NATIONAL INCOME

Q. 1. When will be NDP_{MP} be less than NDP_{FC}?

Q.2. State the meaning of consumption of fixed capital?

Q.3. State the meaning of injection in income flow, with the help of an example.

Q.4. What do you mean by leakage in income flow?

Q.5. State whether the following are stock or flow :

(i) Losses (ii) Capital

(iii) Production (iv) Wealth

Q.6. Define 'Nominal GNP'

Q.7. What do you mean by 'Real GNP'?

Q.8. Define stock variable.

Q.9. Define capital goods.

Q.10. Which of the two NVA_{FC} and NVA_{MP} is equal to sum of factor income.

Q. 11. Why is money received from sale of shares is not included in domestic factor income.

Q. 12. What aggregate do we get, when we add up the net value added of all producing sectors of an economy?

Q. 13. How does value added method solve the problem of double counting?

Q. 14. What is real GDP.

Q. 15 Complete the following aggregates.

(i) National Income = Domestic income ....

(ii) Personal Income = Private income ....

(iii) Net value added at FC = Gross output ....

SHORT ANSWER TYPE QUESTIONS (3 MARKS)

Q.1. Distinguish between real and nominal gross domestic product.

Q.2. Explain the basis of classifying goods into intermediate and final goods. Give suitable examples.

Q.3. Distinguish between consumer goods and capital goods. Which of these are final goods?

Q.4. Explain how distribution of G.D.P. is its limitation as a measure of economic welfare.

Q.5. Explain the meaning of "Domestic Territory of a country".

Q.6. Distinguish between 'factor income' and 'transfer income'.

Q.7. Classify the following into stock and flow :

(i) Population of India
(ii) Exports
(iii) Investment
(iv) Expenditure on food by household.
(v) National Capital
(vi) Deposits in saving account of bank.

Q.8. Explain how distribution of Gross domestic product is a limitation in taking domestic product as an Index of welfare.

Q.9. How can externalities be a limitation of using gross domestic product as an index of welfare?

Q.10. Giving reasons, classify the following into intermediate and final goods :

(i) Machines purchased by a dealer of machines.

(ii) A car purchased by a house hold.

Q.11. Distinguish between stock and flows. Give an example of each.

Q.12. What is meant by a normal resident? State which of the followings are treated as normal resident of India.

(i) An American working in the office of WHO located in India.

(ii) Indian working in U.S.A. embassy located in India.

Q.13. Which of the following is factor income from abroad for an Indian resident and why?

(a) Interest income received by Indian resident on the bonds of companies operating in USA.

(b) Remittances by Indians settled abroad to their families in India.

Q.14. Explain why subsidies are added to and indirect taxes deducted from domestic product at market price to arrive at domestic product at factor cost.

Q.15. Giving reasons, explain how are the following treated in estimating national Income by the income method.

(a) Interest on a car loan paid by an individual

(b) Interest on a car loan paid by a Govt. owned company.

Q.16. Why do we include the imputed value of goods but not services while estimating production for self consumption?

Q.17. Define operating surplus, write its components.

Q.18. Distinguish between domestic product and national product. When can domestic product be more than National Product?

LONG ANSWER QUESTIONS (6 MARKS)

Q.1. How will you treat the following while estimating national income of India?

(a) Dividend received by an Indian from his investment in shares of a foreign company.

(b) Money received by a family in India from relatives working abroad.

(c) Interest received on loan given to a friend for purchasing a car.

Q.2. How will you treat the following while estimating national income of India? Give reason for your answer?

(a) Dividend received by a foreigner from investment in shares of an Indian Company.

(b) Money received by a family in India from relatives working abroad.

(c) Interest received on loan given to a Friend for purchasing a car.

Q.3. Explain the problem of double counting in estimating national income, with the help of an example. Also explain two alternative ways of avoiding the problem.

Q.4. Distinguish between real gross domestic product and nominal gross domestic product. Can gross domestic product be used as an index of welfare of the people? Give two reasons.

Q.5. How will you treat the following in estimating national income of India? Give reasons for your answer.

(a) Value of bonus shares received by share holders of a company. (b) Fees received from students.

(c) Interest received on loan given to a foreign company in India.

Q.6. Explain the steps of measuring national income by income method.

Q.7. Giving reasons, categories following into transfer payment or factor payments.

(a) Financial help gives to flood victims

(b) Old age pension.

(c) Imputed rent.

Q.8. **Calculate private income :**

		Rs. (Crore)
(i)	National interest	10
(ii)	Personal disposable income	150
(iii)	Corporate Profit Tax	25
(iv)	Personal Taxes	50
(v)	Retained earnings of private corporations	05

[Ans.: Rs. 230 crores]

Q.10. Giving reasons explain whether the following are included in domestic product of India.

(i) Profit earned by a branch of foreign bank in India.

(ii) Payment of salaries to its staff by an embassy located in New Delhi.

(iii) Interest received by an Indian resident from firms abroad.

Q.11. How will you treat the following while estimating national income. Give reasons for your answer.

(i) Capital gain on sale of house.

(ii) Prize won is lottery.

(iii) Interest on public debt.

Q.12. While estimating national income. How will you treat the following. Give reason for your answer.

(i) Imputed rent of occupied house.

(ii) Interest received on debentures.

(iii) Financial help received by Flood victims.

