

ECONOMICS

(Macro-Economics)



Important Questions

Multiple Choice questions-

Q1. Macro Economics Studies:

- (a) Employment opportunities in the economy
- (b) Theory of supply of Commodities
- (c) Elasticity of demand in Scooter
- (d) Price of wheat in the market

Q2. Who had made the first attempt at National Income Accounting?

- (A) Prof. D.R.Gadgill
- (B) Simon Kuznets
- (C) J.M.Keynes
- (D) Gregory King

Q3. When did the great depression occur?

- (a) 1929-30
- (b) 1934-35
- (c) 1938-39
- (d) 1941-42

Q4. Who is known as the father of modern macroeconomics?

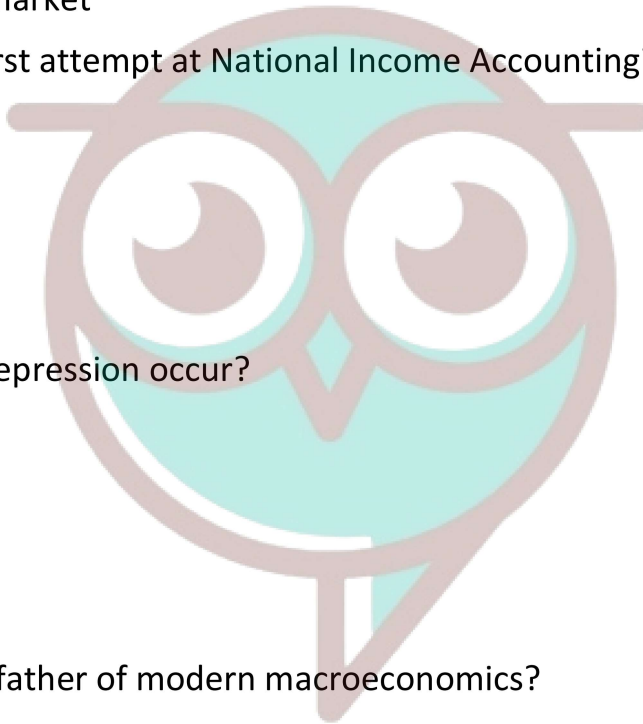
- (a) Adam Smith
- (b) J. M. Keynes
- (c) Samuelson
- (d) Hicks

Q5. Mr. Skund Kumar wants to study the national income. Which branch of economics will he have to study?

- (a) Microeconomics
- (b) Price theory
- (c) Factor price determination
- (d) Macroeconomics

Q6. Accounting of National Income at constant prices is known as

- (a) Money income



Swotters

- (b) Real income
- (c) Current income
- (d) Domestic income

Q7. Which of the following items are excluded from GNP measurement?

- (a) Purely financial transactions
- (b) Transfer of used goods and non-market goods and services
- (c) Illegal activities and the value of leisure
- (d) All of these

Q8. The subject of the Study of Macro Economics is:

- (a) The Principle of National Income
- (b) The Principle of Consumer
- (c) The Principle of Producer
- (d) None of these

Q9. Macro Economics Studies:

- (a) Employment opportunities in the economy
- (b) Theory of supply of Commodities
- (c) Elasticity of demand in Scooter
- (d) Price of wheat in the market

Q10. General Price Level is studied in:

