ECONOMICS

MCQ

1. Read the following statements carefully.

Statement I: In a two-sector economy, consumption expenditure and investment expenditure are the two components of Aggregate Demand.

Statement II : Aggregate Demand curve always starts from point of origin with positive slope. In the light of the given statements, choose the correct alternative from the following:

(a) Statement I is true but statement II is false.

(b) Statement I is false, but statement II is true.

(c) Both statements I and II are true.

(d) Both statements I and II are false.

2. Aggregate Demand can be increased by :

(a) increasing Bank Rate

(b) selling government securities by Reserve Bank of India

(c) increasing Cash Reserve Ratio

(d) none of the above.

VSA (1 MARK)

3. Effective demand is defined as_____

4. Justify the following statement with valid reason.

"Ex-ante Aggregate Demand is always equal to Ex-ante Aggregate Supply."

5. Define Aggregate Supply.

6. What is 'Aggregate Demand' in macro-economic?

SA II (4 MARKS)

7. State and discuss the components of Aggregate Demand in a two-sector economy. (2019)

8. Discuss the working of the adjustment mechanism in the following situation.

   (a) Aggregate Demand is greater than Aggregate Supply.

   (b) Ex-Ante Investments are less than Ex-Ante Savings.

9. Distinguish between Aggregate Demand and Aggregate Supply.

4.2 PROPENSITY TO CONSUME AND PROPENSITY TO SAVE

MCQ

10. Read the following statements : Assertion (A) and Reason (R). Choose the correct alternative given below. Assertion (A) : Rich people have lower Marginal Propensity to Consume (MPC) as compared to poor people.

Reason (R) : Consumption curve makes an intercept on the Y-axis at a point above the origin.

(a) Both A and R are true and R is the correct explanation of A.

(b) Both A and R are true, but R is not the correct explanation of A.

(c) A is true but R is false.

(d) A is false but R is true.

11. If the Marginal Propensity to Save (MPS) is 0.5, what will be the value of investment multiplier?

(a) 1   (b) 2   (c) 1.6   (d) 1.45

12. An increase in National Income occurs by ₹ 3,000 crore, as investments increases by ₹1200 crore. The value of investment multiplier would be

(a) 2   (b) 2.5   (c) 4   (d) 5.

13. According to the theory of Keynesian Economic, the value of Average Propensity to Consume can never be_____

(a) Zero   (b) Unity   (c) More than one   (d) Less than one

14. Suppose in a hypothetical economy, the income rises from ₹ 5,000 Crore to ₹ 6,000 Crore. As a result, the consumption rises from ₹ 4,000 Crore to ₹ 4,600 Crore. Marginal Propensity to Consume in such a case would be_____.

(a) 0.8   (b) 0.4   (c) 0.2   (d) 0.6   (2019)

VSA (1/2 MARK)

15. Estimate the value of ex-ante Aggregate Demand (AD), if autonomous investment and consumption expenditure (A) is ₹ 50 crore, Marginal Propensity to Save (MPS) is 0.2 and level of income is ₹300 crore.

16. "In an economy, the autonomous consumption $\bar{C}$ is ₹100 and Marginal Propensity to Consume (MPC) is 0.6. If the equilibrium level of Income is 2,000 then the autonomus investment is ₹ 300 ".

Justify the statement with valid calculation.

17. An economy is in equilibrium, calculate the Marginal Propensity to Save (MPS) from the following :

(i) National income = ₹4,400

(ii) Autonomous consumption $\bar{C}$ = ₹1,000

(iii) Investment expenditure (I) = ₹ 70

18. 'Consumption function curve of involuntary unemployed workers start from some positive level on Y-axis even at zero level of Income'.

Justify the given statement.

19. Define Marginal Propensity to Consume.

20. Distinguish between Marginal Propensity to Consume and Average Propensity to Consume. Give a numerical example.

21. In an economy, investment is increased by ₹300 crore. If Marginal Propensity to Consume is 2/3, calculate increase in national income.

22. In an economy, an increase in investment by ₹ 100 crore led to 'increase' in national income by ₹1000 crore. Find Marginal Propensity to Consume.

23. An economy is in equilibrium. Calculate Marginal Propensity to Consume.

     National income = ₹1000

     Autonomous consumption

     expenditure = ₹200

     Investment expenditure = ₹100

24. What is the relationship between:

     (i) Average Propensity to Consume and Average Propensity to Save?

     (ii) Marginal Propensity to Consume and Investment Multiplier?

25. What is the relationship between:

     (i) Marginal Propensity to Save and Marginal Propensity to Consume?

     (ii) Marginal Propensity to Save and Investment Multiplier?

26. Which of the following cannot have a negative value? Give reasons.

     (a) Average Propensity to Save

     (b) Marginal Propensity to Save

27. In an economy, investment increases from 300 to 500. As a result of this, equilibrium level of income increases by 2000. Calculate the Marginal Propensity to Consume.

28. Give the meaning of Average Propensity to Save. What is its relation with Average Propensity to Consume?

29. Explain the meaning of Average Propensity to Consume. What is its relation with Average Propensity to Save?

30. "'In an economy, an increase in investment leads to doubling of the national income." Calculate the Marginal Propensity to Consume (MPC) for the given economy.

31. An economy is in equilibrium. Find Marginal Propensity to Consume from the following.

     National Income = ₹2000

     Autonomous Consumption = ₹400

     Investment Expenditure = ₹200

32. An economy is in equilibrium. Calculate the Marginal Propensity to Save from the following.

     National income = ₹1000

     Autonomous consumption = ₹100

Investment expenditure = ₹120

33. Calculate Marginal Propensity to Consume from the following data about an economy which is in equilibrium:

National income = ₹1500

Autonomous consumption expenditure = ₹300

Investment expenditure = ₹300

34. Calculate Marginal Propensity to Consume from the following data about an economy which is in equilibrium:

National income = ₹3000

Autonomous consumption expenditure = ₹200

Investment expenditure = ₹100

4.3 SHORT RUN EQUILIBRIUM OUTPUT; INVESTMENT MULTIPLIER AND ITS MECHANISM

MCQ

35. Read the following statements carefully.

Statement-I : Investment is defined as addition to the physical capital and changes in the inventory.