NUMERICALS FOR PRACTICE

Q.1. Calculate (i) gross domestic product at factor cost and (ii) net national disposable income : 6

	Rs. (in Crores)
(i) Net indirect tax	130
(ii) Government final consumption expenditure	100
(iii) Profit	90
(iv) Net domestic capital formation	120
(v) Change in stocks (–)	10
(vi) Private final consumption expenditure	500
(vii) Net imports	20
(viii) Net current transfers to abroad	10
(ix) Net factor income to abroad	30
(x) Gross domestic capital formation	160

Q.2. From the following data calculate GNP at FC by (a) Income method

(b) Expenditure method.

		Rs. (Crore)
(i)	Net domestic capital formation	500
(ii)	Compensation of employees	1850
(iii)	Consumption of fixed capital	100
(iv)	Govt. final consumption expenditure	1100
(v)	PVT. final consumption expenditure	2600
(vi)	Rent	400
(vii)	Dividend	200
(viii)	Interest	500
(ix)	Net Exports	(—) 100
(x)	Profits	1100
(xi)	NFIA	(—) 50
(xi)	Net Indirect taxes	250

[Ans. : Rs. 3900 Crore]

Q.3. There are only two producing sectors A and B in an economy. Calculate:

(a) Gross value added at market price by each sector

(b) National income.

		Rs. (Crore)
(i)	Net factor income from Abroad.	20
(ii)	Sales by A	1000
(iii)	Sales by B	2000
(iv)	Change in stock of B	(–) 200
(v)	Closing stock of A	50
(vi)	Opening stock of A	100
(vii)	Consumption of fixed capital by A and B	180
(viii)	Indirect taxes paid by A and B	120
(ix)	Purchase of raw material by A	500
(x)	Purchase of raw material by B	600
(xi)	Exports by B	70

[Ans. : Rs. 1370 Crore

Q. 4. From the following data, calculate

(a) Gross Domestic Product at Factor Cost (GDP_{FC}) and

(b) Factor income to abroad.

		Rs. (Crore)
(i)	Gross Domestic Capital formation	600
(ii)	Interest	200
(iii)	Gross national product at market price	2800
(iv)	Rent300	
(v)	Compensation of employees	1600
(vi)	Profit	400
(vii)	Dividends	150
(viii)	Factor income from abroad.	50
(ix)	Change in stock	100
(x)	Net indirect taxes	240
(xi)	Net fixed capital formation	400
(xii)	Net Export	(–) 30

[Ans. : (a) GDP_{FC} = 2600 Crores (b) FIPA = 90 Crores]

Q.5. Calculate net national product at factor cost and gross national disposable income from the following :

		Rs. (Crore)
(i)	Net current transfers to Row	10
(ii)	Savings of non-departmental enterprises	60
(iii)	Net indirect tax.	90
(iv)	Income from property and entrepreneurship to the Govt. administrative departments	80
(v)	Consumption of fixed capital	70
(vi)	Personal Tax	100
(vii)	Corporation tax	40
(viii)	National debt interest	30
(ix)	Current transfer payments by Govt.	50
(x)	Retained Earnings of PVT. Corporate	10
(xi)	Personal disposable income.	1100

[Ans. : (a) NNP_{FC} = Rs. 1320 Crores (b) GNDI = 1470 Crores]

Q.6.Calculate (a) Gross domestic product at market price (GDP_{MP}) (b) Factor income from abroad.

Rs. (Crore)

(i) Profit	500
(ii) Export	40
(iii) Compensation of Employees	1500
(iv) Net current transfer from Row	2800
(v) Rent90	
(vi) Interest	300
(vii) Factor income to abroad	400
(viii) Net indirect tax	120
(ix) Gross fixed capital formation	250
(x) Net domestic capital formation	650
(xi) Gross fixed capital formation	700
(xii) Change in stock	50

[Ans. : GDP_{MP} = 3050 Crores (b) FIRA = 120 Crores]

Q.7. From the following data calculate (a) GDP_{MP} and (b) Factor income from abroad.

Rs. (Crore)

(i) Gross national product at factor cost	6150
(ii) Net export	(–) 50
(iii) Compensation of Employees	3000
(iv) Rent800	
(v) Interest	900
(vi) Profit	1300
(vii) Net Indirect tax	300
(viii) Net domestic capital formation	800
(ix) Gross fixed capital formation	850
(x) Change in stock	50
(xi) Dividend	300
(xi) Factor income to abroad.	80

[Ans. : GDPMP = 6400 Crores; FIFA = 130 Crores]

Q.8. Calculate 'Net National Disposable Income' and 'Personal Income' from the following data.

		Rs. (Crore)
(i)	Personal tax	212
(ii)	Net national product at factor cost	2500
(iii)	Net indirect tax	180
(iv)	Domestic product accruing to Govt.	500
(v)	Retained earnings of PVT. Corporations	80
(vi)	NFIA	23
(vii)	National debt interest	100
(viii)	Net current transfer from abroad	20
(ix)	Corporation tax	70
(x)	Current transfer from Government	30

[Ans. : NNDI = 2700 Crore; P.I. = 2000 Crore]

Q.9. Find out (a) national income and (b) net national disposable income :

		Rs. (Crore)
(i)	Factor income from abroad	15
(ii)	Private final consumption expenditure	600
(iii)	Consumption of Fixed capital	50
(iv)	Government final consumption expenditure	200
(v)	Net current transfers to abroad	(–) 5
(vi)	Net domestic fixed capital formation	110
(vii)	Net factor income to abroad	10
(viii)	Net imports	(–) 20
(ix)	Net indirect tax	70
(x)	Change in stocks	(–) 10

[Ans. : N.I. - 840 Crore NNDI - 915 Crore]

Q.10. From the following data show that net value added at factor cost (NVA_{FC}) is equal to the sum of factor incomes.

