taxable for Firm
4. Annual value of goods and services produced	(d) Income method

- (A) 1 – (a)
- (B) 2 – (b)
- (C) 3 – (c)
- (D) 4 – (d)

Ans. Option (A) is correct.

Explanation: Income tax is a forced transfer as taxpayer cannot avoid it.

Q. 10. Read the following statements 1 and 2 and choose the correct alternatives:

Statement 1: Payment of interest by a government firm is included in the National Income.

Statement 2: Festival gifts to employees is not included in the National Income.

- (A) Both Statements are true.
- (B) Both Statements are false.

(C) Only Statement 1 is true.

(D) Only Statement 2 is true.



B Assertion & Reason Type Questions

Directions : In the following questions, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:

- (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (C) Assertion (A) is true, but Reason (R) is false.
- (D) Assertion (A) is false, but Reason (R) is true.

Q. 1. **Assertion (A):** The value of intermediate good should not be included.

Reason (R): This will cause the problem of double counting as the value of intermediate goods is already included in the value of final good.



Q. 2. **Assertion (A):** Income from illegal activities like smuggling, theft, gambling, etc., should not be included.

Reason (R): Including illegal activities will cause the problem of double counting.

Ans. Option (C) is correct.

Explanation: Illegal activities like smuggling, theft, gambling, etc., are not considered legal economic activities.

Q. 3. **Assertion (A):** Brokerage on the sale/purchase of shares and bonds is to be included.

Reason (R): Brokerage is a payment for productive service rendered.



Q. 4. **Assertion (A):** Leisure is not included in GNP.

Reason (R): It does not involve rendering of any factor service.

Ans. Option (A) is correct.

Q. 5. **Assertion (A):** Payment of electricity bill by a school is included in the National Income calculation.

Reason (R): Payment of electricity bill is an intermediate good.

Ans. Option (D) is correct.

Explanation: Payment of electricity bill by a school is not included in national income since it is a part of intermediate consumption.

Q. 6. **Assertion (A):** Free medical facility by the employer is included in the calculation of National Income.

Reason (R): It forms the part of compensation to employees.

Ans. Option (A) is correct.

Explanation: Free medical facilities by the employer is included in the estimation of national income because it is a kind of wages in kind and therefore, a part of compensation of employees.



SUBJECTIVE TYPE QUESTIONS



Very Short Answer Type Questions (1 mark each)

Q. 1. What is National Income?

Q. 2. Define GDP.

Ans. It is the total value of all the final goods and services produced by all the enterprises (both resident and non-resident) within the domestic territory of a country in a particular year during a year. **1**

Q. 3. Define NNP.

Ans. It is the total value of all final goods and services produced in a country in a particular year plus the income earned by citizens abroad and minus the income of non-residents within the country. **1**

Q. 4. What do you mean by Normal Residents?

Q. 5. Define Double Counting.

Q. 6. What does mixed income of self-employed include?

Ans. It includes both the profits earned in business in which you are employed as well as the stipulated wage for the labour put in by you to yourself. **1**



Short Answer Type Questions-I (3 marks each)

Q. 1. State with valid reason, whether the following statements are true or false :

(i) Gross Value Added at market price and Gross Domestic Product at market price are one and the same thing.

(ii) Intermediate goods are always durable in nature. [CBSE SQP 2021]

Q. 2. State the three components of Income from Property and Entrepreneurship.

[O.D. Set – I, II, III, 2020]

Ans. Three components of Income from Property and Entrepreneurship are:

(i) Rent / Royalty

(ii) Interest

(iii) Profit

[CBSE Marking Scheme, 2020] [1 x 3 = 3]

Detailed Answer:

The components are :

Rent : Rent is paid for the services provided by the land or other immovable assets. It covers so many different expenses such as maintenance, repairs and interest on a mortgage.

Interest : Interest is payment for the immediate use of a sum of money, i.e., paid for the services of capital.

Profit : Profit is earned for undertaking entrepreneurial activities of producing goods and services. Economic or pure profit is the excess of revenues over all explicit and implicit cost

Q. 3. Calculate Net Value Added at Factor Cost (NVA_{FC}) from the following data :

S. No.	Particulars	Amount (in ₹ crores)
(i)	Value of Output	800
(ii)	Intermediate Consumption	200
(iii)	Indirect taxes	30
(iv)	Depreciation	20
(v)	Subsidies	50
(vi)	Purchase of machinery	50

[O.D. Set – I, II, III, 2020]

Ans. $NVA_{FC} = (i) - (ii) - (iii) - (iv) + (v)$ [1½]
 $= 800 - 200 - 30 - 20 + 50$ [1]
 $= ₹ 600 \text{ crores}$ [½]

[CBSE Marking Scheme 2020]

Q. 4. Calculate Gross Value Added at Market Price :

S. No.	Particulars	Amount (in ₹ Lakhs)
(i)	Depreciation	20
(ii)	Domestic Sales	200
(iii)	Change in Stocks	(-10)
(iv)	Exports	10
(v)	Single use producer goods	120

[Delhi Set – I, 2020]

Q. 5. Calculate Net Value Added at factor cost from the following data :

S. No.	Particulars	Amount (in ₹ Lakhs)
(i)	Durable producer goods (with a life span of 10 years)	10
(ii)	Single use producer goods	5
(iii)	Sales	20
(iv)	Unsold Goods (Stock)	2
(v)	Goods & Services Tax (GST)	1

[Delhi Set – II, 2020], [Delhi Set – I 2016]

Ans. Net Value Added at factor cost = iii + iv - ii - v
 $= 20 + 2 - 5 - 1 - 1$ [1]
 $= ₹ 15 \text{ Lakhs}$ [½]

$$\text{Depreciation} = \frac{\text{Cost of Asset}}{\text{Estimated life of Asset}}$$

$$= \frac{10 \text{ lakhs}}{10 \text{ years}} = 1 \text{ lakh} \quad [½]$$

[CBSE Marking Scheme, 2020]

Q. 6. Calculate Net Domestic Product at factor cost.

S. No.	Particulars	Amount (in ₹ crores)
(i)	Interest	700
(ii)	Compensation of Employees	3,000
(iii)	Net Indirect Taxes	500
(iv)	Rent and Profit	700
(v)	Transfer Payments by Government	10

[E] [Delhi Set – III, 2020]

Ans. $NNP_{FC} = (i) + (ii) + (iv)$ [1½]
 $= 700 + 3,000 + 700$ [1]
 $= ₹ 4,400$ crores [½]
 [CBSE Marking Scheme, 2020]

Q. 7. Define the problem of double counting in the computation of national income. State any two approaches to correct the problem of double counting. [R] [Delhi Set-I,II,III, 2019]

Ans. The problem of double counting arises when the value of some goods and services are counted more than once while estimating national income. [1]

Two ways to avoid double counting are:

- (i) Deduct intermediate consumption from the value of output to arrive at value added; [1]
- (ii) Take the value of final product only; [1]

[CBSE Marking Scheme, 2020]

Q. 8. Given nominal income, how can we find real income? Explain. [U] [Delhi & OD 2018]

Ans. 8: Given nominal income other than base year, we can find real income by eliminating changes in price index. The effect of change in prices on the nominal income of current year can be eliminated in the following way:

$$\text{Real Income} = \frac{\text{Nominal Income}}{\text{Price Index}} \times 100$$

Price Index plays the role of deflator deflating current price estimates into constant price estimate. (To be marked as a whole)

[CBSE Marking Scheme, 2018] 3

Q. 9. Distinguish between domestic product and national product. [U] [Foreign Set-II 2017]

Q. 10. Explain 'mixed income of self-employed' and give an example. [U] [Foreign III 2017]

Q. 11. Giving reasons, state how the following are treated in the estimation of national income:

- (i) Payment of interest by banks to its depositors.
- (ii) Expenditure on old age pensions by government.
- (iii) Expenditure on engine oil by car service station.

[A] [OD Comptt., Set-I, II, III 2017]

Ans. (i) Payment of interest by banks to its depositors is included in national income because it is factor income paid by a production unit. [1]

(ii) Expenditure on old age pensions by government is not included because it is a transfer payment. [1]

(iii) Expenditure on engine oil by car service station is not included because it is an intermediate cost. [CBSE Marking Scheme, 2017] 1

Q. 12. Giving reasons, state how the following are treated in the estimation of national income:

(i) Payment of interest by an individual to a bank on a loan to buy a car.

(ii) Expenditure by government on providing free educational services.

(iii) Expenditure on purchasing a machine installed in a production unit.

[A] [Delhi Comptt., Set-I, II, III 2017]

Q. 13. Find Gross Value Added at Market Price:

(Items)	(₹ lakh)
(i) Depreciation	20
(ii) Domestic sales	200
(iii) Net change in stocks	(-) 10
(iv) Exports	10
(v) Single use producer goods	120

[A] [Delhi Set-III 2016]

Q. 14. Find Net Value Added at Market Price:

(Items)	(₹ lakh)
(i) Fixed capital good with a life span of 5 years	15
(ii) Raw materials	6
(iii) Sales	25
(iv) Net change in stock	(-) 2
(v) Taxes on production	1

[A] [Delhi Set-II 2016]

Ans. $NVA_{FC} = \text{Sales} + \text{Net Change in Stock} - \text{Raw Material} - \text{Depreciation}$

$$= 25 + (-2) - 6 - \left(\frac{15}{5}\right)$$

$$= 25 - 2 - 6 - 3$$

$$= ₹ 14 \text{ lakhs}$$

[CBSE Marking Scheme, 2016] 3

Concept Applied

Computation of Net Value Added



Short Answer Type

Questions-II

(4 marks each)

Q. 1. Explain the meaning of Real Gross Domestic Product and Nominal Gross Domestic Product, using a numerical example. [U] [OD Set- I, 2019]

Ans. Nominal Gross Domestic Product (GDP) is measured as the product of current year output (Q_1) of final goods and services and their current year price (P_1). Real Gross Domestic Product (GDP), on the other hand, is measured as product of current year output (Q_1) and their base year price (P_0). Real GDP will increase if the output of goods and services produced in an economy is increasing. 2

For example: Suppose current year's production in a hypothetical economy is 1,000 units at a price of ₹ 500, the GDP at current year price is $1000 \times ₹ 500 = ₹ 5,00,000$, so the nominal GDP is ₹ 5,00,000. Suppose base year price is ₹ 400, the GDP at base year price is $1000 \times ₹ 400 = ₹ 4,00,000$. So the Real GDP is ₹ 4,00,000. 2

(Any other relevant example)
[CBSE Marking Scheme, 2019]

OR



Topper's Answer, 2019

Answer-20) Real GDP refers to the GDP at constant prices. It is the value of goods and services produced during an accounting year using Base Year Prices which remain constant. Example- The flow of goods & services when $Q \times P^*$

Nominal GDP refers to the GDP at current prices. It is value of goods & services produced in an accounting year using the prevailing prices. It is not a good measure of welfare of people. Here value = $Q \times P$. Example- Value of goods when Q increases from 100 to 200 and Price changes from 50 (current year price)



Commonly Made Error

- Students tend to give the difference between Nominal GDP and Real GDP.