Statement-II: At equilibrium level of income, ex-post investments and ex-post savings are always equal. In the light of the given statements, choose the correct alternative from the following:

(a) Statement-I is true but statement-II is false.

(b) Statement-I is false but statement-II is true.

(c) Both statements I and II are true.

(d) Both statements I and II are false.

36. If in an economy, the Investment Multiplier is 4 and Autonomous Consumption is ₹ 30 crore, the relevant consumption function would be _____

(a) C = 30 + 0.75Y   (b) C = (−)30 + 0.25Y

(c) C = 30 + 0.25Y   (d) C = (−)30 − 0.25Y

37. If increase in National Income is equal to increase in Savings, the value of Marginal Propensity to Consume would be _____

(a) equal to unity   (b) greater than one   (c) less than one   (d) equal to zero

38. The value of multiplier is :

(a) $\frac{1}{MPC}$ (b) $\frac{1}{MPS}$ (c) $\frac{1}{1-MPS}$ (d) $\frac{1}{MPS-1}$

39. If MPC = 1, the value of multiplier is:

(a) 0   (b) 1   (c) Between 0 and 1   (d) Infinity

40. In an economy, 75 per cent of the increase in income is spent on consumption. Investment increased by 1,000 crore. Calculate the total increase in income on the basis of given information

41. 'Investment multiplier and Marginal Propensity to Consume are directly related to each other.' Explain with the help of a numerical example.

SA I (3 MARKS)

42. If in an economy:

Change in initial Investments (ΔI) = ₹500 Crore
Marginal Propensity to Save (MPS) = 0.2
Find the values of the following:

      (a) Investment multiplier (k)
      (b) Change in final income (ΔY)

43. Define investment multiplier. How is it related to Marginal Propensity to Consume?

44. An economy is in equilibrium. Find investment expenditure.

      National income = ₹1200
      Autonomous consumption expenditure = ₹150
      Marginal Propensity to Consume = ₹0.8

45. An economy is in equilibrium. Find investment expenditure.

      National income = ₹1000
      Autonomous consumption = 100
      Marginal Propensity to Consume = ₹ 0.8

46. $S = -100 + 0.2Y$ is the saving function in an economy. Investment expenditure is 5000.
Calculate the equilibrium level of income.

47. Calculate the equilibrium level of income in the economy.
$C = 500 + (0.9)Y$
Investment expenditure = 3000

48. In an economy autonomous consumption is 500, Marginal Propensity to Save is 0.2 and investment expenditure is 2000. Calculate the equilibrium level of income.

49. In an economy 20 percent of increased income is saved. How much will be the increase in income if investment increases by 10,000? Calculate.

50. In an economy planned spending is greater than planned output. Explain all the changes that will take place in the economy.

51. Explain the meaning of investment multiplier. What can be its minimum and maximum value?

52. The value of Marginal Propensity to Consume is double the value of Marginal Propensity to Save. Find the value of multiplier.

53. From the following data about an economy, calculate its equilibrium level of income :

   (i) Marginal Propensity to Consume = ₹ 0.8

   (ii) Investment = ₹ 5000

   (iii) Autonomous consumption = ₹500

SA II (4 MARKS)

54. If planned savings exceeds planned investments in an economy, explain its likely impact on income, output and employment.

55. What are two alternative ways of determining equilibrium level of income? How are these related?

56. What is ex-ante consumption? Distinguish between autonomous consumption and induced consumption.

57. An economy is in equilibrium. From the following data about an economy, calculate autonomous consumption.

   (i) Income = 5000

   (ii) Marginal Propensity to Save = 0.2

   (iii) Investment expenditure = 800

58. An economy is in equilibrium. Calculate national income from the following :

   Autonomous consumption = ₹100

   Marginal Propensity to Save = ₹0.2

   Investment expenditure = ₹200

59. An economy is in equilibrium. Find 'autonomous consumption' from the following:

   National income = 1000

   Marginal Propensity to Consume = ₹0.8

   Investment expenditure = ₹100

60. An economy is in equilibrium. Calculate the investment expenditure from the following :

   National income = ₹800

   Marginal Propensity to Save = ₹0.3

   Autonomous consumption = ₹100

LA (5/6 MARKS)

61. In an economy, if initial investments are increased by ₹ 100 Crore, discuss the working of investment multiplier presuming Marginal Propensity to Consume is 0.8.

62. Assuming that increase in investment is ₹ 1000 Crore and Marginal Propensity to Consume is 0.9, explain the working of multiplier.

63.   (a) Distinguish between autonomous investment and induced investment.
      (b) On the basis of the following information about an economy, calculate its equilibrium level of income:
            (i) Autonomous consumption = ₹ 100
            (ii) Marginal Propensity to Consume = 0.75
            (iii) Investment = ₹ 5000

64.   (a) Explain the distinction between ex-ante measures and ex-post measures.
      (b) From the following data about an economy, calculate its equilibrium level of income :
            (i) Autonomous consumption = ₹ 200
            (ii) Marginal Propensity to Consume = ₹0.9
            (iii) Investment = ₹ 1000

4.4 MEANING OF FULL EMPLOYMENT AND INVOLUNTARY UNEMPLOYMENT

MCQ

65. Read the following statements : Assertion (A) and Reason (R). Choose the correct alternative given below:
Assertion (A) : Full employment refers to absence of involuntary unemployment.

Reason (R) : Under full employment situation, all willing and able bodied people get employment at prevailing wage rate.

(a) Both A and R are true and R is the correct explanation of A.

(b) Both A and R are true, but R is not the correct explanation of A.

(c) A is true but R is false.

(d) A is false but R is true.

VSA (1 MARK)

66. State whether the following statement is true or false: "As per Keynesian theory in an economy, full employment can never exist."