Rs. (Crore)

(i)	Purchase of raw material and other input from the domestic market	
(ii)	Increase in stock	200
(iii)	Domestic sales	1800
(iv)	Import of raw material	100
(v)	Exports	200
(vi)	Depreciation of fixed capital	75
(vii)	Salaries and wages	600
(viii)	Interest payments	450
(ix)	Rent75	
(x)	Dividends	150
(xi)	Undistributed profits.	80
(xi)	Corporate profit tax	20
(xii)	Indirect tax	50

[Ans. : 1375 Crores]

Q.11. From the following data calculate (a) Private income (b) Personal income (c) Personal disposable income.

Rs. (Crore)

(i) Income from property and entrepreneurship accruing

	to the Govt. administrative Dept.	100
(ii)	Saving of non-departmental enterprises	80
(iii)	Factor income from NDP occurring to Private sector	500
(iv)	Corporation tax	30
(v)	Saving of Pvt. corporate sector	65
(vi)	Direct taxes paid by house hold	20
(vii)	Current transfers from Govt. Administrative departments	10
(viii)	Current transfer from Row	20
(ix)	Factor income from abroad	5
(x)	Operating surplus	150
(xi)	Factor income to abroad	15

[Ans. : (a) 520 Crore (b) 425 Crore (c) 405 Crore]

ANSWERS

1 Mark Questions

1. Net Export means the difference between export and imports.

   Net export = Export – Imports

2. Current transfers are those transfers which are paid from current income and are added in current income of recipient.

3. Normal resident of a country is that person or institution whose centre of economic interest lies in that country.

4. Economic territory means that geographical territory administrated by a

   Govt. within which persons, goods and capital circulates freely.

5. When subsidies are more than indirect taxes.

6. It decreases in the value of fixed capital due to normal wear and tear and foreseen obsolescence.

7. 'Injection' is that economic concept, which add to flow of income and goods e.g., investment, Exports.

8. "Leakage" is that economic concept, which has negative impact on flow of income.

9. (i) Flow (ii) Stock (iii) Flow (iv) Stock

10. It is the gross money value of National Product of current year valued at current prices.

11. It is the gross money value of National product of current year valued at base year price.

12. A variable whose value is measured at a point of time.

13. Goods used is producing other goods are called capital goods.

H.O.T.S.

1. NVA_{FC}

2. It is the financial transactions and does not have any impact on production.

3. NDP.

4. By deducting intermediate consumption from value of output, the problem of double counting can be solved.

5. When per capita income is measured from real GDP (measured at constant price) is called per capita real GDP.

6. (i) National income = Domestic Income + Net factor income from abroad.

   (ii) Personal income = Private income – Corporate tax – Undistributed profit.

   (iii) Net value added at FC = Gross Output – Intermediate Consumption – Depreciation – Net Indirect Tax

HINT S

3-4 Marks Questions

7. (a) Stock (b) Flow

   (c) Flow (d) Stock

   (e) Stock (f) Stock

10. (a) Intermediate good because it is for resale

    (b) final good because purchased by ultimate consumer.

15. (a) Not include as paid for consumption expd. (b) Included as paid for production expd.

NUMERICAL QUESTIONS (6 MARKS)

1. (i) GDP_{FC} :

$500 + 100 - 20 + 160 - 130$

$760 - 150 = 610$

(ii) NNDI

$610 - (160 - 120) - 30 + 130 - 10$

$740 - 80 = 660$

2. GNP_{FC}

(a) Income Method :

$= (ii) + (vi) + (viii) + (x) + (xi)$

$NNP_{FC} = 1850 + 400 + 500 + 1100 + (-50)$

$= 3800$

$GNP_{FC} = 3800 + 100 = 3900$ Crores

(b) Expd. Method = (i) + (iii) + (iv) + (v) + (ix) + (xi) – (xii)

$500 + 100 + 1100 + 2600 + (-100) + (-50) - 250$

= 3900 Crore

3. GVA_{MP} of Sector A

$1000 - 50 - 500 = 450$

GVA_{MP} of Sector B

$2000 - 200 - 600 = 1200$

Total $450 + 1200 = 1650$

$NNP_{FC} = 1650 - 150 - 120 + 20 = 1370$ Crores

4. GDP_{FC} :

$NDP_{FC} = (v) + (ii) + (iv) + (vi)$

$= 2500$

$GDP_{FC} = NDP_{FC} + CFC$

$= 600 - (400 + 100) = 100$

$GDP_{FC} = 2500 + 100 = 2600$ Crore.