Answering Tip

- The explanation of the term should have proper numerical example clearly explaining the two concepts.

Q.2. How should the following be treated while calculating national income? Give reasons for your answer.

- Purchases by foreign tourists.
- Purchase of shares by a domestic firm.

[A] [OD Set-II Comptt. 2016]

Q.3. How should the following be treated in the calculation of national income? Give reasons for your answer.

- Interest on public debt.
- Bonus given to railway employees.

[E] [OD Set-III Comptt. 2016]

Ans. (i) Not included, because public debt interest is interest on loan taken by government to meet its day to day consumption expenditure, and not for investment. 2

- Included, because it is the compensation of employees.

(No Marks if the reason is not given) 2

[CBSE Marking Scheme, 2016]

Q.4. How are the following treated while calculating national income? Give reasons for your answer.

- Receipts from sale of land.
- Profits earned by the branch of an Indian bank in France.

[A] [OD Set-I Comptt. 2016]

Ans. (i) Land is a free gift of nature and cannot be produced. So, sale of it is not included. 2

- It is included as factor income from abroad. 2

(No marks if reason is not given)

[CBSE Marking Scheme, 2016]

Q.5. How should the following be treated while calculating national income? Give reasons for your answer.

- Profits earned by a branch of foreign bank in India.
- Salary received by Indian employees working in American embassy in India.

[A] [OD Set-II, Comptt., 2016]

Q.6. How should the following be treated while calculating national income? Give reasons for your answer.

- Interest received by households from banks.

(ii) Dividend received by shareholders.

[AE] [OD Set-III Comptt. 2016]

Ans. (i) Bank is a production unit so this is a factor income and hence should be included. 2

(ii) It is a part of the profits of production units which is distributed to the owners so it is included. 2

[CBSE Marking Scheme, 2016]

Q. 7. How should the following be treated in the calculation of national income? Give reasons for your answer.

- (i) Government expenditure on street lighting.
(ii) Sale of an old house.

[E] [OD Set-I Comptt. 2016]

Q. 8. Calculate Gross Value Added at Factor Cost.

(Items)	(₹ in crores)
(i) Domestic sales	3,000
(ii) Change in stock	(-) 100
(iii) Depreciation	300
(iv) Intermediate consumption	2,000
(v) Exports	500
(vi) Indirect taxes	250
(vii) Net factor income from abroad	(-) 50

[A] [OD Set-I, II Comptt. 2015]

Ans. $GVA_{FC} = (i) + (v) + (ii) - (iv) - (vi)$
 $= 3,000 + 500 + (-100) - 2,000 - 250$
 $= ₹ 1,150$ crores

[CBSE Marking Scheme, 2015] 4

Q. 9. Describe the expenditure method of calculating Gross Domestic Product at Market Price.

[U] [OD Set-I Comptt. 2015]

Ans. To calculate GDP_{MP} by the expenditure method, we add up final expenditures on the goods and services produced by all the economic sectors of an economy. Expenditures incurred on consumption and investment are final expenditures.

These are classified into:

- (i) Private final consumption expenditure.
(ii) Government final consumption expenditure.
(iii) Gross domestic capital formation.
(iv) Net exports = Exports less Imports

The sum total of these expenditures is GDP_{MP} .
 $2 + 2 = 4$

[CBSE Marking Scheme, 2015]

Q. 10. Calculate Net Value Added at Market Price.

(Items)	(₹ in crores)
(i) Intermediate consumption	1,000
(ii) Consumption of fixed capital	50
(iii) Net indirect taxes	150
(iv) Sales	2,000

(v) Exports	200
(vi) Net factor income to abroad	100
(vii) Change in stock	(-) 50

[A] [OD Set-II Comptt. 2015]

Ans. $NVA_{MP} = (iv) + (vii) - (i) - (ii)$
 $= 2,000 + (-50) - 1,000 - 50$
 $= ₹ 900$ crore

[CBSE Marking Scheme, 2015] 4

Q. 11. From the following data, calculate Net Value Added at Factor Cost.

(Items)	(₹ in crores)
(i) Sales	300
(ii) Opening stock	40
(iii) Depreciation	30
(iv) Intermediate consumption	120
(v) Exports	50
(vi) Change in stock	20
(vii) Net indirect taxes	15
(viii) Factor income to abroad	10

[A] [Delhi Set-I, II, III Comptt. 2015]

Ans. $NVA_{FC} = (i) + (vi) - (iv) - (iii) - (vii)$
 $= 300 + 20 - 120 - 30 - 15$
 $= ₹ 155$ crore

[CBSE Marking Scheme, 2015] 4



Long Answer Type

Questions-I (5 marks each)

Q. 1. (a) From the following data calculate the value of Domestic Income: 3

S. No.	Items	Amount (in ₹ Crores)
(i)	Compensation of Employees	2000
(ii)	Rent and Interest	800
(iii)	Indirect Taxes	120
(iv)	Corporate Tax	460
(v)	Consumption of Fixed Capital	100
(vi)	Subsidies	20
(vii)	Dividend	940
(viii)	Undistributed Profits	300
(ix)	Net Factor Income from Abroad	150
(x)	Mixed Income of Self Employed	200

(b) Distinguish between 'Value of Output' and 'Value Added'. 2

[A] [CBSE SQP 2021-22 Term – II]

Ans. (a) Domestic Income (NDP_{FC}) = (i) + (ii) + (iv) + (vii) + (viii) + (x) 1
 = ₹ 2000 + ₹ 800 + ₹ 460 + ₹ 940 + ₹ 300 + ₹ 200 1
 = ₹ 4,700 crore 1
 [CBSE Marking Scheme, 2022]

(b) Value of output is the estimated money value of all the goods and services, inclusive of change in stock and production for self-consumption. Whereas, value added is the excess of value of output over the value of intermediate consumption. 2

[CBSE Marking Scheme, 2022]



Commonly Made Error

- Students miss out some of the things that needs to be included in the calculation of Domestic Income.



Answering Tip

- Students should carefully note down the things to be included and excluded while calculating Domestic Income.

Q. 2. (a) Given the following data, find Net Value Added at Factor Cost by Sambhav (a farmer) producing Wheat: 3

Items	(in ₹ Crores)
(i) Sale of wheat by the farmer in the local market	6,800

Ans.

Nations/Years	2018-19 ₹	2019-20 ₹	Growth Rate of GDP = $\frac{\text{Change in GDP}}{\text{Base Year GDP}} \times 100$ (Base year = 2018 - 19)
X	2,000 crores	4,000 crores	$= \frac{2,000}{2,000} \times 100 = 100\%$
Y	1,20,000 crores	2,00,000 crores	$= \frac{80,000}{1,20,000} \times 100 = 66.67\%$

[4]

Nation X has registered a GDP growth rate of 100% and has performed better on the front of GDP rise as compared to Nation Y that has registered a GDP growth of 66.67%. [2] [CBSE SQP Marking Scheme, 2021]

Q. 2. Define the following:

- (i) Value Addition
- (ii) Gross Domestic Product

(ii) Purchase of Tractor	5,000
(iii) Procurement of wheat by the Government from the farmer	200
(iv) Consumption of wheat by the farming family during the Year	50
(v) Expenditure on the maintenance of existing capital stock	100
(vi) Subsidy	20

(b) State any two components of 'Net Factor Income from Abroad'. 2

[CBSE SQP 2021-22 Term – II]

Ans. (a) Net Value Added at Factor Cost (NVA_{FC}) = (i) + (iii) + (iv) + (vi) – (v) 1
 = ₹ 6800 + ₹ 200 + ₹ 50 + ₹ 20 – ₹ 100 1
 = ₹ 6,970 crore 1

(b) Component of net factor income from abroad are:

- (i) Net compensation of employees
- (ii) Net income from property and entrepreneurship
- (iii) Net retained earnings of resident companies abroad 2 (Any two)

[CBSE Marking Scheme, 2022]



Long Answer Type Questions-II (6 marks each)

Q. 1. Suppose the Gross Domestic Product (GDP) of Nation X was ₹ 2,000 crores in 2018-19, whereas the Gross Domestic Product of Nation Y in the same year was ₹ 120,000 crores. If the Gross Domestic Product of Nation X rises to ₹ 4,000 crores in 2019-20 and the Gross Domestic Product of Nation Y rises to ₹ 200,000 crores in 2019-20, compare the rate of change of GDP of Nations X and Y, taking 2018-19 as base year. [A] [CBSE SQP 2021]

(iii) Flow Variables

(iv) Income from property and entrepreneurship

[R] [OD Set- I, II, III, 2019]

- Ans. (i) Value Addition:** It is the excess of value of output over the value of intermediate consumption.
- (ii) Gross Domestic Product:** It is the money value of all final goods and services produced in an economy during an accounting year.
- (iii) Flow Variables:** Flow Variables are those economic variables which can be measured over a period of time, e.g., national income, money creation, etc.
- (iv) Income from Property and Entrepreneurship:** These are incomes earned by property owners. It includes, rent and royalty, profit, interest. It can also be termed as Operating Surplus. (any other valid definition)
- [CBSE Marking Scheme, 2019] [$1\frac{1}{2} \times 4 = 6$]



Commonly Made Error

- Students tend to explain the examples of the terms.



Answering Tips

- A precise and simple definition is enough. If need be a student can give short examples.