67. Give meaning of full employment.

68. What is involuntary unemployment?

SA II (4 MARKS)

69. Define full employment in an economy. Discuss the situation when aggregate demand is more than aggregate supply at full employment income level.

4.5 PROBLEM OF EXCESS DEMAND AND DEFICIENT DEMAND

MCO

70. Read the following statements : Assertion (A) and Reason (R). Choose the correct alternative given below:

Assertion (A) : Excess demand does not lead to any increase in the level of real output. Reason (R) : Excess demand creates a gap between actual demand and desired demand corresponding to full employment level.

(a) Both A and R are true and R is the correct explanation of A.

(b) Both A and R are true, but R is not the correct explanation of A.

(c) A is true but R is false.

(d) A is false but R is true.

VSA (1/2 MARK)

71. 'Excess demand creates greater opportunities of employment in the economy'. Defend or refute the given statement with valid explanation.

72. Define the inflationary gap.

73. Define deflationary gap.

74. What is 'Excess Demand' in macroeconomics?

SA I (3 MARKS)

75. In an economy, if there is a fall in Bank Rate, how would it affect the demand for credit? Explain.

76. Explain the meaning of deflationary gap with the help of a diagram.

SA II (4 MARKS)

77. Discuss briefly, how the government can control the situation of deflation using the following: (a) Taxation policy

(b) Government Expenditure Policy

78. *Read the following text carefully and answer the following questions:*

Government of India announced a lockdown for all the economic and non-economic activities (except emergency ones and selected essential ones) to fight this scare caused by COVID-19 pandemic. This has caused:

- A massive wave of involuntary unemployment particularly in the unorganised and informal sector.
- Fall in demand of a large number of goods and services.
- Shortage of supply of essentials (specific to health and household) and a lot more.

To overcome the situation of lack of consumption demand in the market period, the government is expected to continue its consumption and investment expenditure. These types of government expenditures are expected to

push the disposable income of the common man. To ensure a rise in consumption and investment expenditure of the household sector.

The Reserve Bank of India's survey for the month of July 2020 indicates that consumer confidence fell to an all-time low. a majority of respondent's reporting pessimism relating to employment, inflation and income.

(a) State; whether the following statement is true or false:

"Involuntary unemployment was the outcome of lockdown in India".

(b) _____in government expenditure may reduce the deflationary gap.

(c) Private consumption expenditure is directly related to _____(income / savings) of the households.

(d) Identify the correct statement from the following:

    (i) Under the situation of inflationary gap, Aggregate Demand exceeds Aggregate Supply, at full employment level of income.

    (ii) Under the situation of inflationary gap, Aggregate Demand falls short of Aggregate Supply, at full employment level of output.

79. State the meaning of "Deficient Demand." Suggest any two monetary policy tools used to reduce deficient demand.

80. In the given figure, what does the gap ' KT ' represent? State any two fiscal measures to correct the situation.

Fig. for Q. 80
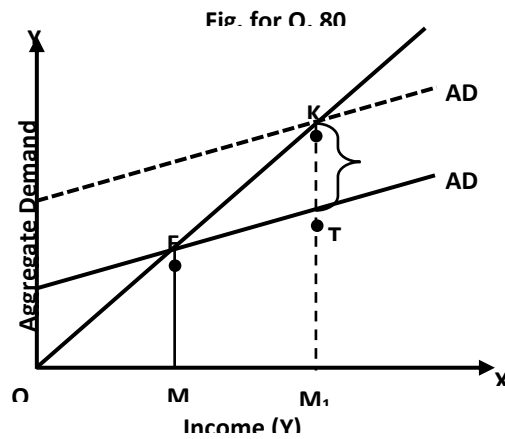
Full Employment Level of Income

81. Explain the concept of inflationary gap. Explain the role of Repo Rate in reducing this gap.

82. What is 'deficient demand'? Explain the role of 'Bank Rate' in removing it.

83. Explain the changes that take place when aggregate demand and aggregate supply are not equal.

CH- 6

OPEN MACRO ECONOMICS

6.1 BALANCE OF PAYMENTS ACCOUNT MEANING AND COMPONENTS

MCQ

1. An Indian company receives a loan from a company located abroad. This transaction would be recorded on the _____side of _____account in India's Balance of Payment.
(a) Credit, Current   (b) Debit, Current   (c) Credit, Capital   (d) Debit, Capital

2. Read the following statements carefully.
Statement-I : Balance of Payments account is always balanced in accounting sense.
Statement-II : Autonomous transactions, restore balance in Balance of Payments account.
In the light of the given statements, choose the correct alternative from the following:
(a) Statement-I is true but statement-II is false.
(b) Statement-I is false but statement-II is true.
(c) Both statements I and II are true.
(d) Both statements I and II are false.

3. Identify, which one of the following is an intangible item in Balance of Payments (BoP).
(a) Export of food grains
(b) Import of crude oil
(c) Export of Information Technology (IT) services to U.S.A.
(d) Import of coal by steel company of India.

4. _____is the difference between value of export and import of services in a given period of time.
(a) Balance of trade   (b) Net Invisibles (services)   (c) Trade surplus   (d) Current account of BoP

5. Which of the following items will be entered on the credit side of current account in Balance of Payments of a country?
(a) Borrowings from abroad   (b) Import of machinery
(c) Export of tea   (d) Foreign Direct Investment

5. Which of the following items will be entered on the credit side of current account in Balance of Payments of a country?
(a) Borrowings from abroad   (b) Import of machinery
(c) Export of tea   (d) Foreign Direct Investment

6. In context of current account, identify the incorrect statement from the following:
(a) Export of goods and services are recorded as credit items.
(b) Import of goods and services are recorded as debit items.
(c) All transfer payments are recorded as debit items.
(d) All transfer receipts are recorded as debit items.

7. Which of the following statement is incorrect?

(a) Balance of Payment (BoP) is a flow concept.