$GNP_{MP} = GDP_{FC} + NFIA + NIT$

$2800 = 2600 + NFIA + 240$

$NFIA = -40$

$NFIA = FIFA - FIPA$

$-40 = 50 - FIPA$

$FIPA = 50 + 40 = 90$ Crores

5. $NNP_{FC} = (xi) + (vi) + (vii) + (x) - (viii) - (ix) + (i) + (ii) + (iv)$

$= 1100 + 100 + 40 + 10 - 30 - 50 + 10 + 60 + 80$

$= 1320$ Crores

$GNDI = NNP_{FC} + (iii) + (v) - (i)$

$= 1320 + 90 + 70 - 10$

6. (a) GDP_{MP} :

= 1470 Crores

$NDP_{FC} = (iii) + (v) + (vi) + (vii)$

$= 1500 + 500 + 300 + 400$

= 2700 Crores

$GDP_{MP} = NDP_{FC} + CFC + NIT$

$CFC = (GFCF + S) - 650$

$= (700 + 50) - 650$

$= 100$

$NIT = 250$

$GDP_{MP} = 2700 + 100 + 250$

$= 3050$

(b) FIFA

$GNP_{FC} = GDP_{MP} + NFIA - NIT$

$2800 = 3050 + NFIA - 250$

$NFIA = 0$

$NFIA = FIFA - FIPA$

$0 = FIFA - 120$

$FIFA = 120$ Crores

GDP_{MP} :

$NDP_{FC} = (iii) + (iv) + (v) + (vi)$

$GDP_{MP} = NDP_{FC} + CFC + NIT$

$GDCF - NDCF$

$= (GFCF + s) - NDCF$

$= (850 + 50) - 800$

$= 100$

$NIT = 300$

$GDP_{MP} = 6000 + 100 + 300 = 6400$ Crores

$GNP_{FC} = GDP_{MP} + NFIA - NIT$

$NFIA = 50$

$NFIA = FIFA - FIPA$

$50 = FIFA - 80$

$FIFA = 130$

8. $NNDI = (ii) + (iii) + (viii)$

$= 2500 + 180 + 20$

$= 2700$

$Pr.\ I = (ii) - (iv) + (vii) + (viii) + (x) - (ix) - (v)$

$= 2500 - 500 + 100 + 20 + 30 - 70 - 80$

$= 2000$ Crores

9. $N.I. = (ii) + (iv) + (vi + x) - (viii) - (ix) - (vii)$

$= 600 + 200 + 110 + (-10) - (-20) - 70 - 10$

$= 930 - 90$

$= 840$ Crores

$NNDI = N.I + ix - v$

$= 840 + 70 - (-5)$

$= 915$ Crore

10. NVA_{FC} = (ii) + (iii) + (v) – (i) – (iv) – (vi) – (xiii)

= 1375 Crores

Sum of factor income = (vii) + (viii) + (ix) + (x) + (xi) + (xii)

= 600 + 450 + 75 + 150 + 80 + 20

= 1375

11. (a) PVT Income – Rs. 520 Crore

(b) P.I. – Rs. 425 Crore

(c) P.D.I. = Rs. 405 Crore

MONEY AND BANKING

VERY SHORT ANSWER TYPE QUESTIONS (1 MARK)

Q.1. Define money.

Q.2. What is meant by M_1

Q.3. What is meant by the term money supply?

Q.4. What is bank rate?

Q.5. State two primary functions of money.

Q.6. What is meant by credit creation?

Q.7. What is credit multiplier?

Q.8. Write two functions of central banks.

Q.9. What is cash reserve ratio (CRR)?

Q.10. What is statutory liquidity ratio (SLR)?

Q.11. What is demand deposits by banks?

Q.12. State two monetary measures of credit control by central bank.

Q.13. What are various money stock measures?

Q.14. What is margin requirement of loans.

SHORT ANSWER TYPE QUESTIONS (3-4 MARKS)

Q.1. Explain the function of money as 'Unit of value'.

Q.2. How does money solve the problem of double coincidence of wants?

Q.3. Explain 'Store of value' function of money.

Q.4. What are open market operations? What is their effect on availability of credit?

Q.5. Explain the 'lender of last resort' function of central bank.

Q.6. Distinguish between SLR and CRR. Explain the Role of SLR and CRR in credit control.

Q.7. How does changes in Bank rate affect money creation by commercial Bank? Explain.

Q.8. State the role of central Bank as a banker of the Government.

Q.9. State any four functions of money.

Q.10. Explain the 'Standard of deferred payment'.

Q.11. How central bank is controller of credit?

Q.12. Explain how does followings helps to control the credit creation.

(i) Open market operation

(ii) Margin requirement of loans

Q.13. What is meant by statutory liquidity ratio (SLR). State the effect of rise in rate of SLR on creation of credit.

Q.14. Explain 'currency authority' and 'controller of credit' functions of central bank.

LONG ANSWER TYPE QUESTIONS (6 MARKS)

Q.1. Define Central Bank. What are the functions of Central Bank?

Q.2. Explain any four functions of money.

Q.3. How does a central bank influence credit creation by commercial banks through 'open market operation' explain.

Q.4. Explain the process of credit creation or money creation by commercial banks with the help of numerical example.

ANSWERS

1 MARK QUESTIONS

1. Any thing which is generally acceptable by the people as medium of exchange, measure of value, standard of deferred payment and performs the function of store of value.

2. M_1 = currency held with public + demand deposit in banks + other deposit in RBI.

3. Total stock of money which are held by the public at a particular point of time in an Economy.

4. Rate at which central bank lends to the commercial bank.

5. 1. Medium of Exchange

   2. Measure of value

6. Credit creation means power to expand demand deposits of Commercial Banks.

7. Credit multiplier measures, number of times deposits are multiplied as credit.

   Credit multiplier = 1/CRR

8. (i) Currency Authority

   (ii) Controller of money and credit

9. Commercial Banks are required under law to keep a certain percentage of their total deposit in the central banks in the form of cash reserves. This is called CRR.

