INDIAN SCHOOL AL WADI AL KABIR

MACROECONOMICS

NATIONAL INCOME AND RELATED AGGREGATES

I. Multiple Choice Questions:

1. Market price includes:
   (a) NFIA
   (b) Depreciation
   (c) Net Indirect Tax
   (d) None of the above

2. The word national in national income means:
   (a) Goods produced by normal resident
   (b) Goods produced in domestic territory
   (c) Services produced by normal resident
   (d) Both (a) and (c)

3. Which of the following is a domestic concept?
   (a) NDP_{MP}
   (b) NDP_{FC}
   (c) GDP_{MP}
   (d) All the above

4. Which aggregate of national income is constituted from the value added method?
   (a) NDP_{FC}
   (b) GDP_{MP}
   (c) GDP_{FC}
   (d) NDP_{MP}

5. Which of the following is not included while calculating national income through value added method?
   (a) Intermediate goods
   (b) Services for self-consumption
   (c) Second hand goods
   (d) All of the above

6. Which of the following is a component of profits?

   (a) Corporate tax
   (b) Dividends
   (c) Retained earnings
   (d) All of the above

7. Which of the following is not included in national income as per income method?
   (a) Windfall gains
   (b) Transfer incomes
   (c) Payments out of past savings
   (d) All of the above

8. Net exports is
   (a) Export – Import

(b) Import – Export
(c) Export + Import
(d) None of the above

9. Making public parks increase:
   (a) GDP
   (b) Welfare
   (c) GDP and welfare both
   (d) None of the above

10. Due to setting up of plant near river coast,
   (a) GDP falls, welfare rise
   (b) GDP rise, welfare falls
   (c) Both GDP and welfare falls
   (d) Both GDP and welfare rises

II. <u>Answer the following questions:</u>

1. Discuss briefly the concept of circular flow of income in a two-sector model.
2. On the basis of the data given below for an imaginary economy, estimate the value of Net Domestic Product at Factor Cost (NDPFC):

S.No.	*Items*	*Amount (in ₹crore)*
(i)	Gross Domestic Fixed Capital Formation	200
(ii)	Exports	50
(iii)	Government Final Consumption Expenditure	320
(iv)	Consumption of Fixed Capital	35
(v)	Household Final Consumption Expenditure	470
(vi)	Inventory Investment (Net)	(-)40
(vii)	Imports	60
(viii)	Net Indirect Taxes	50
(ix)	Net Factor Income from Abroad	20

3. "Real Gross Domestic Product (GDP) is a better indicator of economic growth of a nation as compared to the Nominal Gross Domestic Product (GDP)."
   Do you agree with the given statement? Justify your answer with a valid hypothetical numerical example.
4. Define Operating Surplus.
5. Elaborate the concept of Externalities with the help of suitable example.
6. State any three precautions to be taken while estimating National Income by:
   i) Expenditure Method, ii) Income Method & iii) Value Added Method
7. "National income is always greater than domestic income". Do you agree with the given statement? Support your answer with a valid reason.

8. In the estimation of Gross Domestic Product (GDP) using expenditure method, focus lies only on expenditure by the residents of the country." Do you agree with the given statement? Give valid reasons for your answer.

9. Find the Value Added by Firm A, from the following information:
10. Differentiate between:
    i. Stock & Flow
    ii. Real flow & Money flow
    iii. Domestic Income & National income
    iv. Rent & Royalty
    v. Real GDP & Nominal GDP
    vi. Factor Income & Transfer Income
    vii. Final good & intermediate good
11. How should the following be treated in estimating National Income of a Country? Give validreasons.

    (i) Profits earned by Foreign Banks in India.
    (ii) Expenditure on upgradation of fixed asset by a firm.
    (iii) Imputed rent of self-occupied houses.
    (iv) Interest received on debentures.
    (v) Financial help received by flood victims.
12. State the meaning of 'Income from Property and Entrepreneurship'.
13. "Gross Domestic Product (GDP) and sum of Gross Value Added (GVA) in an economy are always equal."Justify the given statement with valid arguments.
14. State the steps pertaining to the estimation of National Income under the:

    a) Value added method, b) Income Method c) Expenditure Method.
15. Explain the likely impact of contruction of 100 new super speciality hospitals in a nation on Gross Domestic Product (GDP) and welfare in the economy.

<u>II. CASE BASED QUESTIONS:</u>

i. **Read the below given passage and Answer the questions that follow.**

Net Factor Income from Abroad refers to the difference between factor income received from the rest of the world and factor income paid to the rest of the world. NFIA is significant to differentiate between Domestic Income and National Income. In Practical estimates, domestic income is estimated first and then, National Income is derived from Domestic Income.

1. How is National Income derived from Domestic Income?

2. What is meant by Factor income from abroad?

3. NFIA is ______________ when income earned from abroad is less than income paid to abroad.

4. What is the value of NFIA in a closed economy?

5. Write the difference between domestic income and national income.

6. Assertion(A): Domestic income of a country can be more than its National income.
Reason(R): It is possible when factor income paid abroad is more than factor income received from abroad
a) Both (A) and (R) are true and (R)is the correct explanation of (A)
b) Both (A) and (R) are true and (R) is not the correct explanation of (A)
c) Both (A) and (R) are false
d) (A) is wrong (R) is true

2. **GDP and Welfare**

Can the GDP of a country be taken as an index of the welfare of the people of that country? If a person has more income, he or she can buy more goods and services and his /her material being improves. So it may seem reasonable to treat his or her income level. GDP is the sum total of value of goods and services created within the geographical boundary of a country in a particular year. It gets distributed among the people as incomes (except for retained earnings). So we may be tempted to treat higher level of GDP of a country as an index of greater well being of the people of that country(to account for price changes, we may take the value of real GDP instead of nominal GDP)

How uniform is the distribution of GDP? It seems that majority of people are poor and only some have benefited.

Source: Introductory Macoeconomics Textbook for class 12, p.no 27

Questions

1. Is it reasonable to treat a person's income level as his or her level of well-being? Give reason

2. Which is the better measurement of GDP? (Nominal GDP/Real GDP) Why?

3. Do you think that GDP is a true indicator of welfare?(Yes/No)

4. In the given picture, do you think that the distribution of GDP is uniform?

5. In the question given below, there are two statements marked as Assertion (A) and Reason(R). Read the statements and choose the correct option:
Assertion : Real GNP is used for making comparisons of international standards of living and rates of economic growth of various countries.
Reason : Nominal GNP may be increasing due to rise in price level, the quantity of goods and services produced may remain constant.

Options:
a. Both A and R is true and R is the correct explanation of A.
b. Both A and R is true and R is not the correct explanation of A.
c. A is correct and R is wrong.
d. A is wrong and R is correct.

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