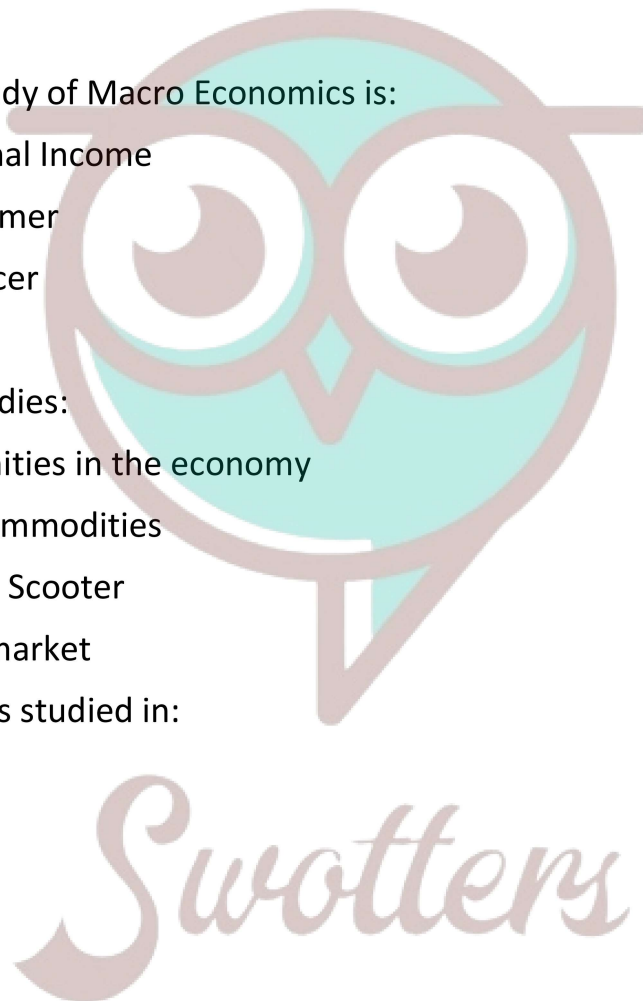
- (a) Micro Economics
- (b) Macro Economics
- (c) Both (a) and (b)
- (d) None of these

Q11. Employment Theory is related to :

- (a) Static Economics
- (b) Micro Economics
- (c) Macro Economics
- (d) None of these

Q12. Increase in Stock of Capital is known as:

- (a) Capital Loss
- (b) Capital Profit



(c) Capital Formation

(d) None of these

Q13. Which one of the following is included in circular flow?

(a) Real Flow

(b) Money Flow

(c) Both (a) and (b)

(d) None of these

Q14. Which one of the following is included in 'Stock'?

(a) Quantity of Money

(b) Wealth

(c) Quantity of wheat stored in a warehouse

(d) All the above

Q15. Which one is included inflow ?

(a) Consumption

(b) Investment

(c) Income

(d) All of these

Very Short Questions-

1. What is national disposable income?
2. What is real flow?
3. Define money flow.
4. What must be added to domestic factor income to obtain national income?
5. Explain the meaning of non-market activities.
6. Define Real GNP.

Short Questions-

1. Distinguish between personal income and private income.
2. Explain the main steps involved in measuring national income through the product method.
3. What is double counting in the economy? How can it be avoided?
4. Do you agree with the statement, 'Machine purchased is always a final good'. Give reason for your answer.

5. What are the precautions to be taken while calculating national income through product method, specially value-added method?

Long Questions-

1. Calculate net value added at market price of a firm:

Items	Amount
Sale	300
Change in stock	-10
Depreciation	20
Net in direct taxes	30
Purchase of machinery	100
Purchase of intermediate product	150

2. Calculate national income and gross national disposable income from the following data:

S.No	Contents	Rs. (in crores)
1	Net indirect tax	05
2	Net domestic fixed capital formation	100
3	Net exports	(-) 20
4	Government's final consumption expenditure	200
5	Net current transfers from abroad	15
6	Private final consumption expenditure	600
7	Change in stock	10
8	Net factor income from abroad	05
9	Gross domestic fixed capital formation	125

3. Calculate NNP at market price by production method and income method.

S.No	Contents	Rs. (in crores)
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1	Intermediate consumption	
	Primary sector	500
	Secondary sector	400
	Tertiary sector	300
2	Value of output of	
	Primary sector	1000
	Secondary sector	900
	Tertiary sector	700
3	Rent	10
4	Emoluments of employers	400
5	Mixed income	650
6	Operating surplus	300
7	Net factor income from abroad	-20
8	Interest	05
9	Consumptive of fixed capital	40
10	Net indirect tax	10

4. Giving reason, explain whether the following are included in domestic product of India.

1. Profits earned by a branch of foreign bank in India
2. Payment of salaries to its staff by embassy located in New Delhi
3. Interest received by an Indian resident from its abroad firms