10. Every Commercial Bank is required to keep a fixed percentage (ratio) of its assets in liquid form, called SLR.

11. Demand deposits are deposits which can be withdrawn from bank at any time by the account holder.

12. (i) Bank Rate policy.

    (ii) Open market operation

13. Following four measures of money stock are used.

M1 = C + DD + OD

M2 = M1 + Saving deposit in Post Office Saving banks.

M3 = M1 + Net time deposit of banks

M4 = M3 + Total deposits with post office saving organisation (except NSC).

14. Marginal requirement of loan means the difference in percentage between the amount of the loan and market value of the security offered by the borrower against the loan.

DETERMINATIONS OF INCOME & EMPLOYMENT

1 MARK QUESTIONS

Q.1. Define aggregate demand.

Q.2. Define aggregate supply.

Q.3. What is meant by Ex-Post investment?

Q.4. What is meant by average propensity to consume?

Q.5. Define marginal propensity to consume.

Q.6. What is autonomous consumption?

Q.7. What is Ex-ante aggregate demand?

Q.8. Can the value of APC be greater than one?

Q.9. Can APC be ever zero?

Q.10. What is the relationship between APC and APS?

Q.11. If APS is 0.6, how much will be the APC?

Q.12. What is meant by Ex-ante saving?

Q.13. If MPC and MPS are equal, what is the value of the multiplier?

Q.14. What can be the minimum value of investment multiplier?

Q.15. What can be the maximum value of multiplier?

Q.16. Can average propensity to consume be negative?

Q.17. What do you mean by investment multiplier?

Q.18. What will be the impact of increase in cash reserve ratio on the aggregate demand?

Q.19. What is investment?

Q.20. Why can the value of marginal propensity to consume not be greater than one?

Q.21. What is the impact of deficient demand on production and employment?

Q.22. Define inflationary gap.

Q.23. Under which situation is consumption function represented by a straight line.

Q.24. What is the impact of continuous increase in income on average propensity to consume?

Q.25. How much additional income will be generated in an economy with additional investment of Rs. 100 crore, when MPC = 1/2?

SHORT ANSWER TYPE QUESTIONS (3-4 MARKS)

Q.1. Define aggregate demand. State its components.

Q.2. Distinguish between average propensity to consume and marginal propensity to consume with the help of numerical examples.

Q.3. Savings and investment are always equal discuss.

Q.4. What is meant by investment multiplier? Explain the relationship between MPC and K?

Q.5. State briefly the effect of excess demand on output, employment and price.

Q.6. Explain the concept of inflationary gap with the help of a diagram?

Q.7. Explain the situation of deficient demand in an economy with the help of a diagram.

Q.8. State briefly any three measures to control excess demand in an economy.

❑ Find consumption expenditure if – autonomous consumption = Rs. 100 marginal propensity to consume = 0.70 national income = Rs. 1000

Q.9. What is monetary policy? Explain the role of (i) Bank rate and (ii) Margin requirements in influencing the availability of credit in an economy.

Q.10. Give the meaning of excess demand? Explain any two fiscal measures to current excess demand.

Q.11. What is fiscal policy? What possible fiscal measures can be taken with respect to deficient demand in an economy?

Q.12. What do you mean by full employment equilibrium? Explain with the help of diagram.

Q.13. Explain with the help of diagram the concept of under-employment equilibrium.

Q.14. Distinguish between induced investment and autonomous investment?

Q.15. Explain the concept of consumption function.

Q.16. Briefly explain the relationship between MPC and MPS.

Q.17. Giving reasons, state whether the following statements are true or false :

(i) When marginal propensity to consume is zero, the value of investment multiplier will also be zero.

(ii) Value of average propensity to save can never be less than zero.

Q.18. If national income is 50 crore and saving Rs. 5 crore, find out APC. When income rises to Rs. 60 crore and saving to Rs. 9 crore. What will be the

APC and MPS.

Q.19. An economy is in equilibrium. Its national income is Rs. 5000 and autonomous consumption expenditure is Rs. 500. What is the total consumption expenditure if MPC is 0.7?

Q.20. Complete the following table :

Level of Income	***Savings***	***MPC***	***APC***	***APS***
0	– (80)	–	–	–
100	–	0.7	–	–
200	–	0.7	–	–
300	–	0.7	–	–
400	–	0.7	–	–

Q.21. Given marginal propensity to save equal to 0.25, what will be the increase in national income if investment increases by Rs. 125 crore. Calculate multiplier.

Q.22. Find out equilibrium level of income, when S = –40 + 0.25 Y and investment is Rs. 60.

Q.23. Can an economy be is equilibrium when there is unemployment in the economy? Explain.

Q.24. How does change in bank rate controls the situations of excess and deficient demand?

Q.25. Briefly explain with the help of diagram the relationship between savings and income?

Q.26. Does an excess of AD over AS always imply a situation of inflationary gap?

Explain.

Q.27. What happens if AD > AS prior to the full employment level of output?

Q.28. Find saving function when consumption function is given

as : C = 100 + 0.6Y.

Q.29. In a two sector economy, the saving function is given as :

S = –10 + 0.2Y

and investment function is expressed as

I = –3 + 0.1Y.

Calculate the equilibrium level of income?

Q.30. State whether the following statement are true or false. Give reasons for your answer

(a) When investment multiplier is 1, the value of MPC is zero.

(b) The value of average propensity to save can never be greater than 1.