- Q. 3. Given the following data, find the missing value of 'Private Final Consumption Expenditure' and 'Operating Surplus'.** [A] [Delhi Set-II, 2019]

S. No.	Particulars	Amount (in ₹ crores)
(i)	National Income	50,000
(ii)	Net Indirect Taxes	1,000
(iii)	Private Final Consumption Expenditure	?
(iv)	Gross Domestic Capital Formation	17,000
(v)	Profits	1,000
(vi)	Government Final Consumption Expenditure	12,500
(vii)	Wages & Salaries	20,000
(viii)	Consumption of Fixed Capital	700
(ix)	Mixed Income of Self Employed	13,000
(x)	Operating Surplus	?
(xi)	Net Factor Income from Abroad	500
(xii)	Net Exports	2,000

$$\begin{aligned} \text{Ans. Operating Surplus} &= (i) - [(vii) + (ix) + (xi)] & 1\frac{1}{2} \\ &= 50,000 - (20,000 + 13,000 + 500) & 1 \\ &= ₹16,500 \text{ crore} & \frac{1}{2} \end{aligned}$$

$$\begin{aligned} \text{Private Final Consumption Expenditure} &= (i) - [(iv) + (vi) + (xi) + (xii)] + (vii) + (ii) & 1\frac{1}{2} \\ &= 50,000 - (17,000 + 12,500 + 2,000 + 500) + 700 & 1 \\ &+ 1,000 & 1 \\ &= ₹ 19,700 \text{ crore} & \frac{1}{2} \end{aligned}$$

[CBSE Marking Scheme, 2019]

- Q.4. Given the following data, find the missing value of 'Wages and Salaries' and 'Gross Domestic Capital Formation'.** [A] [Delhi Set III, 2019]

S. No	Particulars	Amount (in ₹ crores)
(i)	Mixed Income of Self Employed	3,500
(ii)	Net Indirect Taxes	300
(iii)	Wages & Salaries	?
(iv)	Government Final Consumption Expenditure	14,000
(v)	Net Exports	3,000
(vi)	Consumption of Fixed Capital	300
(vii)	Net Factor Income from Abroad	700
(viii)	Operating Surplus	12,000
(ix)	National Income	30,000
(x)	Profit	500
(xi)	Gross Domestic Capital Formation	?
(xii)	Private Final Consumption Expenditure	11,000

$$\begin{aligned} \text{Ans. Wages and Salaries} &= ix - [(i) + (viii) + (vii)] & 1\frac{1}{2} \\ &= 30,000 - (3,500 + 12,000 + 700) & 1 \\ &= ₹13,800 \text{ crore} & \frac{1}{2} \end{aligned}$$

$$\begin{aligned} \text{Gross Domestic Capital Formation} &= (ix) - [(iv) + (v) + (vii) + (xii)] + (ii) + (vi) & 1\frac{1}{2} \\ &= 30,000 - (14,000 + 3,000 + 700 + 11,000) + & 1 \\ &300 + 300 & 1 \\ &= ₹1,900 \text{ crore} & \frac{1}{2} \end{aligned}$$

[CBSE Marking Scheme, 2019]

- Q. 5. Given the following data, find the values of "Gross Domestic Capital Formation" and "Operating Surplus".** [A] [OD Set I, 2019]

S. No	Particulars	Amount (in ₹ crores)
(i)	National Income	22,100
(ii)	Wages and Salaries	12,000
(iii)	Private Final Consumption Expenditure	7,200
(iv)	Net Indirect Taxes	700
(v)	Gross Domestic Capital Formation	?

(vi)	Depreciation	500
(vii)	Government Final Consumption Expenditure	6,100
(viii)	Mixed Income of Self-Employed	4,800
(ix)	Operating Surplus	?
(x)	Net Exports	3,400
(xi)	Rent	1,200
(xii)	Net Factor Income from Abroad	(-) 150

Ans.



Topper's Answer, 2019

Answer - 24)

To find: GDCF = ? , Operating Surplus = ?

→ It is given that NI = 22,100 cr.

We know that by Expenditure Method,

$$GDP_{MP} = PFCE + GFCE + GDCF + (X-M)$$

So we will convert NI into GDPMP and then find GDCF.

$$NNP_{FC} = 22,100 \text{ cr.}$$

$$\begin{aligned} NNP_{MP} &= NNP_{FC} + NIT \\ &= 22,100 + 700 = 22,800 \text{ cr.} \end{aligned}$$

Now, $GNP_{MP} = NNP_{MP} + \text{Depreciation}$

$$\begin{aligned} \text{So, } GNP_{MP} &= 22,800 + 500 \\ &= 23,300 \text{ cr.} \end{aligned}$$

Now, for GDPMP, we will subtract the NFI from Abroad. Since it is Income * from * Abroad, it will

$$\text{be } \rightarrow GNP_{MP} = GDP_{MP} + NFA \text{ (Net Factor Income from Abroad)}$$

$$\begin{aligned} GDP_{MP} &= 23,300 - (-150) \quad [\because NFA = (-)150] \\ &= 23,300 + 150 = 23,450 \text{ cr.} \end{aligned}$$

$$\text{Now, } GDP_{MP} = 23,450.$$

$$\begin{aligned} \text{So, } 23,450 &= 7,200 + 6,100 + GDCF + 3,400 \\ GDCF &= 6,750 \text{ cr.} \end{aligned}$$

OS = ?

By Income Method, $NDP_{FC} = CDE + OS + MI$

$$NNP_{FC} = NDP_{FC} + NFA$$

$$\text{or } NDP_{FC} = 22,100 - (-150) = 22,250 \text{ cr.}$$

$$22,250 \text{ cr.} = \text{Wages \& Salaries} + OS + MI$$

$$22,250 = 12,000 + OS + 4,800$$

$$OS = ₹ 5,450 \text{ cr.}$$

Q. 6. Given the following data, find the missing value of 'Government Final Consumption Expenditure' and 'Mixed Income of Self Employed'.

 **A** [Delhi Set-I, 2019]

S. No	Particulars	Amount (in ₹ crores)
(i)	National Income	71,000
(ii)	Gross Domestic Capital Formation	10,000
(iii)	Government Final Consumption Expenditure	?
(iv)	Mixed Income of Self-employed	?
(v)	Net Factor Income from Abroad	1,000
(vi)	Net Indirect Taxes	2,000
(vii)	Profits	1,200
(viii)	Wages and Salaries	15,000
(ix)	Net Exports	5,000
(x)	Private Final Consumption Expenditure	40,000
(xi)	Consumption of Fixed Capital	3,000
(xii)	Operating Surplus	30,000

**Q. 7. (i) Define Real Gross Domestic Product.
(ii) Calculate Gross National Product at market price by (a) expenditure method and (b) income method.**

(in ₹ crores)

(i) Compensation of employees	100
(ii) Private final consumption expenditure	200
(iii) Rent	20
(iv) Government final consumption expenditure	50
(v) Profits	10
(vi) Interest	10
(vii) Gross domestic capital formation	60
(viii) Net imports	10
(ix) Consumption of fixed capital	20
(x) Net Indirect Taxes	30
(xi) Net factor income from abroad	(-)20
(xii) Change in stocks	10
(xiii) Mixed income	110

 **A** [Delhi Comptt. Set-I, II, III, 2018]

Q. 8. Calculate (a) Net National Product at market price, and (b) Gross Domestic Product at factor cost:

(₹ in crores)

(i) Rent and interest	6,000
(ii) Wages and salaries	1,800
(iii) Undistributed profit	400
(iv) Net indirect taxes	100
(v) Subsidies	20
(vi) Corporation tax	120
(vii) Net factor income to abroad	70
(viii) Dividends	80
(ix) Consumption of fixed capital	50
(x) Social security contribution by employers	200
(xi) Mixed income	1,000

A [Delhi & OD 2018]

Ans. (a) $NNP_{MP} = [(ii) + (x)] + (i) + [(iii) + (vi) + (viii)] + (xi) + (iv) - (iv)$
 $= (1,800 + 200) + 6,000 + (400 + 120 + 80) + 1,000 + 100 - 70$
 $= ₹ 9,630 \text{ crore}$

(b) $GDP_{FC} = (ii + x) + i + (iii + vi + viii) + xi + ix$
 $= (1,800 + 200) + 6,000 + (400 + 120 + 80) + 1,000 + 50$
 $= ₹ 9,650 \text{ crore}$

OR

$GDP_{FC} = NNP_{MP} + vii - iv + ix$
 $= 9,630 + 70 - 100 + 50$
 $= ₹ 9,650 \text{ crore}$ [CBSE Marking Scheme, 2018]

Q. 9. Calculate (a) Operating Surplus and (b) Domestic Income.

(Items)	(₹ in crores)
(i) Compensation of Employees	2,000
(ii) Rent and Interest	800
(iii) Indirect taxes	120
(iv) Corporation tax	460
(v) Consumption of Fixed Capital	100
(vi) Subsidies	20
(vii) Dividend	940
(viii) Undistributed profits	300
(ix) Net Factor Income to Abroad	150
(x) Mixed Income	200

 **A** [Delhi & OD Re-exam 2018]

Q. 10. Calculate (i) Gross domestic product at market price, and (ii) National income:

S. No	Items	Amount (in ₹ crores)
(i)	Government final consumption expenditure	4,000
(ii)	Private final consumption expenditure	3,500
(iii)	Gross Domestic Capital Formation	1,100
(iv)	Net Exports	500
(v)	Net Factor Income from Abroad	100
(vi)	Net Indirect Taxes	300
(vii)	Subsidies	40
(viii)	Change in Stock	80
(ix)	Consumption of Fixed Capital	120

A [OD Set-I, Re-Exam, 2018]

Ans. (i) Gross Domestic Product at Market Price
 $= (i) + (ii) + (iii) + (iv)$
 $GDP_{MP} = 4,000 + 3,500 + 1,100 + 500$
 $GDP_{MP} = ₹ 9,100 \text{ crore}$

(ii) National Income (NNP_{FC}) = $GDP_{MP} - (ix) + (v) - (vi)$
 $NNP_{FC} = 9,100 - 120 + 100 - 300$
 $NNP_{FC} = ₹ 8,780 \text{ crore}$



Commonly Made Error

- Generally, students miss out the components which are to be added or subtracted to calculate National Income.