(b) Balance of Trade include export and import of goods only.

(c) Charity to foreign countries is recorded in capital account of BoP.

(d) Balance of Payment is broader concept than Balance of Trade.

8. Which of the following items is included in capital account of Balance of Payments of a country?

(a) Interest and rent received from abroad   (b) Income from banking services

(c) Remittances from abroad   (d) Foreign direct investment

9. Foreign exchange transactions dependent on other foreign exchange transactions are called:

(a) Current account transactions   (b) Capital account transactions

(c) Autonomous transactions   (d) Accommodating transactions

10. Foreign exchange transactions which are independent of other transactions in the balance of payments account are called :

(a) Current transactions   (b) Capital transactions

(c) Autonomous transactions   (d) Accommodating transactions

VSA (1 MARK)

11. _____is one of the most important sources of demand for foreign currency.

12. Give the meaning of Balance of Payments.

13. Give the meaning of Balance of Trade.

SA I (3 MARKS)

14. "Capital account transactions lead to future claims." Defend or refute the given statement with valid arguments.

15. Indian investors lend abroad. In which sub-account and on which side of the balance of payments account such lending is recorded? Give reasons.

16. Name the broad categories of transactions recorded in the 'capital account' of the balance of payments accounts.

17. Name the broad categories of transactions recorded in the 'current account of the balance of payments accounts.

18. Where will sale of machinery to abroad be recorded in the balance of payments account? Give reasons.

19. Where is 'borrowings from abroad' recorded in the balance of payments accounts? Give reasons.

20. Distinguish between current account and capital account of the balance of payments account on the basis of its components.

21. Distinguish between balance of trade and balance on current account of the balance of payments account.

22. Distinguish between autonomous and accommodating transactions of Balance of Payments account. Explain the significance of this distinction.

23. In the context of Balance of Payments account, state whether the following statements are true or false. Give reasons for your answer.

(i) Profits received from investments abroad is recorded in capital account.

(ii) Import of machines is recorded in current account.

6.2 BALANCE OF PAYMENTS ACCOUNT SURPLUS AND DEFICIT

MCQ

24. 'Deficit' in Balance of Payment (BoP) refers to the excess of

(a) Current account payments over current account receipts.

(b) Capital account payments over Capital account receipts.

(c) Autonomous payments over Autonomous receipts.

(d) Accommodating payments over accommodating receipts.

25. Suppose, country X, has more inflation than country Y. Which of the following is most likely situation to happen in such a case, assuming other factors being constant?

(a) A surplus trade balance in country X

(b) A deficit trade balance for country X

(c) A rise in exports from country X to country Y

(d) A deficit trade balance for country Y

26. If the value export of merchandise is ₹1,500 crore and imports of goods are 20 percent more than exports. The value of imports and trade deficit will be ₹ ₹____crores and ₹____crores respectively

(a) 1800,3300   (b) 1800,300   (c) 1200,300   (d) 1200,3300

VSA (1 MARK)

27. What is 'current account deficit' in Balance of Payments?

SA I (3 MARKS)

28. Differentiate between Surplus in Balance of Trade and Current Account Surplus.

29. "Trade deficit must exist if a country is facing a situation of current account deficit." Justify the given statement.

30. Explain the meaning of Balance of Payments deficit.

6.3 FOREIGN EXCHANGE RATE

31. "Considering the depreciation of Indian Currency (₹) in the international market, the Reserve Bank of India (RBI) has decided to purchase Indian currency (₹) in open market."

This represents _____exchange rate system.

(a) fixed   (b) flexible   (c) managed floating   (d) manipulated

32. Price of one currency in relation to another currency, determined by the free market forces, is known as _____

(a) Equilibrium Price   (b) Fixed Exchange Rate

(c) Foreign Exchange Rate   (d) Flexible Exchange rate

33. Given below are two statements. One is Assertion (A) and another is Reason (R).

Assertion (A) : Foreign exchange rate supports the comparison of international costs and prices.

Reason (R) : Foreign exchange rate is the price of one currency in terms of another commodities.

In the context to the above two statements which of the following is correct?

(a) Both A and R are true and R is the correct explanation of A.

(b) Both A and R are true but R is not the correct explanation of A.

(c) A is true but R is false.

(d) A is false but R is true.

34. Given below are two statements. One is Assertion (A) and another is Reason (R).

system is an amalgamation of fixed exchange rate and flexible exchange rate.

Reason (R): Central Bank can manipulate the flexible exchange rate system.

In the context to the above two statements which of the following is correct?

(a) Both A and R are true and R is the correct explanation of A.

(b) Both A and R are true but R is not the correct explanation of A.

(c) A is true but R is false.

(d) A is false but R is true.

35. What is floating exchange rate?

36. What is 'managed floating exchange rate'?

37. Define foreign exchange rate.

38. "The central bank needs to intervene under the managed floating system".

Do you agree with the given statement? Support your answer with valid reasons.

39. "Indian Rupee (₹) plunged to all time low of ₹ 74.48 against the US Dollar ($)"

-The Economic Times

In the light of the above report, discuss the impact of the situation on Indian imports.

40. Describe any three sources of demand for foreign exchange.

41. What are fixed and flexible exchange rates?

LA (5/6 MARKS)

42. Discuss briefly the meaning of :

(a) Fixed Exchange Rate

(b) Flexible Exchange Rate

(c) Managed Floating Exchange Rate.

6.4 DETERMINATION OF EXCHANGE RATE IN A FREE MARKET

MCQ

43. Read the following statements carefully.

Statement-I : Depreciation of domestic currency may lead to a rise in exports.

Statement-II : Due to the depreciation of Indian National Rupee (₹), purchasing power of US Dollar

($) may increase.

In the light of the given statements, choose the correct alternative from the following:

(a) Statement-I is true but statement-II is false.

(b) Statement-I is false but statement-II is true.

(c) Both statements I and II are true.

(d) Both statements I and II are false.