Q.31. Giving reasons, state whether the following statements are true or false :

(i) When marginal propensity to consume is zero, the value of investment multiplier will also be zero.

(ii) Value of average propensity to save can never be less than zero.

Q.32. Find national income from the following : autonomous consumption = Rs. 100 marginal propensity to consume = 0.80 investment = Rs. 50

LONG ANSWER TYPE QUESTIONS (6 MARKS)

Q.1. Why must aggregate demand be equal to aggregate supply at the equilibrium level of income and output? Explain with the help of a diagram?

Q.2. Explain the equilibrium level of income with the help of saving and investment curves. If saving exceed planned investment, what changes will bring about the equality between them?

Q.3. Explain the working of multiplier with the help of a numerical example.

Q.4. When planned investment is more than planned savings, what will be its impact on income and employment. Explain with the help of diagram.

Q.5. What do you mean by Fiscal Policy? How it helps in controlling excess demand?

Q.6. Can there be equilibrium in case of underemployment. Explain with the help of a diagram?

Q.7. How quantitative and qualitative instruments of Govt. monetary policy controls deficient demand?

Q.8. Distinguish between inflationary gap and deflationary gap. Show deflationary gap on a diagram. Can this gap exist at equilibrium level of income? Explain.

Q.9. In an economy $S = -50 + 0.5Y$ is the saving function (where S = saving and Y = national income) and investment expenditure is 7000. Calculate.

(i) Equilibrium level of national income

(ii) Consumption expenditure at equilibrium level of national income.

Q.10. C = 100 + 0.75y is a consumption function where C = consumption expenditure and Y = national income and investment expenditure is 800. On the basis of this information calculate.

(i) Equilibrium level of national income.

(ii) Saving at equilibrium level of national income.

Q.11. Given below is the consumption function in an economy.

C = 100 + 0.5Y

with the help of a numerical example show that in this economy, as income increase APC will decrease.

Q.12. Draw on a diagram a straight line saving line curve for an economy. From it derive the consumption curve, explaining the method of derivation. Show a point on the consumption curve at which APC is equal to 1.

Q.13. How increase in investment will effect income level of an economy? Explain with the help of an example and diagram.

Q.14. Briefly explain the concept of under employment equilibrium with the help of diagram. How increase in investment helps in achieving, full employment equilibrium?

Q.15. What is 'deficient demand' in macroeconomics? Explain the role of open market operations in correcting it.

Q.16. Explain the step taken in derivation of the saving curve from the consumption curve use. Use diagram.

ANSWERS

1 MARK QUESTIONS

1. Aggregate demand refers to total demand for goods & services in an economy, measured in terms of total expenditure.

2. Aggregate supply is the money value of the final goods and services or national product produced in an economy during one year.

3. Ex-post investment refers to the actual or realised investment in an economy during a financial year.

4. Average propensity to consume is the ratios of consumption expenditure to income.

APC = C/Y

5. Marginal propensity to consume is the ΔC ratio of change in consumption to change in income.

MPS = change in S / change in Y

6. Autonomous consumption refers to minimum level of consumption, even when income is zero.

7. Estimated demand of goods and service in an economy during a financial year.

8. Yes, the value of APC > 1 before the break-even point is attained.

9. APC can never be equal to zero as consumption can never be zero at any level of income.

10. The sum of APC and APS is equal to one.

$$APC + APS = 1$$

11. APC = 1 – APS = 1 – 0.6 = 0.4

12. Exante-saving refers to amount of saving which household intended to save at different level of income in an economy.

13.

$$K = 2$$

14. The minimum value of K = 1, when MPC = O

15. The maximum value of k = ∞ when MPC = 1

16. No, because consumption can never be zero even at zero level of income.

17. Investment multiplier measures the ratio of change in investment and change in income.

18. Aggregate demand will fall.

19. Investment is an addition to capital stock. It is also called capital formation.

20. It is because change in consumption cannot be greater than change in income.

21. Production and employment will decrease due to shortage of aggregate demand.

22. Inflationary gap refers the situation under which AD is excess than required

    AS at full employment equilibrium.

23. When marginal propensity to consume remains constant.

24. APC falls with continuous increase in income.

25. $\Delta Y = K \cdot \Delta I$

    $= 2 \times 100$

    = 200 Crore.

HINTS (3-4 MARKS QUESTIONS)

18. (i) 200 Crore (ii) 400 Crore

19. (i) ΔI = 7000 Crore. (ii) ΔC = 6300 Crore.

20. APC = –, 1.5, 1.1, 0.96, 0.9

    APS = –, (–), .5, (–) 0.1, .033, .1

    S = –80, –50, –20, 10, 40

21. K = 4 $\Delta Y = 4 \times 125$ = 500 Crore.

22. Rs. 400

29. Rs. 70

6 MARKS QUESTIONS

9. (i) National income (Y) = 14100

   (ii) Consumption expenditure (C) = 7100

10. (i) Equilibrium National Income (Y) = 3600

(ii) Saving = 800

GOVERNMENT BUDGET AND THE ECONOMY

VERY SHORT ANSWER TYPE QUESTIONS (1 MARK)

Q.1. Define Budget.

Q.2. What is meant by non-tax receipts?

Q.3. What are revenue receipts?

Q.4. What are capital receipts?

Q.5. Give two examples of non-tax revenue receipts.

Q.6. What are the two sources of capital receipts?