5. Calculate National Income and Private Income from the following data.

S.No	Contents	Rs. (in crores)
1	Net current transfers from rest of the world	10

2	Private final consumption expenditure	600
3	National debt interest	15
4	Net exports	(-)20
5	Current transfers from government	5
6	Net domestic product at factor cost accruing to the government.	25
7	Government final consumption expenditure	30
8	Net indirect tax	05
9	Net domestic capital formation	40
10	Net indirect tax	10

Case Study Based Question-

1. Read the following hypothetical text and answer the given questions: -
2. Read the following hypothetical text and answer the given questions: -

Assertion Reason Type Question-

1. In these questions, a statement of assertion followed by a statement of reason is given. Choose the correct answer out of the following choices.
 - a. Both Assertion and Reason are true and Reason (R) is the correct explanation of Assertion (A)
 - b. Both Assertion and Reason 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

Assertion: Value Added Method, Income Method, and Expenditure Method are three different methods to measure the National Income.

Reason: Production, Income, and Expenditure are three different phases of the circular flow of Income.

2. In these questions, a statement of assertion followed by a statement of reason is given. Choose the correct answer out of the following choices.
 - a. Both Assertion and Reason are true and Reason (R) is the correct explanation of Assertion (A)
 - b. Both Assertion and Reason 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

Assertion: National Income is a national Concept.

Reason: National Income includes the value of final goods and services produced in the entire world by all producers who are normal residents of the country.

MCQ Answers-

1. (a) Employment opportunities in the economy

2. (D) Gregory King

3. (a) 1929-30

4. (b) J. M. Keynes

5. (d) Macroeconomics

6. (b) Real income

7. (d) All of these

8. (a) The Principle of National Income

9. (a) Employment opportunities in the economy

10. (b) Macro Economics

11. (c) Macro Economics

12. (c) Macro Economics

13. (c) Both (a) and (b)

14. (d) All the above

15. (b) Investment

Very Short Answers-

1. Ans: The term "national disposable income" refers to the amount of money available to the entire economy for spending or disposition.

The formula for calculating national disposable income is $NNPMP + \text{Net Current Transfers from Abroad (NDI)}$.

2. Ans: The flow of services and goods between various segments is referred to as real flow. Flow sector services, for example, flow from household to firm and then back again.

3. Ans: The flow of money between different sectors of the economy, such as firms, households, and so on, is referred to as money flow. For example, consider the flow of

income from firms to households and the flow of consumption expenditure from households to firms.

4. Ans: To calculate the national income, net factor income from outside the country must be added to domestic factor income.
5. Ans: Non-marketing activities are those that are gained as a result of the purchase of a large number of finished goods and services. They are really not bought and sold on the open market. Vegetables, for example, cultivated in the house kitchen garden.
6. Ans: In economics, real GNP is defined as GNP computed at constant prices, or through a base year price.

Short Answers-

Ans 1: The distinction between the two is as follows:

Individuals' personal income is the sum of their earned and transfer revenues from all sources of income, both within and outside the country.

Personal Income is computed as follows: Private Income – Corporate Tax – Corporate Savings (undistributed profits)

Factor and transfer income obtained from all private sources within and outside the country is classed as private income.

Personal income (PI) \equiv NI – Undistributed profits – Net interest payments made by households – Corporate tax + Transfer payments to the households from the government and firms.

Ans 2: The most important steps in calculating national income using the product approach:

1. First, divide the manufacturing units into industrial sectors such as primary, secondary, and tertiary.
2. Next, calculate the factor cost's net value added.
3. In the third phase, calculate the output value by adding sales and stock changes.
4. Calculate gross value added by deducting intermediate consumption from output value.
5. Subtract depreciation and net indirect tax from gross value added at market price to get NDPFC (net value added at factor cost).
6. Finally, add net factor income from outside the country to NDPFC to get NNPF, which is national income once more.

Ans 3: Double counting is the process of calculating the value of goods multiple times at each stage of production.