44. Suppose, the price of one UK pound (£) has increased from ₹ 70 to ₹ 80, owing to market forces.

This means that value of Indian Currency (₹) has _____

(a) appreciated   (b) depreciated   (c) revalued   (d) devalued

45. Other things remaining unchanged, when in a country the price of foreign currency rises, national income is :

(a) Likely to rise   (b) Likely to fall   (c) Likely to rise and fall both   (d) Not affected.

46. Other things remaining the same, when in a country the market price of foreign currency falls, national income is likely:

(a) to rise   (b) to fall   (c) to rise or to fall   (d) to remain unaffected.

SA I (3 MARKS)

47. Giving valid reasons, state whether the following statements are true or false:

(i) Divident received from investment abroad is recorded on the credit of the capital account.

(ii) Depreciation of the Indian Currency will lead to promotion of Indian exports.

48. Indian investors lend abroad. Explain the impact of this lending on the market exchange rate.

49. Give the meaning of 'devaluation and depreciation' of domestic currency.

50. Recently government of India has doubled the import duty on gold. What impact is it likely to have on the foreign exchange rate and how?

51. Visits of foreign countries for sight-seeing etc. by the people of India is on the rise. What will be its likely impact on foreign exchange rate and how?

52. How does giving incentives for exports influence the foreign exchange rate ? Explain.

53. Explain the effect of appreciation of domestic currency on exports.

54. Foreign exchange rate in India is on the rise recently. What impact is it likely to have on exports and how?

55. When foreign exchange rate in a country is on the rise? What impact is it likely to have on imports and how?

SA II (4 MARKS)

56. "India is taking huge leaps in the index of Ease of doing Business; as result many MNCs are shifting their production base to India." In the light of the above statement, comment upon the flow of foreign exchange and its likely impact on the Indian Economy.

57. The central bank takes steps to control the rise in the price of foreign exchange. Explain the economic values it involves as far as the common man is concerned.

LA (5/6 MARKS)

58. Why does the demand for foreign currency fall and supply rises when its price rises? Explain.

CH-5

GOVERNMENT BUDGET AND ECONOMY

5.1 MEANING, OBJECTIVES AND COMPONENTS OF GOVERNMENT BUDGET

MCQ

1. Read the following statements carefully and choose the correct alternative.

Statement I: Public goods are non-excludable.

Statement II : Consumption of public goods by people is of rivalrous nature.

(a) Both the statements are true.

(b) Both the statements are false.

(c) Statement I is true but statement II is false.

(d) Statement II is true but statement I is false.

2. 'Budget is used as an important policy instrument to combat fluctuations in an economy'. The given line shows which of the following objectives of Government Budget

(a) Allocation of resources

(b) Stabilisation of prices

(c) Growth of the economy

(d) Redistribution of income

VSA (1 MARK)

3. State whether the following statement is true or false: "Government Budget is an important monetary policy instrument."

4. Define a government budget.

SAI (3 MARKS)

5. How can budgetary policy be used in equalities of income?

SA II (4 MARKS)

6. "Government provides essential items like food grains almost free to the families below poverty line." Identify and explain the objective of the government budget indicated.

OR

"Government has started spending more on providing free services like education and health to the poor."

In the light of above statement, explain how the government can use the budgetary policy in reducing 'inequalities of income'.

7. "Through its budgetary policy, the government allocates resources as per the requirements of the country."

Do you agree with the given statement? Support your answer with the valid reasons.

8. Explain how government budget can be used to influence distribution of income?

OR

Tax rates on higher income group have been increased. Which economic value does it reflect ? Explain.

LA (5/6 MARKS)

9. What is government budget? Explain its major components.

10. Explain (a) allocation of resource and (b) economic stability as objectives of government budget.

11. What is government budget? Explain how taxes and subsidies can be used to influence allocation of resources?

5.2 Classification of Receipts in a Government Budget

12. Identify which of the following is an example of nondebt capital receipt?

(a) Financial aid from MNC for victims in flood affected area.

(b) Borrowings from International Monetary Fund (IMF).

(c) Recovery of loans from State Governments.

(d) Dividend paid by State Bank of India (SBI) to the Government.

13. The non-tax revenue in the following is:

(a) Export duty   (b) Import duty   (c) Dividend   (d) Excise

14. Which one of the following is a combination of direct taxes?

(a) Excise duty and wealth tax   (b) Service tax and income tax

(c) Excise duty and service tax   (d) Wealth tax and income tax

15. Direct tax is called direct because it is collected directly from:

(a) The producers on goods produced   (b) The sellers on goods sold

(c) The buyers of goods   (d) The income earners

16. Define the term 'tax'.

17. What are revenue receipts in a government budget?

18. What are capital receipts in a government budget?

19. Give two examples of non-tax revenue receipts.

20. Define an indirect tax.

21. Give two examples of indirect taxes.

22. Study the given picture carefully. Sources of State and Local Government tax revenues for a financial Year. Categorise the given items in the picture into tax/ non-tax receipts.
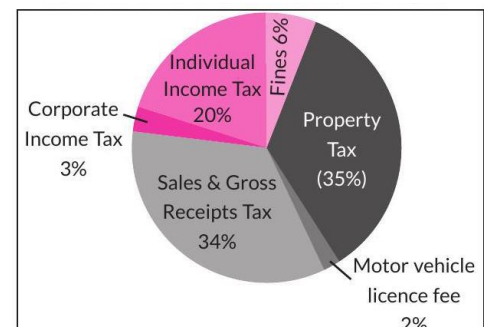
23. Distinguish between Direct Tax and Indirect Tax.

     OR

Explain the basis of classifying taxes into direct and indirect tax. Give examples.

24. Categorise the following a revenue receipt or a capital receipt in the context of government budget   and why?

(i) Tax receipts

(ii) Disinvestment

25. How are capital receipts different from revenue receipts? Discuss briefly.

LA (5/6 MARKS)

26. Define revenue receipts in a government budget. Explain, how government budget can be used to bring in price stability in the economy.