Q.7. Define revenue deficit.

Q.8. Define fiscal deficit.

Q.9. Why is repayment of loan a capital expenditure?

Q.10. Why is recovery of loan treated a capital receipt?

Q.11. What is a balanced budget.

Q.12. Define capital expenditure.

Q.13. In a Govt. Budget primary deficit is Rs. 25,000 Cr. and interest payments are Rs. 15,000 Cr. How much is the fiscal deficit?

Q.14. Define a Tax.

Q.15. What is Direct Tax

Q.16. Define Primary Deficit

Q.17. What are Budget Receipts

Q.18. In a Govt. Budget, revenue deficit is Rs. 8,00,000 Cr. and borrowings are Rs. 50,000 Cr. How much is the fiscal deficit?

Q.19. What is disinvestment?

Q.20. What does zero primary deficit mean?

SHORT ANSWER TYPE QUESTIONS (3-4 MARKS)

Q.1. Explain the allocation of resources objective of Govt. budget.

Q.2. What is the difference between revenue budget and capital budget?

Q.3. What is meant by revenue receipts? Explain the components of revenue receipts of the Govt.

Q.4. Distinguish between direct tax and indirect tax.

Q.5. What do you mean by capital receipts? What are the main components of the capital receipts?

Q.6. Give the meaning of revenue deficit and fiscal deficit. What problems can the fiscal deficit create?

Q.7. What is fiscal deficit? What are its implications?

Q.8. Distinguish between revenue expenditure and capital expenditure with an example of each.

Q.9. Explain the "redistribution of income" objective of Govt. budget.

Q.10. Explain the 'Economic stability' objective of Govt. budget.

Q.11. Under which situations deficit budget is beneficial for the economy.

Q.12. Are fiscal deficits necessarily inflationary? Give reasons in support of your view.

Q.13. Discuss the issue of deficit reduction.

Q.14. How can surplus budget be used during inflation.

Q.15. Giving reasons, classify the following as direct and indirect taxes.

(i) Entertainment tax (ii) Corporation tax

(iii) Excise tax (iv) Capital gains tax.

Q.16. From the following data about a government budget find (a) revenue deficit,

(b) fiscal deficit and (c) primary deficit.

(Rs. arab)

(i)	Plan capital expenditure	120
(ii)	Revenue expenditure	100
(iii)	Non-plan capital expenditure	80
(iv)	Revenue receipts	70
(v)	Capital receipts net of borrowing	140
(vi)	Interest payments	30

Q.17. Distinguish between :

(i) Capital expenditure and Revenue expenditure

(ii) Fiscal deficit and Primary deficit.

Q.18. Why the fiscal Deficit equal to borrowings.

ANSWERS

1 MARK QUESTIONS

1. Budget is a financial statement showing the estimated receipts and estimated expenditure of the Govt. for coming fiscal year.
2. All the revenue receipt of Govt. other than tax receipts.
3. Revenue receipts are those receipts which neither creates liabilities for

   Govt. nor cause any reduction in assets.
4. Capital receipts are those receipts which either creates a liability or leads to reduction in assets.
5. Interest, Fee.
6. Borrowings, Recovery of loans.
7. When total revenue expenditure exceeds total revenue receipts.
8. When total expenditure exceeds total receipts excluding borrowing.
9. As it leads to reduction in liability.
10. As it leads to reduction in assets.
11. Balanced budget is that when estimated receipts are equal to estimated expenditure.
12. Capital expenditure is that which creates assets and which reduces liabilities.
13. Fiscal Deficit = Primary Deficit + Interest Payment

    = 25,000 + 15,000

    = 40,000 Crore.
14. Tax is a legally compulsory payment imposed by Govt.
15. It refer the tax whose primary and final burdon borne by the person on whom it is imposed.
16. It is the difference of fiscal deficit and interest paid.
17. Estimated money receipt received by the Govt. from different sources in

fiscal year are called budgetary receipts.

18. Rs. 50,000 Crore.

19. Disinvestment refers to withdrawal of existing investment.

20. Zero primary deficit means that interest commitment on earlier loans have compelled the Govt. to borrow.

HINTS

3-4 MARKS QUESTIONS

15. (i) Indirect tax

    (ii) Direct tax

    (iii) Indirect tax

    (iv) Direct tax

BALANCE OF PAYMENT

VERY SHORT ANSWER TYPE QUESTIONS (1 MARK)

Q.1. What is meant by balance of trade?

Q.2. Define balance of payment.

Q.3. When is there a deficit in the balance of trade.

Q.4. The balance of trade shows a deficit of Rs. 300 crs. and the value of exports is Rs. 500 crs. What is the value of imports?

Q.5. List two items included in the balance of trade account.

Q.6. List two items of the capital accounts of balance of payment.

Q.7. Give meaning of managed floating exchange rate.

Q.8. What is meant by invisible items?

Q.9. What is meant by unilateral transfer?

Q.10. What is meant by Autonomous transactions?

Q.11. Write the name of those economic transactions which are made by the government to make equilibrium in balance of payment.

Q.12. What do you mean by Fixed Exchange Rate?

Q.13. Define Flexible Exchange rate?

Q.14. State two merits of Flexible Exchange Rate.

Q.15. State two demerits of Flexible Exchange Rate.

Q.16. State two merits of fixed exchange rate.

Q.17. State two demerits of fixed exchange rate.

Q.18. What is the slope of demand curve of foreign exchange?