The following methods can be used to avoid it:

- a) When estimating national income, use the value-added technique.
- b) Calculating national income only on the basis of the final commodity's worth.

Ans 4: Yes, we agree with the assertion made here. It is up to the user to decide if a machine is a finished product or not. When a machine is purchased by a household, it is referred to as a final good. On the other hand, if a machine is purchased by a business, it is referred to as a final good. However, if it is purchased by a company for resale, it is referred to as an intermediate good.

Ans 5: The steps will be as follows:

- a) Instead of relying on the value added by each production unit, avoid using the production's double counting approach.
- b) Inclusion of output produced for self-consumption.
- c) The cost of intermediary consumption should never be taken into account.
- d) The sale and acquisition of used products should never be included.
- g) The value of services rendered must always be factored into sales.

Long Answers-

Ans 1: Value of output: - Sale + Change in stock $(300 + (-) 10 = 290/-)$

Gross Value added at MP = Value of output - Purchase of intermediate product.

$290 - 150 = 140/-$

Net Value added at MP = Gross Value added at MP - Depreciation

$140 - 20 = 120/-$

Thus, the final answer is Rs. 120.

Ans 2: Putting the equation together

Net national income (NNPFC) = Net disposable income (NNDPM)

= (Government final consumption expenditure + private final consumption expenditure + net domestic fixed capital formation + net exports)

= $200 + 600 + 100 + 10 + (-) 20$

= $910 - 20 = 890$

So NDP MP = 890 crores

NNPFC = NNDPM + (Net factor income from abroad – Net indirect tax)

= $890 + 5 - 5$

So NNPFC = 890 crores

Depreciation = (Gross domestic fixed capital formation - Net domestic fixed

capital formation)

$$= 125 - 100 = 25 \text{ crores}$$

GNDI = (NNPFC + Net indirect tax + Net current transfers from abroad + Depreciation)

$$= 890 + 05 + 15 + 25$$

$$\text{GDNI} = 935 \text{ crores}$$

Ans 3: 1. By Production Method:

Value added at MP = Value of output - Intermediate consumption

$$= (1000 + 900 + 700) - (500 + 400 + 300)$$

$$= 2600 - 1200$$

Hence GDPMP = 1400 crores

NNPMP = GDPMP - (Consumptive of fixed capital + Net factor income from abroad)

$$= 1400 - 40 = (-20)$$

NNPMP is equal to 1380 crores

2. By Income Method:

NNPMP = Emoluments of employers + Mixed income + Operating surplus + Net indirect tax + Net factor income from abroad

$$= 400 + 650 + 300 + 10 + (-20)$$

$$\text{NNPMP} = 1350 + 10 - 20$$

$$= 1340 \text{ crores}$$

Ans 4:

1. Profits earned by a foreign bank branch in India are included in India's domestic income because they are earned within the country's borders.
2. Since the embassy in New Delhi is not part of India's domestic territory, salaries paid to its employees will not be included in the country's domestic income.
3. Interest received by an Indian resident from his or her foreign enterprises is not included in India's domestic income because it is a factor income.

Ans 5: a) National Income (NNPFC) = (Private final consumption expenditure + Government final consumption expenditure + Net domestic capital formation + Net exports + Net factor income from abroad - Net indirect tax)

$$= 600 + 100 + 70 + (-20) + 10 - 30$$

$$= 780 - 50$$

$$= 730 \text{ crores}$$

b) Private Income = NNPF - Net domestic product at factor cost accruing to govt +
Transfer payments + National debt interest
= 730 – 25 + (10 + 5) + 15
= 760 - 25
= 735 crores

Case Study Answer-

1. Answer:

1. a) absolute poverty
2. Poverty line
3. Consumption
4. per capita expenditure

2. Answer:

1. d) All of the above
2. Casualization
3. Gini Coefficient
4. d) all the above

Assertion Reason Answer-

1. a) Both Assertion and Reason are true and Reason (R) is the correct explanation of Assertion (A)
2. a) Both Assertion and Reason are true and Reason (R) is the correct explanation of Assertion (A)