Answering Tip

- The equations for all three methods must be made clear for solving questions of National Income

OR



Topper's Answer, 2018

Answer-24

a) Gross domestic product at market price :

$$GDP_{MP} = \text{Government final consumption expenditure} + \text{Private final consumption expenditure} + \text{Gross domestic capital formation} + \text{Net exports}$$

$$GDP_{MP} = 4000 + 3500 + 1100 + 500$$

$$GDP_{MP} = ₹ 9100 \text{ crores.}$$

b) National income or NNP_{PC} :

$$NNP_{PC} = GDP_{MP} - \text{consumption of fixed capital} + \text{net factor income from abroad} - \text{net indirect taxes}$$

$$NNP_{PC} = 9100 - 120 + 100 - 300$$

$$NNP_{PC} = ₹ 8780 \text{ crores.}$$

Q.11. Explain the precautions that are to be taken while estimating national income by value added method. [U] [OD Set-II 2017]

OR

What precautions should be taken while estimating national income by value added method? Explain. [U] [Foreign Set-III 2017]

- Ans. (i) Value of only final goods should be included and not the value of intermediate goods as it would result in double counting.
- (ii) Value of production for self consumption should be included as it is also a part of production.
- (iii) Sale/Purchase of second hand goods should not be included as their value had been included when these were produced.

(or any other relevant precaution)
[CBSE Marking Scheme, 2017] 2×3

Detailed Answer:

- (i) Intermediate Goods are not to be included in the national income since such goods are already included in the value of final goods. If they are included again, it will lead to double counting.
- (ii) Sale and purchase of second-hand goods is not included as they were included in the year in

which they were produced and do not add to current flow of goods and services. However, any commission or brokerage on sale or purchase of such goods will be included in the national income as it is a productive service.

- (iii) Production of services for self-consumption or domestic services are not included. Domestic services like services of a housewife, kitchen gardening, etc. are not included in the national income since it is difficult to measure their market value. These services are produced and consumed at home and never enter the market place and are termed as non-market transactions.
- (iv) Production of goods for self-consumption will be included in the national income as they contribute to the current output. Their value is to be estimated or imputed as they are not sold in the market.
- (v) Imputed value of owner-occupied houses should be included. People who live in their own houses, do not pay any rent. But, they enjoy housing services similar to those people who stay in rented houses. Therefore, value of such housing services is estimated according to market rent of similar accommodation. Such an estimated rent is known as imputed rent.
- (vi) Change in stock of goods will be included. Net increase in the stock of inventories will be included in the national income as it is a part of capital formation.

Q.12. What precautions should be taken while estimating national income by income method? Explain. [R] [Foreign Set-II 2017]

- Ans. (i) Transfer income should not be included because no good or service is provided in return.
- (ii) Gain by selling old goods should not be included because it is not a gain from fresh production activity.
- (iii) Receipts from sale of financial assets should not be included, because it is not from sale of any good or service.

[CBSE Marking Scheme, 2017] $2 \times 3 = 6$

Detailed Answer:

- (i) Transfer incomes like scholarships, donations, charity, old age pensions, etc. are not included in the National Income because such receipts are not connected with any productive activity and there is no value addition.
- (ii) Income from sale of second-hand goods will not be included in national income as their original sale has already been counted. If they are included again, it would lead to double counting. However, any brokerage or commission received by brokers or commission agents on sale of such goods will be included as it is an income received for rendering productive service.

- (iii) Income from sale of shares, bonds and debentures will not be included as such transactions do not contribute to current flow of goods and services. These financial assets are mere paper claims and involve a change of title only. However, any commission or brokerage on such financial assets is included as it is a productive service.
- (iv) Windfall gains like income from lotteries, horse race, etc. are not included as there is no productive activity connected with them.
- (v) Imputed value of services provided by owners of production units will be included. Imputed value of owner-occupied houses, interest on own capital, production for self-consumption, etc. will be included as these are productive activities and add to the flow of goods and services.
- (vi) Payments out of past savings like death duties, gift tax, wealth tax, etc. are not included in national income because they are paid out of wealth or past savings and do not add to current flow of goods and services.

Indirect taxes are not included in national income at factor cost. However, they are included in national income at market price.

Q. 13. Explain the precautions that should be taken while estimating national income by expenditure method. [U] [OD Set I, III 2017]

OR

What precautions should be taken while estimating national income by expenditure method? Explain. [U] [Foreign Set-I 2017]

Ans. Precautions to be taken while estimating N.I. by expenditure method:

- (i) Expenditure on intermediate goods should not be included otherwise it will result in double counting.
- (ii) Transfer payments such as gifts, old age pension, etc., should not be included. These payments are not made for factor services.
- (iii) Expenditure on financial assets like shares, etc. should not be included. This does not result in any production. It is only transfer of money.

(or any other)

[CBSE Marking Scheme, 2017] $2 \times 3 = 6$

Detailed Answer:

- (i) Expenditure on intermediate goods will not be included in the national income as it is already included in the value of final expenditure. If it is included again, it will lead to double counting of expenditures.
- (ii) Transfer payments are not included as such payments are not connected with any productive activity and there is no value addition.
- (iii) Purchase of second-hand goods will not be included as such expenditure has already been included when they were originally purchased. Such goods do not affect the current flow of

goods and services. However, any commission or brokerage on such goods is included as it is a payment made for productive services.

- (iv) Purchase of financial assets (shares, debentures, bonds, etc.) will not be included as such transactions do not contribute to current flow of goods and services. These financial assets are mere paper claims and involve a change of title only. However, any commission or brokerage on such financial assets is included as it is a productive service.
- (v) Expenditure on own account production (like production for self-consumption, imputed value of owner occupied houses, free services from general government and private non-profit making institutions serving households) will be included in the national income since these are productive services.

Q. 14. Will the following be included in the domestic product of India ? Give reasons for your answer.

- (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. [A] [OD Set-I, III 2017]

Q. 15. How will you treat the following while estimating domestic product of a country ? Give reasons for your answer:

- (i) Profits earned by branches of country's bank in other countries.
- (ii) Gifts given by an employer to his employees on independence day.
- (iii) Purchase of goods by foreign tourists.

[A] [Delhi Set-I, II, III 2017]

- Ans.**
- (i) Not a part of domestic product as it is not generated in the domestic territory of the country.
 - (ii) Not a part of domestic product as it is a transfer payment.
 - (iii) Part of domestic product as these are exports produced in the domestic territory.

[CBSE Marking Scheme, 2017] $2+2+2=6$

Q. 16. Will the following be included in the national income of India ? Give reasons for your answer.

- (i) Financial assistance to flood victims.
- (ii) Profits earned by the branches of a foreign bank in India.
- (iii) Salaries of Indians working in the American Embassy in India. [E] [OD Set II 2017]

Ans. (i) No. Financial assistance to flood victims are not included as it is a transfer payment.

- (ii) No. It is a factor income to abroad.
- (iii) Yes. Included as it is a factor income from abroad so it is added to NDP to get NI.

[CBSE Marking Scheme, 2017] $2 \times 3 = 6$

Q. 17. Giving reason, explain how should the following be treated in estimating gross domestic product at Market Price.

(i) Fees to a mechanic paid by a firm.

(ii) Interest paid by an individual on a car loan taken from a bank.

(iii) Expenditure on purchasing a car for use by a firm.  [Delhi Set-I 2016]

Topic-3

GDP and Welfare

Concepts Covered • Why GDP is not an appropriate indicator of Welfare



Revision Notes

- **GDP and Welfare:** In general, Real GDP and Welfare are directly related with each other. A higher GDP implies more production of goods and services. It means more availability of goods and services. But more goods and services may not necessarily indicate that the people were better off during the year. In other words, a higher GDP may not necessarily mean higher welfare of the people.
- **Welfare** means material well being of the people. It depends on many economic factors like national income, consumption level, quantity of goods, etc., and non-economic factors like environmental pollution, law and order, etc. The welfare which depends on economic factors is called economic welfare and the welfare which depends on non-economic factor is called non-economic welfare. The sum total of economic and non-economic welfare is called social welfare.



Amazing Facts

Negative Externalities can be profitable for a company for the short run growth.

- **GDP is not an appropriate indicator for Welfare:** GDP may be a good indicator of economic growth but not of economic welfare or economic development because of:
 - (a) **Externalities:** Externalities refer to benefits or harms of an activity caused by a firm or

an individual, for which they are not paid or penalized. For example, environmental pollution caused by industrial plants is a **negative externality** and building a flyover is a **positive externality**.

- (b) **Composition of GDP:** GDP does not exhibit the structure of the product. If the increase in GDP is mainly due to increased production of war equipment and ammunitions, then such an increase cannot improve welfare in economy.
- (c) **Distribution of GDP:** When GDP is unevenly distributed, increase in GDP does not increase welfare.
- (d) **Non-monetary exchanges:** Many activities in an economy are not evaluated in monetary terms, they are not included in GDP, due to non availability of data. However, such activities influence the economic welfare of people of the economy.



Key Words

Negative Externalities: The activity done by the firm or an individual which causes harm.

Positive Externalities: The activity done by the firm or an individual which benefits.




OBJECTIVE TYPE QUESTIONS

(1 marks each)

A Multiple Choice Questions

Q. 1. With a rise in real national income, welfare of the people:

- (A) rises (B) falls
(C) remains unchanged (D) none of the above 


Ans. Option (A) is correct.

Explanation: With a rise in real national income, welfare of the people rises as people have more money to spend on the needs and wants.

Q. 2. GDP is not an appropriate indicator of welfare because of:

- (A) externalities.
(B) composition of GDP and distribution of GDP.
(C) non-monetary transactions.
(D) all of the above 

Q. 3. Pollution created by factories/vehicles is an example of:


- (A) positive externalities.
(B) negative externalities.
(C) either (A) or (B).
(D) neither (A) of (B). 

Ans. Option (B) is correct.

Explanation: Cost suffered by unrelated third party due to result of an economic transaction is known as negative externalities. Pollution created by factories/vehicles has negative effect on the society.


Q. 4. Identify the correctly matched items in Column A to that of Column B:

Column A	Column B
1. Welfare of the people	(a) Social Welfare
2. Total of economic and non-economic welfare	(b) Economic Welfare
3. Benefits or harms of an activity caused by a firm	(c) Externalities
4. Material well-being of the people	(d) Real GDP

- (A) 1 – (a) (B) 2 – (b)
(C) 3 – (c) (D) 4 – (d) 

Q. 5. Identify the correctly matched items in Column A to that of Column B:


Column A	Column B
1. GDP of a country	(a) Absolute measure of welfare
2. Under estimation of GDP	(b) Non-monetary exchanges excluded
3. Base year	(c) Year of current market prices
4. Economic Welfare	(d) Mental satisfaction and peace

- (A) 1 – (a) (B) 2 – (b)
(C) 3 – (c) (D) 4 – (d) 

Ans. Option (B) is correct.