Q.19. What is the slope of supply curve of Foreign Exchange?

Q.20. What will be the effect on exports, if foreign exchange rate increases?

Q.21. What will be the effect on imports if foreign exchange rate increases.

Q.22. Define Devaluation of Domestic Currency.

Q.23. What is meant by Depreciation of Domestic Currency?

Q.24. What is meant by Appreciation of Domestic Currency?

Q.26. In which circumstances, the devaluation of currency will be in favour of economy?

Q.27. In which circumstances the appreciation of currency will be non favourable for the economy?

Q.28. Under which circumstances, the purchasing power of foreign currency increases in comparison to domestic currency?

Q.29. With the help of which item BOP gets balanced?

Q.30. Does BOP always remain balanced?

SHORT ANSWER TYPE QUESTIONS (3-4 MARKS)

Q.1. Write any three points of difference between BOT and BOP.

Q.2. Distinguish between current account and capital account of BOP.

Q.3. How can deficit in BOP be financed?

Q.4. What are the components of the current account of the balance of payment account.

Q.5. Give difference between the autonomous and accommodating items included in BOP.

Q.6. Distinguish between autonomous and accommodating transaction in the balance of payment account. Give an example each.

Q.7. Give three reasons why people desire to have foreign exchange.

Q.8. Give any three/four sources of supply of foreign exchange.

Q.9. Explain the relationship between foreign exchange rate and demand for it.

Q.10. Explain the relationship between foreign exchange rate and supply of foreign exchange.

Q.11. Explain the terms 'appreciation and depreciation of currency.'

Q.12. Explain the merit and demerits of fixed exchange rate.

Q.13. Explain the merits and demerits of flexible exchange rate.

Q.14. How is flexible exchange rate determined in a free market economy? Explain with the help of diagram.

Q.15. Higher the foreign exchange rate, lower the demand fore foreign exchange.

Explain why?

Q.16. Lower the foreign exchange rate, higher the demand for foreign exchange.

Explain why?

Q.17. Explain the impact of Devaluation of domestic currency on the export and imports of an economy.

Q.18. Give the meaning of fixed flexible and managed floating exchange rate.

Q.19. Why the demand for foreign exchange falls when the foreign exchange rate rise explain with the help of an example.

Q.20. What is the impact of appreciation of currency on the demand for foreign exchange?

Q.21. What is the impact of appreciation of currency on the supply of foreign exchange?

Q.22. What is the impact of depreciation of currency on the demand for foreign exchange?

Q.23. What is the impact of depreciation of currency on the supply of foreign exchange?

Q.24. Distinguish between devaluation and depreciation of domestic currency.

Q.25. Giving reasons state whether the following statements are true or

false : (i) Excess of foreign exchange receipts over foreign exchange

payments

on account of accommodating transactions equals deficit in the balance of payments.

(ii) Export and import of machines are recorded in capital account of the balance of payments account.

6 MARKS QUESTIONS

Q.1. Explain the distinction between Autonomous and Accommodating transactions in balance of payments. Also explain the concept of balance of payments 'defict' in this context.

Q.2. What is balance of payments accounts? Name three components each of its current account and capital account.

Q.3. How is balance of trade different from balance of payments? State the items not included in balance of trade.

ANSWERS

1 MARK QUESTIONS

1. It is the difference between monetary value of exports and imports of material goods or visible items.

2. A balance of payment is a statement of double entry system of all economic transactions between residents of a country and the residents of foreign countries during a given period of time.

3. When the value of imports is more than value of exports.

4. 800 Crores.

5. Visible items Watch, Petrol, Electronic item.

6. (i) Direct Foreign Investment

   (ii) Loans

7. Exchange rate influenced by the intervention of the central bank in the foreign exchange market.

8. Invisible items are all those type of services which are exported and imported.

9. These refers to one sided transfers from one country to other. These are not trading transactions.

10. Autonomous transactions refer to international economic transactions in the current and capital account that are undertaken for profit.

11. Accommodating items.

12. Fixed exchange rate is the rate which is officially fixed in terms of Gold or any other currency by the govt. or adjusted only frequently.

13. Flexible exchange rate is determined by demand for and supply of a given currency in foreign exchange market.

14. (i) No need to hold foreign exchange reserve. (ii) Optimum resource allocation.

15. (i) Fluctuations in foreign exchange rate. (ii) Encourages speculation.

16. (i) Stability in Exchange rate. (ii) No scope for speculation.

17. (i) Need to hold foreign exchange reserves.

    (ii) No automatic adjustment in the 'Balance of Payments.'

18. Negative slope.

19. Positive slope.

20. Exports will increase because Indian goods have become cheaper for foreigners.

22. Import will decrease because foreign goods have become costlier for Indians.

23. Devaluations means to reduce parity rate of its currency with respect of gold or any other currency by the Government.

24. When the value of domestic currency reduce with respect to other currency by the demand and supply forces of foreign exchange in a free exchange market.

25. Appreciation of currency refer when the value of foreign currency reduce with respect to domestic currency. It occurs in a free exchange market by the forces of demand and supply of currency.

1 MARK HOTS QUESTIONS

26. When economy adopt the policy of Export Promotions.

27. When we adopt the policy of Import Substitution.

28. Capital account records capital transfer such as loans and investment between one country and the rest of the world which causes a change in the asset or liability status of the residents of a country or its

government.

29. With the help of international loans.

30. Always in equilibruim in the sense of accounting.