27. The government decides to give budgetary incentives to investors for making investments in backward regions. Explain these possible incentives and the reasons for the same.

5.3 CLASSIFICATION OF EXPENDITURE IN A GOVERNMENT BUDGET

VSA (1 MARK)

28. Define 'Revenue Expenditure'.

29. Give two examples of revenue expenditure.

SA I (3 MARKS)

30. Is the following revenue expenditure or capital expenditure in the context of government budget? Give reason.

(i) Expenditure on collection of taxes.

(ii) Expenditure on purchasing computers.

31. What is the difference between revenue expenditure and capital expenditure? Explain, how taxes and government expenditure can be used to influence distribution of income in the society?

5.4 BALANCED, SURPLUS AND DEFICIT BUDGET

MCQ

Question 32 to 37 are to be answered on the basis of given data and common knowledge: Budget 2021-22

S. No.	Items	Amount (₹)
(i)	Corporation Tax	13
(ii)	Income Tax	14
(iii)	Customs	3
(iv)	Union Excise Duties	8
(v)	Goods and Services Tax	15
(vi)	Non-Tax Revenue	6
(vii)	Non-Debt Capital Receipts	5
(viii)	Borrowing and other liabilities	36

32. What is the percentage share of total tax revenue in government total receipts?

(a) 50%   (b) 53%   (c) 59%   (d) 45%

33. Identify which of the following is not an example of non-tax revenue?

    I. Fees

    II. Income Tax

    III. Borrowings

    IV. Grants

        (a) II only

        (b) II and III only

        (c) II, III and IV only

        (d) I and IV only

34. If government borrowings increase, which of the following statement will be incorrect for the current fiscal year?

(a) Primary deficit will increase.   (b) Fiscal deficit will increase.

(c) Revenue deficit will decrease.   (d) Government burden for future payment will increase.

35. Which among the following is an example of Indirect Tax?

(a) Income Tax   (b) Corporation Tax   (c) Excise Duties   (d) Gift Tax

36. If government borrowings for the fiscal year is ₹ 35,000 crore and interest payments are ₹ 5,000 crore then the value of fiscal deficit will be

(a) ₹ 35,000 crore   (b) ₹ 30,000 crore   (c) ₹ 40,000 crore   (d) ₹ 7,000 crore

37. Match the items of Column I with Column II and choose the correct pair:

COILUMN I	COLUMN II
A. Revenue Receipt	i. Interest Paid
B. Capital Receipt	ii. Grants received
C. Revenue Expenditure	iii. Profits of PSU
D. Capital Expenditure	iv. Loan repaid

        (a) A – i

        (b) B - ii

        (c) C - iii

        (d) D - iv

38. Fiscal deficit equals:

(a) Interest payments   (b) Borrowings

(c) Interest payments less borrowings

(d) Borrowings less interest payments

39. Primary deficit equals :

(a) Borrowings

(b) Interest payments

(c) Borrowings less interest payments

(d) Borrowings and interest payments both.

40. Borrowing in government budget is:

(a) Revenue deficit
(b) Fiscal deficit
(c) Primary deficit
(d) Deficit in taxes

41. Which of the following statements is true?

(a) Fiscal deficit is the difference between total expenditure and total receipts.

(b) Primary deficit is the difference between total receipt and interest payments.

(c) Fiscal deficit is the sum of primary deficit and interest payment.

(d) None of these

42. Primary deficit in a government budget is:

(a) Revenue expenditure-Revenue receipts

(b) Total expenditure-Total receipts

(c) Revenue deficit-Interest payments

(d) Fiscal deficit-Interest payments

VSA (1/2 MARK)

43. Define the following:

(i) Revenue deficit

(ii) Primary deficit.

44. Define fiscal deficit.

LA (5/6 MARKS)

45. State whether the following statements are true or false, with valid reasons:

(i) High tax on higher income groups aims to achieve the 'reallocation of resources" objective of the Government.

(ii) Borrowings are a revenue receipt of the government.

(iii) Fiscal deficit always leads to inflation.

CH-3

MONEY AND BANKING

3.1 MONEY: MEANING, FUNCTIONS AND SUPPLY

MCQ

1. 'Money is an asset which can be stored for use in future.' In the light of the given statement, identify the function of money.

(a) A measure of value

(b) A standard of deferred payment

(c) A store of value

(d) A medium of exchange

2. Read the following statements carefully.

Statement I: Money supply (M_1) in India does not include 'demand deposits' with commercial banks.

Statement II : Money supply (M_1) refers to, assets available with the commercial banks during a particular period of time.

In the light of the given statements, choose the correct alternative from the following.

(a) Statement I is true but statement II is false.

(b) Statement I is false but statement II is true.

(c) Both statements I and II are true.

(d) Both statements I and II are false.

3. Read the following statements carefully and choose the correct alternative.

Statement I : All the coins are issued by Finance Ministry in India.

Statement II : All the currency notes are issued by Reserve Bank of India.

(a) Both the statements I and II are true.

(b) Both the statements I and II are false.

(c) Statement I is true but statement II is false.

(d) Statement II is true but statement I is false.

4. _____ is responsible for issuing ₹ 1 currency note in India.

(a) Reserve Bank of India   (b) Ministry of Commerce   (c) Ministry of Finance   (d) NITI Aayog

5. Which of the following is not a function of money?

(a) Capital   (b) Income   (c) Investment   (d) Depreciation

VSA (1 MARK)

6. State whether the following statement is true or false.

"Demand deposits which come back to the commercial banks through their lending process are known as secondary deposits."

7. Two components of money supply are _____and_____

8. State the two components of M_1 measure of Money Supply.

....

SA I (3 MARKS)

9. Explain the "store of value" function of money.

10. State the meaning and components of money supply.

11. Explain how controlling money supply is helpful in reducing excess demand? (Al 2016)

12. Explain the significance of the 'medium of exchange' function of money.

SA II (4 MARKS)

13. Explain the 'unit of account' function of money. How has it solved the related problem created by barter?

14. Explain the 'standard of deferred payments' function of money. How has it solved the related problem created by barter?