Explanation: Non-monetary exchanges refers to goods and services that are produced but not exchanged for cash. The value of these exchanges is often difficult to estimate and therefore excluded from the national income estimates.

Q. 6. Real GDP is considered as an index of:

- (A) price level in the economy.
(B) welfare of the people.
(C) profit maximization.
(D) none of the above. 

Ans. Option (B) is correct.

Explanation: Real GDP is considered as an index of welfare of the people because real GDP measures the goods and services without calculating the impact of price level in the economy.


Concept Applied 

Concept of real GDP

Q. 7. Identify the correctly matched items in Column A to that of Column B:

Column A	Column B
1. Social Welfare	(a) Total of economic and non-economic welfare


2. Comparison of GDP of different countries	(b) GDP is evaluated at current market prices
3. Economic welfare	(c) Situation of unemployment
4. GDP deflator	(d) Includes prices of imported goods

- (A) 1 – (a) (B) 2 – (b)
(C) 3 – (c) (D) 4 – (d) 

Ans. Option (A) is correct.

Explanation: Social welfare is an aggregate of the utilities or satisfaction of all the individuals in the society.

Q. 8. Smoke emitted by a chemical factory and causing air pollution is an example of:


- (A) Positive externalities
(B) Negative externalities
(C) Either (A) or (B)
(D) Neither (A) nor (B) 

B Assertion & Reason

Directions: In the following questions, a statement of Assertion (A) is followed by a statement of Reason (R). Mark the correct choice as:

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
(b) Both Assertion (A) and Reason (R) are true but Reason (R) is not the correct explanation of Assertion (A).
(c) Assertion (A) is true but Reason (R) is false.
(d) Assertion (A) is false but Reason (R) is true.


Q. 1. Assertion (A): Profits of chemical industries increased 150%; fishermen income reduced by 70% due to untreated chemical pollutants in water bodies. This is a negative externality.

Reason (R): The profits of chemical industries is causing pollution which is harming the water and in turn leading the fishermen to catch less fish as the biodiversity of the water body is disturbed. 


Ans. Option (A) is correct.

Explanation: Profits of chemical industries is causing pollution because it is causing water bodies to get polluted and hence is an example of negative externality.

Q. 2. Assertion (A): GDP does not exhibit the structure of the product.

Reason (R): If the increase in GDP is mainly due to increased production of war equipment and ammunitions, then such an increase cannot improve welfare in economy. 


Q. 3. Assertion (A): GDP is the correct measure of improvement of welfare of the people.

Reason (R): Many activities in an economy are not evaluated in monetary terms, they are not included in GDP due to non-availability of data. 

Ans. Option (D) is correct.

Explanation: There are certain limitations of GDP as an index of welfare:

- a. GDP does not take into account changes in inequalities in the distribution of income.
 b. GDP does not include non-monetary exchanges.
 c. GDP does not consider the changes in the population of a country.


- d. GDP does not account for valuation of externalities.
Q. 4. Assertion (A): With every increase in the level of GDP, social welfare definitely increases in the economy.
Reason (R): GDP is not a true indicator of welfare of the economy. 



SUBJECTIVE TYPE QUESTIONS



Very Short Answer Type Questions (1 mark each)

- Q. 1. Define Externality.  [SQP 2017]
 Q. 2. Give one example of externality, which reduces welfare of the people.
 [A] [Delhi Set-I, II, III 2018]

Ans. Any one example like smoke out of chimneys of factories, release of contaminated water into river, traffic, jams or any other
 [CBSE Marking Scheme, 2018] 1

Q. 3. What do you mean by Welfare? 

Q. 4. What are non-monetary exchanges? 

Ans. Those activities in an economy which cannot be evaluated in terms of money are known as non-monetary exchanges.




Short Answer Type Questions-I (3 marks each)


Q. 1. Management of a water polluting oil refinery says that it (oil refinery) ensures welfare through its

contribution to Gross Domestic Product (GDP).
 Defend or refute the argument of management with respect to GDP as a welfare measure of the economy.

 [A] [C] [O.D. Set - II 2020]

Q. 2. "Gross Domestic Product (GDP) does not give us a clear indication of economic welfare of a country." Defend or refute the given statement with valid reason.  [Delhi Set - I, II, III 2019]

OR

"Gross Domestic Product (GDP) is not the best indicator of the economic welfare of a country." Defend or refute the given statement with valid reasons.  [OD Set - III, 2020]

Ans. Yes, given statement is defended as GDP may not take into account:

- (i) Non-monetary exchanges like services of housewife. 1
 (ii) Externalities i.e. benefits and harms which are caused due to economic activities. 1
 (iii) Distribution of income. 1

[CBSE Marking Scheme, 2020]

OR



Topper's Answer, 2020

- ii) The statement is defended because of the following reasons:
- i) Change in prices:
 If the increase in the GDP is because of rise in prices but not because of increase in the output, then GDP is not a reliable index of economic welfare.
- ii) Non-monetary exchanges:
 GDP does not take into account various exchanges in the economy which are ^{not} measured in monetary terms ex: services of housewife, kitchen gardening. The reason is that, these are non-market transactions and ^{due to} non-availability of reliable data. Yet, these activities also influence economic welfare.

iii) Externalities :

Externalities refer to the benefit/harm caused by an individual or an enterprise for which they are not paid or penalised.

There are two externalities:

Positive externalities : ex: Use of public parks by people for which they do not pay anything, enhances their health.

Negative externalities : ex: Industries create pollution harming the environment.

GDP does not take into account these externalities which also influences economic welfare.



Short Answer Type Questions-II (4 marks each)

Q. 1. "Higher Gross Domestic Product (GDP) means greater per capita availability of goods in the economy." Do you agree with the given statement? Give valid reason in support of your answer.

[A] [OD Set – I, II, III, 2019]

Ans. "Higher Gross Domestic Product (GDP) means greater per capita availability of goods in the economy." This statement is not true.

- If the rate of population growth is more than the rate of growth of GDP, the per capita availability of goods and services will fall. 2
- GDP doesn't account for changes in inequalities in distribution of income. If the rising GDP is concentrated in a few hands, per capita availability of goods in the economy might not increase. 2

(Any two other relevant reasons)
[CBSE Marking Scheme, 2019]



Commonly Made Error

- Students generally mark the statement as true.



Answering Tip

- The reasons should be relevant making the statement false. Student needs to mention at least two reasons.

Q. 2. Explain 'non-monetary exchanges' as a limitation of using gross domestic product as an index of welfare of a country.

[A] [U] [Delhi Set-I, II, III 2017;

Delhi Comptt. Set-I, II, III 2018]

Ans. **Non Monetary Exchanges:** These are those activities in an economy which cannot be evaluated in terms of money due to non-availability of data, e.g. domestic services provided by family members at home, barter exchanges, etc.

Although these activities contribute to welfare, they are a major cause of understating of GDP in the economy. Therefore, GDP may not give the true picture of welfare of a country.

(To be marked as a whole)

[CBSE Marking Scheme, 2018] 4



Commonly Made Error

- Students do not give the examples of non-monetary exchanges.



Answering Tip

- Make sure to give examples, as it provides extra weightage to the answer.

Q. 3. Suppose a ban is imposed on consumption of tobacco. Examine its likely effects on:

- Gross domestic product; and
- Welfare.

[A] [A] [Delhi Comptt., Set-I, II, III 2017]

Q. 4. How does increase in inequalities in distribution of income affect welfare of the society? Explain.

[U] [Delhi Comptt., Set-I, II, III 2017]

Q. 5. How does negative externalities affect the welfare of the people? Explain by giving an example.

[A] [OD Comptt., Set-I, II, III 2017]

Ans. Pollution by factories, vehicles, etc. is an example of negative externalities, i.e., harm caused by a firm or a person to others for which they are not paid for. Gross domestic product does not take into account such harms caused. 4

[CBSE Marking Scheme, 2017]

Q. 6. What is real GDP ? State three limitations of GDP as an index of economic welfare.

[R] [Delhi Set-I, II, III Comptt. 2016]

Ans. When GDP represents quantities of final goods and services produced or when GDP is measured on the basis of constant prices, it is called real GDP. 1

Limitations:

- (i) It does not reflect distribution of income among people.
- (ii) It does not take into account non-monetary exchanges.
- (iii) It does not take into account externalities.

1 × 3 = 3

(Or any other)

[CBSE Marking Scheme, 2016]

Q. 7. Government raises its expenditure on producing public goods. Which economic value does it reflect? Explain. [A] [Delhi Set-I 2016]

Ans. If government raises its expenditure on producing public goods, it reflects that government is serving the objective of social welfare. Public goods are those goods which satisfy collective consumption needs, i.e., health, education, fresh air, civic amenities, etc. When government raises its expenditure on public goods, residents of a country are benefited by being provided with these basic amenities. Healthy and educated people are more efficient which can lead to increase in GDP in future too.

Thus, it will improve the overall quality of life of the people in the country. 4

Concept Applied

Government Expenditures and Public Welfare

S. No	Particulars	Amount (in ₹ crores)
(i)	Capital Value of the Assets	2,500
(ii)	Estimated life of the Assets	25 years
(iii)	Scrap Value	500

[E]

Ans. (i) Yes, real GDP is a better indicator of economic growth than Nominal GDP as Real GDP is free from the influence of inflation or deflation in the economy during the time period. 1

Numerical Example:

1

Goods	Price of Current Year (P ₁) (in ₹)	Price of Base Year (P ₀) (in ₹)	Quantity of Current Year (Q ₁) (in units)	Nominal GDP (P ₁ Q ₁)	Real GDP (P ₀ Q ₁)
A	35	20	150	5,250	3,000
B	15	10	250	3,750	2,500
C	55	40	100	5,500	4,000
				ΣP ₁ Q ₁ = 14,500	ΣP ₀ Q ₁ = 9,500

Q. 8. Government spends on child immunization programme. Analyse its impact on Gross Domestic Product and Welfare of the people.

[A] [Foreign Set-I 2016]

Q. 9. Government incurs expenditure to popularize yoga among the masses. Analyse its impact on Gross Domestic Product and Welfare of the people.

[E] [Delhi Set-I, II, III 2016]

Ans. Government expenditure on popularizing yoga raises Gross Domestic Product because it is government's final consumption expenditure. It also raises welfare of the people because yogic exercises improve health and thus, raises efficiency of the people.

[CBSE Marking Scheme, 2016] 4

Q. 10. Sale of petrol and diesel cars is rising particularly in big cities. Analyse its impact on Gross Domestic Product and Welfare. [E] [OD Set-I, III, 2016]



Long Answer Type

Questions-II

(6 marks each)

Q. 1.(i) 'Domestic/household services performed by a woman may not be considered as an economic activity'. Defend or refute the given statement with valid reason.

(ii) 'Compensation to the victims of a cyclone is an example of a welfare measure taken by the government'. State with valid reason, should it be included/not included in the estimation of national income of India.

[C] [CBSE SQP 2021]

Q. 2. (i) 'Real Gross Domestic Product is a better indicator of economic growth than Nominal Gross Domestic Product'. Do you agree with the given statement? Support your answer with a suitable numerical example.

(ii) Calculate 'Depreciation on Capital Asset' from the following data:

In the above example the difference between Real GDP ($\Sigma P_0 Q_1$) and Nominal GDP ($\Sigma P_1 Q_1$) is ₹14,500 – ₹9,500 = ₹5,000.

This means that the variation in the value of GDP is merely due to the change in the prices and thus, it is just a monetary difference as the quantity sold in the market remains the same. 1

$$(ii) \text{ Depreciation on capital asset} = \frac{\text{Cost of the capital assets} - \text{Scrap value}}{\text{Estimated life of the capital asset}}$$

$$\text{Depreciation} = \frac{₹2,500 - ₹500}{25}$$

$$\text{Depreciation} = ₹80 \text{ crore}$$

3



COMPETENCY BASED QUESTIONS



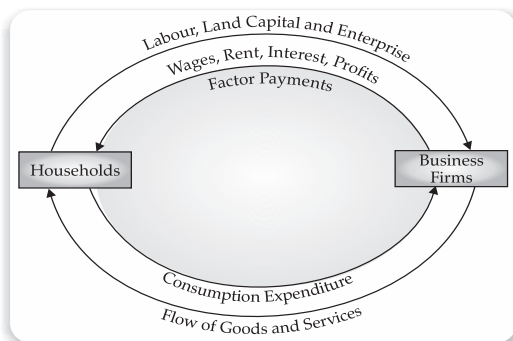
Case based MCQs

I. Read the below case and answer the questions that follow:

Circular Income Flow in a Two Sector Economy:

In the figure given we can see that upper loop shows the resources such as land, capital and entrepreneurial ability flow from households to firms in the direction shown by the arrow direction. The money flows from firms to the households as factor payments in the form of wages, rent, interest and profits, shown by the arrow direction.

The lower part of the figure shows the flow of money from households to firms in the form of consumption expenditure done by the households to purchase the goods and services produced by the firms, making the flow of goods and services from firms to households.



Thus, we see that money flows from business firms to households as factor payments and then it flows from households to firms. Thus, there is, in fact, a circular flow of money or income. This is how the economy functions.

Q. 1. Money flows from _____ to _____ as factor payments.

- (A) Firms, households
- (B) Households, firms
- (C) Government, firms
- (D) Households, government

Ans. Option (A) is correct.

Q. 2. Circular flow of income refers to the flow of activities of production, income generation and expenditure involving different _____ (sectors/aspects/types) of the economy.

Ans. Sectors Circular flow of income shows flow of activities of production, income generation and expenditure among different sectors of the economy which are households and firms.

Q. 3. Which of the following is not a significance of Circular Flow of Income?

- (A) It reflects structure of an economy.
- (B) It shows interdependence among different sectors.
- (C) It shows injections and leakages from flow of money.
- (D) It does not help in estimation of national income and related aggregates.

Ans. Option (D) is correct.

Q. 4. Which of the following is not an assumption of a two sector model of Circular Flow of Income?

- (A) Domestic economy comprises only 2 sectors, the producers and the households.
- (B) The households spend their entire income, so that there is no saving.
- (C) Domestic economy is an open economy (no exports and imports).
- (D) There is no government in the economy.

Ans. Option (C) is correct.

II. Read the below case and answer the questions that follow:



The country's real gross domestic product (GDP) is likely to expand by 11 percent in the next financial year due to a faster economic recovery and on a low base, says a report. The report by domestic rating agency Brickwork Ratings said economic activities are slowly reaching Pre-COVID levels following the relaxation of the lockdown, except in sectors that remain affected by social distancing norms.

"With progress in developing an effective vaccine for COVID-19 and signals of faster-than-expected recovery in the domestic economy, and also supported by a low base, we expect the real GDP to grow at 11 percent in F/Y22, from the estimated contraction of 7 percent to 7.5 percent in F/Y21," the agency said.

According to the first advance estimates of national income released by the National Statistical Office (NSO), the country's GDP is estimated to contract by a record 7.7 percent during the current financial year.

- "Real GDP to grow at 11 per cent in F/Y22: Report"
Economic Times, 21st Jan 2021

Q. 1. Real GDP is when the goods and services are produced by all producing units in the domestic territory of a country during an accounting year and valued at _____ (base year's/current year's) prices or constant price.

Ans. Base year's

Explanation: Real GDP does not take into account the effect of price change and hence is measured on base year price.

Q. 2. How is the Real GDP Calculated?

(A) $\frac{\text{GDP}}{\text{GDP Deflator}} \times 100$

(B) $\frac{\text{Nominal GDP}}{\text{GDP}} \times 100$

(C) $\frac{\text{GDP Deflator}}{\text{Nominal GDP}} \times 100$

(D) $\frac{\text{Nominal GDP}}{\text{GDP Deflator}} \times 100$

Ans. Option (D) is correct.

Q. 3. What will be the growth rate of GDP according to the NSO?

(A) -7.7%

(B) +7.7%

(C) +11%

(D) -7.5%

Ans. Option (A) is correct.

Q. 4. _____ (Real GDP/Nominal GDP) is the true indicator of the growth of the economy.

Ans. Real GDP

Explanation: Real GDP is the true indicator of the growth of the economy because real GDP does not take into account the effect of price level. It only considers the effect of output only.



Case based Subjective Questions

I. Read the hypothetical case study given below and answer the questions that follows:

The economy can be thought of as two cycles moving in opposite directions. In one direction, we see goods and services flowing from individuals to businesses and back again. This represents the idea that, as labourers, we go to work to make things or provide services that people want.

In the opposite direction, we see money flowing from businesses to households and back again. This represents the income we generate from the work we do, which we use to pay for the things we want. Both of these cycles are necessary to make the

economy work. When we buy things, we pay money for them. When we go to work, we make things in exchange for money.

The circular flow model of the economy distills the idea outlined above and shows the flow of money and goods and services in a capitalist economy.

What is the Circular Flow Model in Economics?

The circular flow model is an economic model that shows the flow of money through the economy. The most common form of this model shows the circular flow of income between the household sector and the business sector. Between the two are the product market and the resource market.

Households purchase goods and services, which businesses provide through the product market. Businesses, meanwhile, need resources in order to produce goods and services. Members of households provide labour to businesses through the resource market. In turn, businesses convert those resources into goods and services.

Here's how it works:

When households need a good or service, their money flows to the product market in a process called consumer spending.

To provide goods and services to households, the product market purchases them from businesses, generating revenue.

To make goods and services for the product market, businesses purchase resources from the resource market, generating cost.

Finally, to generate resources businesses need to create goods, the resource market pays for other resources—namely, workers and land. This generates income for labour and landholders.

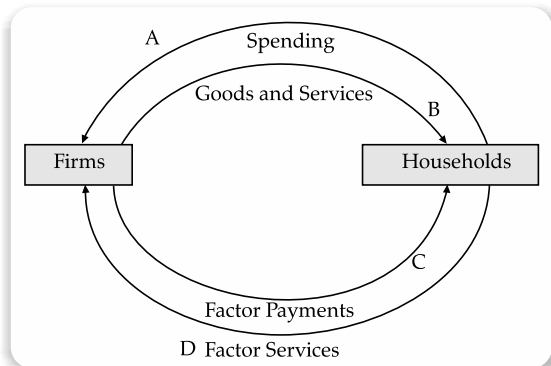
The above process can be summarized as follows:

Consumer spending → Revenue → Cost → Income

- Understanding the Circular Flow Model in Economics:
Definition and Factors of Production – Masterclass

Q. 1. What is the above article talking of? Draw a model of the concept talked about.

Ans. The above article is talking of circular flow of the model. 1



2

Q. 2. What is the importance of the thing being talked about in the above article?

Ans. The importance of Circular Flow of Income are:

- (i) It shows the flow of stocks among the different sectors.

- (ii) It shows the flow of money among the different sectors.
- (iii) It reflects structure of an economy.
- (iv) It shows interdependence among different sectors.
- (v) It shows injections and leakages from flow of money.
- (vi) It helps in estimation of national income and related aggregates. 3

II. Read the news article given below and answer the questions that follows:

The gross domestic product (GDP) of a nation is an estimate of the total value of all the goods and services it produced during a specific period, usually a quarter or a year. Its greatest use is as a point of comparison: Did the nation's economy grow or contract compared to the previous period measured?

KEY TAKEAWAYS

GDP can be calculated by adding up all of the money spent by consumers, businesses, and government in a given period.

It may also be calculated by adding up all of the money received by all the participants in the economy.

In either case, the number is an estimate of "nominal GDP"

Once adjusted to remove any effects due to inflation, "real GDP" is revealed.

There are two main ways to measure GDP: by measuring spending or by measuring income.

And then there's real GDP, which is an adjustment that removes the effects of inflation so that the economy's growth or contraction can be seen clearly.

Calculating GDP Based on Spending

One way of arriving at GDP is to count up all of the money spent by the different groups that participate in the economy. These include consumers, businesses, and government. All pay for goods and services that contribute to the GDP total.

In addition, some of the nation's goods and services are exported for sale overseas. And some of the products and services that are consumed are imports from abroad. The GDP calculation accounts

for spending on both exports and imports.

Thus, a country's GDP is the total of consumer spending (C) plus business investment (I) and government spending (G), plus net exports, which is total exports minus total imports (X - M).

Calculating GDP Based on Income

The flip side of spending is income. Thus, an estimate of GDP may reflect the total amount of income paid to everyone in the country.