15. Explain any two functions of money.

3.2 COMMERCIAL BANKS

MCQ

16. Process of credit creation by commercial banks comes to an end when_____

(a) Fresh deposits with banks become zero.   (b) Reserve Ratio becomes zero.

(c) Money multiplier become zero.   (d) Total money reserves become equal to initial deposit.

17. If the Legal Reserve Ratio is 20% and initial deposits is ₹ 2,000, then value of money multiplier and total money creation will be _____and_____

(a) 5 and ₹10,000   (b) 4 and ₹ 8,000   (c) 4 and ₹ 10,000   (d) 6 and ₹ 2,000

18. Given below are two statements, one labelled as Assertion (A) and the other as Reason (R). Assertion (A) : Reserve Ratio and credit creation power of commercial banks are directly related.

Reason (R): Credit Creation is the product of the reciprocal of Reserve Ratio (RR) and Primary deposit. In the context of the above two statements, which of the following is correct?

(a) Both A and R are true and R is the correct explanation of A.

(b) Both A and R are true but R is not the correct explanation of A.

(c) A is true but R is false.

(d) A is false but R is true.

19. Credit creation by commercial banks is determined by

(a) Cash Reserve Ratio (CRR)

(b) Statutory Liquidity Ratio (SLR)

(c) Initial Deposits

(d) All of the above.

SA II (4 MARKS)

20. Using a hypothetical numerical example, explain the process of credit creation by a commercial bank.

21. Currency is issued by the central bank, yet we say that commercial banks create money. Explain. How is this money created by commercial banks likely to affect the national income? Explain.

LA (5/6 MARKS)

22. Define credit multiplier. What role does it play in determining the credit creation power of the banking system? Use a numerical illustration to explain. (2019)

3.3 CENTRAL BANK AND ITS FUNCTIONS

MCQ

23. The Reserve Bank of India (RBI) _____government securities in a bid to _____the stock of money in the economy.

(a) sells, decrease   (b) purchases, decrease   (c) sells, increase   (d) purchases, not change

24. Central Bank as _____manages public debt of the government.

(a) Custodian of Foreign Exchange   (b) Agent   (c) Financial Advisor   (d) Supervisor

25. Which of the following statements does not support the function of RBI as supervisor to the commercial banks?

(a) Regulates the expansion, merger, acquisition, etc. of the bank

(b) Formulates all rules and regulations for commercial bank

(c) Extend loans to the commercial bank

(d) Inspection of operations of banks

26. Statutory Liquidity Ratio implies to that percentage of_____

(a) total deposits of the commercial banks which must be kept in the current account, with the Reserve Bank of India.

(b) total deposit of the commercial banks which must be kept in the form of liquid assets, with the Reserve Bank of India.

(c) net time and demand deposit liabilities of the commercial banks which must be kept in the form of cash, with the Reserve Bank of India.

(d) net time and demand deposit liabilities of the commercial bank which must be kept with themselves in the form of liquid assets.

27. In order to control the money supply in the economy, the Central Bank may_____

(a) Buy securities in the open market   (b) Sell securities in the open market

(c) Reduce Cash Reserve Ratio   (d) Reduce Repo Rate

28. The ratio of total deposits that a commercial bank has to keep with Reserve Bank of India is called:

(a) Statutory Liquidity Ratio   (b) Deposit Ratio   (c) Cash Reserve Ratio   (d) Legal Reserve Ratio

29. Who regulates money supply?

(a) Government of India   (b) Reserve Bank of India

(c) Commercial Banks   (d) Planning Commission

VSA (1 MARK)

30. Define Cash Reserve Ratio.

31. What are Demand Deposits?

32. What are Time Deposits?

33. What is Statutory Liquidity Ratio?

34. What is meant by Bank Rate?

SAI (3 MARKS)

35. Elaborate any two instruments of Credit Control, as exercised by the Reserve Bank of India.

36. Explain the 'lender of last resort' function of the Central Bank.

SA II (4 MARKS)

37. Read the following text carefully.

"After setting up a working group to study the possibility of a Central Bank Digital Currency (CBDC) in India 2020, the RBI revealed a concept note on digital rupee (e-Rupee) on 7th October 2022."

"The e-Rupee will provide an additional option to the currency available forms of money. It is substantially not different from bank notes, but being digital it is likely to be easier, faster and cheaper."

RBI said that it broadly defines CBDC as the legal tender issued by a central bank in a digital form. It is akin to paper currency in a different form.

On the basis of the above text and common understanding, answer the following questions. (a) Identify and discuss the function of Central Bank indicated in the above text. (b) State any two advantages of digital rupee.

38. Explain the role of Central Bank as Governments' agent and advisor.

39. Explain the role of Repo Rate in controlling money supply.

40. Explain 'banker to the government' function of the Central Bank.

41. What is monetary policy? State any three instruments of monetary policy.

42. Explain how open market operations are helpful in controlling credit creation?

43. Explain how 'bank rate' is helpful in controlling credit creation.

44. Explain how 'Margin requirements' are helpful in controlling credit creation.

45. Explain the 'bank of issue' function of the Central Bank.

46. Explain the 'Banker's Bank' function of the Central Bank.

NATIONAL INCOME ACCOUNTING

2.1 SOME BASIC CONCEPTS OF MACROECONOMICS

MCQ

1. Depreciation of fixed capital assets refer to :

(a) Normal wear and tear

(b) Foreseen obsolescence

(c) Normal wear and tear and foreseen obsolescence

(d) Unforeseen obsolescence.