This calculation includes all of the factors of production that make up an economy. It includes the wages paid to labour, the rent earned by land, the return on capital in the form of interest, and the entrepreneur's profits. All of these make up the national income.

This approach is complicated by the need to make adjustments for some items that don't always appear in the raw numbers. These include:

Indirect business taxes such as sales taxes and property taxes

Depreciation, a measure of the decreasing value of business equipment over time

Net foreign factor income, which is foreign payments made to a country's citizens minus the payments those citizens made to foreigners.

In this income approach, the GDP of a country is calculated as its national income plus its indirect business taxes and depreciation, plus its net foreign factor income.

- *How to Calculate the GDP of a Country* - Investopedia

Q. 1. What is the above article talking about? Define the term.

Ans. The above article is talking about GDP.

Gross Domestic Product is the value of all goods and services produced within the territory of the country.

Q. 2. Which two methods have been mentioned in the article? Give the formula for their calculation?

Ans. The two methods that have been mentioned in the above article are:

(i) **Expenditure Method:** National Income = GDP_{MP} - Depreciation - Net Indirect Taxes + Net Income from Abroad

(ii) **Income Method:** National Income = Compensation to Employees + Operating Surplus + Mixed Income from Self Employment + Net Income from Abroad



Solutions for Practice Questions (Topic-1)

Multiple Choice Questions

Ans. 1: Option (A) is correct.

Explanation: Inventory is a stock concept as it can be measured at a point of time and change in inventory is a flow concept because it can be measured over a time period.

Ans. 3: Option (C) is correct.

Explanation: Final goods are referred to as those goods that do not require further processing. These goods are produced for the direct consumption either by a consumer for final consumption or by a producer for investment or capital formation.

Ans. 5: Option (C) is correct.

Explanation: Depreciation indicates the changes in the value of an asset over a period of time.

Assertion/Reason

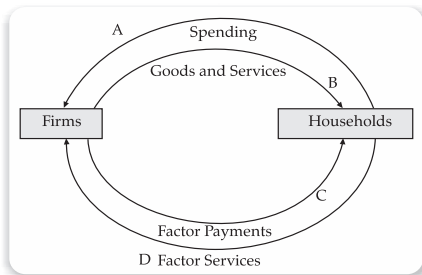
Ans. 5: (A) Goods used in the production of final goods are known as intermediate goods.

Very Short Answer Questions

Ans. 1: Macroeconomics refers to that branch of economics that deals with economic problems or economic issues at the level of an economy.

Short Answer Questions-I

Ans. 1.



Households purchase goods and services from firms (producing units) for which they make payment to them. So, consumption expenditure (spending on goods and services) flows from households to the firms. 1

Ans. 3: Capital goods are those durable goods which are used in production of goods and services. 1½
Whereas, consumption goods are those goods which are used for satisfaction of wants by the consumers. 1½

[CBSE Marking Scheme, 2018]

Ans. 6: (i) Milk purchased by a tea stall is an intermediate good because it is purchased from another production unit for resale indirectly. 1

(ii) Bus purchased by a school is a final good because expenditure on school bus is an investment expenditure. 1

(iii) Juice purchased by a student from the school canteen is a final good because it is purchased by consumer for own use and not for resale. 1

(No marks to be awarded if the reason is not given or incorrect reason is given)

[CBSE Marking Scheme, 2018]

Ans. 7: Any economic variable which is measured at a point of time is known as stock, e.g. capital, etc. 1½

Whereas, any economic variable measured during a period of time is known as flow, e.g. income, etc. 1½

(Any other relevant example)

[CBSE Marking Scheme, 2018]

Short Answer Questions-II

Ans. 3: The circular flow of income and product involves two basic principles:

(i) Real flows (in terms of goods and services) are opposite to money flows, as money flows are in response of the real flows. 2

(ii) Flow of income across different sectors always implies the identity between payments and receipts, that is they are equal to each other. 2

Long Answer Questions

Ans. 3: Real Flow: Real flow of income implies the flow of factor services from the household sector to the producing sector and the corresponding flow of goods and services from the producing sector to the household sector. 2

Money flows are opposite to real flows because money flows are in response to the real flows. *Example,* there is real flow of goods and services from the producers to the households. It is in response to it, that the households makes payments to the producers. Money flows from the households to producers in terms of consumption expenditure. Likewise, there is a real flow of factor services from the households to the producers. It is in response to it that the producers make payments to the households. Money flows from producers to the households in terms of factor payments. 4



Solutions for Practice Questions (Topic-2)

Multiple Choice Questions

Ans. 3: (B) Net National Product (NNP) at Market Price = NNP at Factor Cost + Net Indirect Taxes

Ans. 6: (C) National income is the sum total of factor incomes earned by normal residents of a country in the form of rent, wages, interest and profit in an accounting year.

Ans. 8: (C) $NNP_{FC} = NNP_{MP} - \text{Indirect Taxes} + \text{Subsidies}$

Ans. 10: (A) Payment of interest by a Government firm should be included while estimating National Income because it is a kind of factor payment. Festival gift from an employer is not included in the estimation of National Income because it is a transfer payment.

Assertion/Reason

Ans. 1: (A) The value of intermediate good should not be included as it leads to double counting which will lead to increase in national income. Thus, the norm is to include the value of final goods only.

Ans. 3: (A) Broker is rendering productive services.

Very Short Answer Type Questions

Ans. 1: National Income is the sum of factor income earned by normal residents of a country.

Ans. 4: A resident or a normal resident of a country is a person or institution who ordinarily resides in a country and whose center of interest also lies in that particular country.

Ans. 5: Counting the value of the same product more than once in calculation of National Income is known as double counting.

Short Answer Type Questions-I

Ans.1: (i) The given statement is false as Gross Domestic Product is the result of sum of Gross Value Added by all the producing units/firms in an economy, during an accounting year. [1½]

(ii) The given statement is false as intermediate goods are generally non-durable in nature. They are the goods used as raw material and they lose their identity in the production process for the creation of a new commodity, during an accounting year. [1½]

[CBSE SQP Marking Scheme, 2021]

Ans. 4: $GVA_{MP} = [(ii) + (iv)] + (iii) - (v)$
 $= [200 + 10] + (-10) - 120$
 $= ₹ 80 \text{ lakh}$

[CBSE Marking Scheme, 2020]

Ans. 9: Sum of the value of final products that take place within the domestic territory of a country is called domestic product, whereas the sum of contribution of residents of a country both within domestic territory or abroad is called national product.

[CBSE Marking Scheme, 2017] 3

Ans. 10: There are some incomes which cannot be conveniently divided into distinctive factor incomes. Such income arises to the self-employed like practicing lawyers, doctors, etc. For example, a practicing lawyer. The fees charged by the lawyer is not only his wages but also interest of capital employed by him, rent of his office and profit of his entrepreneurship. Since no data is available to sub-divide the lawyer's fees into wages, rent, interest and profit, it is called mixed income.

[CBSE Marking Scheme, 2017] 3

Ans. 12: (i) Payment of interest by an individual to a bank is not included because the individual is a consumer. 1

(ii) Expenditure by government on providing free educational services is included because it is a final expenditure. 1

(iii) Expenditure on purchasing a machine installed in a production unit is included because it is an investment expenditure. 1

(No marks if the reason is not given)

[CBSE Marking Scheme, 2017]

Short Answer Type Questions-II

Ans. 2: (i) Included because such an expenditure is treated as exports. 2

(ii) Not included, because it is merely a financial transaction not resulting in any production. 2

(No Marks if the reason is not given)

[CBSE Marking Scheme, 2016]

Ans. 5: (i) It is factor income to abroad, so it is not included. 2

(ii) It is included as factor income from abroad. 2

(No marks if reason is not given)

[CBSE Marking Scheme, 2016]

Ans. 7: (i) Included, because it is final expenditure of the government. 2

(ii) Not included, because it does not result in any production. Its value was already included when it was newly constructed. 2

(No marks if the reason is not given)

[CBSE Marking Scheme, 2016]

Long Answer Type Questions-II

Ans. 9: (a) Operating Surplus = (ii) + (iv) + (vii) + (viii)

$$= 800 + 460 + 940 + 300$$

Operating Surplus = ₹ 2,500 crore

(b) Domestic Income

$$= 2,000 + 2,500 + 200$$

$NDP_{FC} = ₹ 4,700 \text{ crore}$

[CBSE Marking Scheme, 2018] 2×3=6

Ans. 14: (i) Yes, as it is a factor income earned within domestic territory of India.

(ii) No, because Russian Embassy is not a part of the domestic territory of India. It is factor income from abroad.

(iii) No, as profits are not earned within the domestic territory of India.

[CBSE Marking Scheme, 2017] 2×3=6

OR



Topper's Answer, 2017

28. National Domestic Product of India refers to the flow of goods and services produced in the economy within the domestic territory of the country in a year or economic

- (a) Profits earned by foreign companies in India is included in domestic product of India as it is earned by company situated in domestic territory and hence adds to domestic economic product.
- (b) Salaries of Indians working in the Russian Embassy in India is not included in domestic product of India. This is because Russian Embassy is not economic territory of India and hence the salary of Indians posted to India is factor income from abroad. It is hence not included in domestic product.
- (c) Profits earned by a branch of State Bank of India in Japan is not included in domestic product of India. This is because banks in Japan are not part of India's economic Indian territory. Hence the profits of bank come to India as factor income from abroad and are not included in domestic product of India.

- Ans.17: (i) Fees paid to mechanic by a firm:** It is not included because it is an intermediate cost to the firm. 2
- (ii) Interest paid by an individual:** It is not included because the loan is taken to meet consumption expenditure and therefore, interest paid on such a loan is not a factor payment. 2
- (iii) Expenditure on purchasing car by a firm:** It is included because it is an investment expenditure, a final expenditure. 2

[CBSE Marking Scheme, 2016]



Solutions for Practice Questions (Topic-3)

Multiple Choice Questions

Ans. 2: (D) There are certain limitations of GDP as an index of welfare:

1. GDP does not take into account changes in inequalities in the distribution of income.
2. GDP does not include non-monetary exchanges.
3. GDP does not consider the changes in the population of a country.
4. GDP does not account for valuation of externalities.

Ans. 4: (A) Externalities refer to positive and negative impact of an economic activity on the others without involving any price or penalty.

Ans. 8: (B) Negative externalities refer to negative impact of an economic activity on others without involving any penalty.

Assertion/Reason

Ans. 2: (A) GDP is considered to be measure of the welfare of the economy but it does not measure the structure of the product because GDP may rise due to production of ammunitions but it does not measure welfare.

Ans. 4: (D) GDP is a flawed measure of human welfare, e.g., if increase in the level of GDP is associated with higher level of income inequality, social welfare may not increase.

Very Short Answer Type Questions

Ans. 1: Externality occurs when the actions of consumers or producers give rise to negative or positive side effects on third party who are not part of these actions, and whose interests are not taken into consideration.

E.g., Introduction of metro rail on one hand has increased the prices of property but has also saved the time and money of general public and has provided safe means of transport

[CBSE Marking Scheme, 2017] 1

Ans. 3: Welfare means material well-being of the people.

Short Answer Type Questions-I

Ans. 1. No, the given statement is not true. The value added by oil refinery to the Gross Domestic Product (GDP) may also be polluting the nearby source of water. Such harmful effects that the refinery is causing to people and marine life is not penalized for the same. Thus, these negative externalities are not ensuring the welfare of the economy through Gross Domestic Product (GDP). (to be marked as a whole) 3

[CBSE Marking Scheme, 2020]

Short Answer Type Questions-II

Ans. 3. (i) Ban on consumption of tobacco will bring down the production of tobacco. Since it is counted in GDP, it will fall. 2

(ii) The ban will improve the health in general. It will thus, increase welfare. 2

[CBSE Marking Scheme, 2017]

Ans. 4: Increase in inequalities means that rich becomes richer and poor becomes poorer. Since utility of money is higher among poor and lower among the rich, any increase in inequalities may not lead to increase in welfare.

(To be marked as a whole)

[CBSE Marking Scheme, 2017] 4

Ans. 8: Government spending on child immunization programme is government consumption final expenditure. Therefore, it raises GDP. Since such a programme improves health, it will raise efficiency level of people and increase welfare.

[CBSE Marking Scheme, 2016] 4

Ans. 10: Final sales of cars raises GDP, because final sales are final products. Cars provide convenience in transportation but at the same time, it causes traffic jams, air pollution and noise pollution reducing the welfare of the people. Pollution has bad effects on the health of the people.

[CBSE Marking Scheme, 2016] 4

Long Answer Type Questions-II

Ans. 1: (i) The given statement is defended, as it is difficult to measure the monetary value of the services performed by a woman (home-maker). Therefore, these activities may not be considered as an economic activity. [3]

(ii) Compensation given to the victims of a cyclone is an example of a social welfare measure taken by the government. However, it is not included in estimation of national income as it is a transfer payment which does not lead to corresponding flow of goods and services.

[CBSE SQP Marking Scheme, 2021] [3]

REFLECTIONS

1. Were you able to draw the Circular Flow of income?
2. Were you able to calculate national income through different methods?
3. Were you able to take precautions while calculating national income under different methods?
4. Were you able to identify positive or negative externalities that effect the growth and welfare?



SELF ASSESSMENT PAPER - 1

Maximum Time: 1 hour

MM: 30

General Instructions:

- (i) All the Questions are compulsory
- (ii) Q.1 to Q.10 are MCQ based
- (iii) Q.11 to Q.13 are 1 mark subjective questions which needs to be answered in a word or sentence.
- (iv) Q.14 to Q.16 are 2 marks questions
- (v) Q.17 and Q.18 are 3 marks questions
- (vi) Q.19 is a 5 Marks Question

1. The welfare which depends on economic factors is called _____. (Choose the correct alternative) [1]
 - (A) Economic Welfare
 - (B) Non-economic Welfare
 - (C) Social Welfare
 - (D) Both (A) and (B)
2. _____ is the method which measures the national income by estimating the contribution of each producing enterprise to produce in the domestic territory of the country in an accounting year. [1]
 - (A) Product Method
 - (B) Income Method
 - (C) Expenditure Method
 - (D) Expense Method
3. Read the following statements 1 and 2 and choose the correct alternative:

Statement 1: All goods which are used in the production of other goods either as fixed assets or as inventory/stock are called Capital Goods.

Statement 2 : The goods which are used as raw materials or are for resale purposes are called intermediate goods.

 - (A) Both Statements are true
 - (B) Both Statements are false
 - (C) Only Statement 1 is true.
 - (D) Only Statement 2 is true.
4. Identify the correctly matched pair of Items from Column A to that of column B: [1]

Column A		Column B	
(1)	Flour purchased by a baker	(i)	Final Good
(2)	Cement purchased by a constructor	(ii)	Stock
(3)	Book Purchased by a student	(iii)	Final Good
(4)	Flour purchased by the house wife	(iv)	Intermediate Goods

- (A) 1 – (i)
- (B) 2 – (ii)
- (C) 3 – (iii)
- (D) 4 – (iv)

Read the following statements - Assertion (A) and Reason (R) in the Questions 5 and 6 and from the given alternatives choose the correct one:

Alternatives:

- (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
 - (B) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).
 - (C) Assertion (A) is true but Reason (R) is false.
 - (D) Assertion (A) is false but Reason (R) is true.
5. **Assertion (A):** Shirt purchased by a cloths shop is an intermediate good.
Reason (R): Intermediate goods are purchased to be sold again with or without adding value. [1]
 6. **Assertion (A):** Building of a park is a positive externality.
Reason (R): Trees in the park act as the carbon sink. [1]

Read the following text and answer Questions 7 to 10 that follow:

The much-loved English poet John Betjeman is reported to have said on his deathbed that one thing he regretted in his life was not having had more sex. This provides a seasonally relevant, if somewhat off-colour, reminder that there is more to life than just buying and consuming stuff. And that is what GDP measures – the output of goods and services on which we collectively spend our income.

Many people today would say that promoting the growth of GDP is undesirable or even irresponsible. Some economists see happiness as 'a more ambitious and laudable policy objective' (see, for example, Graham 2011). In a recent paper submitted as evidence to the LSE's Growth Commission, I consider three common criticisms of GDP as a target of policy and explain why I think they are wrong (Oulton, 2012a):

The first criticism is that GDP is hopelessly flawed as a measure of human welfare. For example, the argument goes, it takes no account of pollution.

The second criticism is that GDP ignores distribution. In a rich country like the US, some say, the typical person or family has seen little or no benefit from growth since the 1970s. At the same time, inequality has risen sharply.

The third criticism is that above a certain level, a higher material standard of living does not make people happier. This view concludes that we should stop trying to raise GDP and look instead for policies that promote happiness.

'GDP is a flawed measure of human welfare'

GDP has always been a measure of output, not of welfare. Using current prices, it measures the value of goods and services produced for final consumption, private and public, present and future. (Future consumption is covered since GDP includes output of investment goods.) Converting to constant prices makes it possible to calculate the growth of GDP over time or the differences between countries across space.

But although GDP is not a measure of human welfare, it can be considered a component of welfare. The volume of goods and services available to the average person clearly contributes to welfare in the wider sense, though of course it is far from being the only component. So it is possible to imagine a social welfare function that has GDP as one of its components alongside health, equality, human rights, etc.

GDP is also an indicator of human welfare. In cross-country data, GDP per capita is highly correlated with other factors that are important for welfare. In particular, it is positively correlated with life expectancy and negatively correlated with infant mortality and inequality. Since parents naturally feel grief for children they have lost, infant mortality might be thought of as an indicator of happiness.

- Hooray for GDP! GDP as a measure of wellbeing - Nicholas Oulton 22 December 2012 – voxeu.org

7. According to the given text, _____ is necessary and a more ambitious and laudable policy objective.
 (A) GDP (B) Happiness
 (C) Both (A) and (B) (D) None of these [1]
8. Read the following statements carefully and choose the correct alternatives given below:
Statement 1: GDP takes no account of pollution.
Statement 2: GDP ensures equitable distribution of wealth.
Alternatives:
 (A) Both the statements are true.
 (B) Both the statements are false.
 (C) Statement 1 is true and Statement 2 is false.
 (D) Statement 2 is true and Statement 1 is false. [1]
9. As per the article, what is GDP based on:
 (A) Social welfare (B) Constant Prices
 (C) Current Prices (D) Future Prices [1]
10. Read the following statements carefully and choose the correct alternatives given below:
Statement 1: GDP is not a component of welfare.
Statement 2: GDP per capita is not correlated to the factors of welfare.
Alternatives:
 (A) Both the statements are true.
 (B) Both the statements are false.
 (C) Statement 1 is true and Statement 2 is false.
 (D) Statement 2 is true and Statement 1 is false. [1]
11. Define the term externality. [1]
12. Maya purchased cream, flour and sugar for her bakery. Is it a final good or intermediate good? [1]
13. Define Real Gross Domestic Product. [1]
14. Giving reasons, classify the following into intermediate and final goods.
 (A) Machine purchased by a dealer of machines.
 (B) A car purchased by a household. [2]

15. Find Gross Value Added at Factor Cost :

	(Items)	(₹ in crore)
(i)	Import duty	1,000
(ii)	Excise	2,000
(iii)	Output sold (units)	6,000
(iv)	Price per unit of output	6
(v)	Change in stock	600
(vi)	Intermediate cost	16,000
(vii)	Subsidy	500

[2]

16. Give reason and identify whether the following are final expenditure or intermediate expenditure:

(A) Expenditure on maintenance of an office building.

(B) Expenditure on improvement of a machine in a factory.

[2]

17. "Circular flow of income is very important in the economy." Explain.

[3]

18. Is Gross Domestic Product a true index of economic welfare of the people ? Give two reasons in support of your answer.

[3]

19. From the following data calculate, Gross National Product at Factor Cost by (i) Income Method, and (ii) Expenditure Method.

	(Items)	(₹ in crore)
(i)	Government Final Consumption Expenditure	200
(ii)	Private Final Consumption Expenditure	400
(iii)	Profits	160
(iv)	Net Indirect Taxes	60
(v)	Rent	70
(vi)	Interest	50
(vii)	Compensation of Employees	300
(viii)	Exports	65
(ix)	Imports	95
(x)	Gross Domestic Capital Formation	80
(xi)	Consumption of Fixed Capital	10
(xii)	Net Factor Income to Abroad	50

[5]

Finished Solving the Paper ?
Time to evaluate yourself !
<https://qr.page/g/4DQ0Qw0yK19>

OR

SCAN THE CODE

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