2. Which of the following is not a flow?

(a) Capital   (c) Investment   (b) Income   (d) Depreciation

3. Which of the following is a stock?

(a) Wealth   (b) Savings   (c) Exports   (d) Profits

VSA (1/2 MARK)

4. Distinguish between 'Fixed Investment and Inventory Investment'.

5. Distinguish between stock and flow variables.

6. State whether the following statement is true or false: "Expected obsolescence is included in depreciation."

7. Define stocks.

8. Define flows.

9. Define consumption goods.

10. Give two examples of intermediate goods.

12. Give the meaning of depreciation.

SAI (3 MARKS)

13. Calculate the value of "Change in Stock" from the following data:

S. No.	Items	Amount (in ₹ Crore)
i.	Sales	400
ii.	Net Value Added at factor cost (NVA_{FC})	200
iii.	Subsidies	10
iv.	Change in Stock	?
v.	Depreciation	40
vi.	Intermediate Consumption	100

14. "Final goods include only those goods which are consumed by the households". Defend or refute the given statement with valid reason.

15. Give any two examples of flow concept.

16. What are capital goods? How are they different from consumption goods?

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

18. Distinguish between intermediate goods and final goods. Give an example of each.

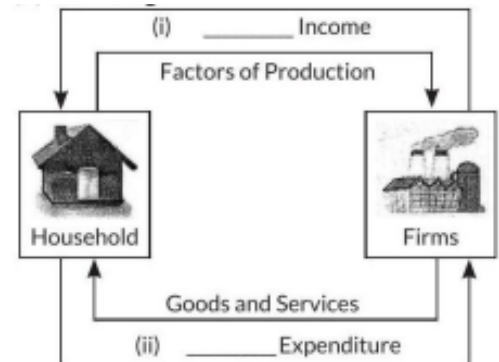## 2.2 CIRCULAR FLOW OF INCOME AND METHODS OF CALCULATING NATIONAL INCOME

MCQ

19. Choose the correct alternative to fill in the blanks in (i) and (ii) in thefigure.

(a) National, Production

(b) Factor, Production

(c) Factor, Consumption

(d) National, Consumption

20. Operating Surplus does not include _____

(a) Interest

(b) Rent

(c) Profit

(d) Compensation of employees

21. Explain the circular flow of income.

22. "While estimating Gross Domestic Product (GDP) by expenditure method, entire focus is on expenditures incurred by the residents of the country. Do you agree with the given statement? Give valid reason in support of your answer.

23. How should the following be treated in estimating National Income of a country? Give valid reasons.

    (i) Profits earned by Foreign Banks in India.

    (ii) Expenditure on upgradation of fixed assets by a firm.

24. On the basis of the following data, calculate the value of Gross Value Added (GVA) at Market Price:

S. No.	Particulars	Amount (in ₹ lakh)
(i)	Depreciation	20
(ii)	Domestic Sales	200
(iii)	Change in stock	(-) 10
(iv)	Exports	10
(v)	Single Use Producer Goods	120

25. Giving valid reasons, explain how the following would be treated while estimating domestic income?

    (i) Payment made by a Japanese tourist for goods purchased in India.

    (ii) Broker's commission on the sale of secondhand goods.

26. "Circular flow principle is based on the assumption that one's expenditure will become other's income". Explain the given statement.

27. Define the problem of double counting in the computation of national income. State any two approaches to correct the problem of double counting.

28. Find Net Value Added at factor cost: (₹ Lacs)

(i) Durable use producer goods with a life span of 10 years 10

(ii) Single use producer goods 5

(iii) Sales 20

(iv) Unsold output produced during the year 2

(v) Taxes on production 1

29. Find Net Value Added at market price: (₹ Lacs)

(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

30. Find the Gross Value Added at market price: (₹ Lacs)

(i) Depreciation 20

(ii) Domestic sales 200

(iii) Net change in stocks (−)10

(iv) Exports 10

(v) Single producer goods 120

SA II (4 MARKS)

31. What of any four precautions should be taken while estimating national income by income method?

32. From the following data, calculate net value added at factor cost. (₹ Lacs)

(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

33. Describe the expenditure method of calculating Gross Domestic Product at market price.

34. Calculate Gross Value Added at factor cost.   (₹ in Crore)
(i) Domestic sales 3000
(ii) Change in stock (-) 100
(iii) Depreciation 300
(iv) Intermediate consumption 2000
(v) Exports 500
(vi) Indirect taxes 250
(vii) Net factor income from abroad (-) 50

35. Calculate "Net Value Added at factor cost" from the following data: (₹ in Lacs)
(i) Intermediate consumption 300
(ii) Change in stock 50
(iii) Net indirect taxes 70
(iv) Sales 500
(v) Consumption of fixed capital 20
(vi) Imports 40

36. From the following data calculate "Net Value Added at factor cost":   (₹ in Lacs)
(i) Sales 400
(ii) Change in stock (-) 20
(iii) Intermediate consumption 200
(iv) Net indirect taxes 40
(v) Exports 50
(vi) Depreciation 30

37. State the meaning of:
        (a) Problem of Double Counting
        (b) Operating Surplus
        (c) Compensation of Employees.

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

S. No.	Items	Amount in (₹ Crore)
(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)	Fixed Capita	l 3,000
(xii)	Operating Surplus	30,000

39. Calculate (a) Operating Surplus and (b) Domestic Income: (₹ is Crore)

(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

40. Calculate (a) net domestic product at factor cost and (b) gross national disposable income:

		₹ in Crore
(i)	Private final consumption expenditure	8000
(ii)	Government final consumption expenditure	1000
(iii)	Exports	70
(iv)	Imports	120
(v)	Consumption of fixed capital	60
(vi)	Gross domestic fixed capital formation	500
(vii)	Change in stock	100
(viii)	Factor income to abroad	40
(ix)	Factor income from abroad	90
(x)	Indirect taxes	700
(xi)	Subsidies	50
(xii)	Net current transfers to abroad	(−)30

41. Find National Income and private income: (₹ in Crore)

(i) Wages and Salaries 1000

(ii) Net current transfers to abroad 20

(iii) Net factor income paid to abroad 10

(iv) Profit 400

(v) National debt interest 120

(vi) Social security contributions by employers 100

(vii) Current transfers from government 60

(viii) National income accruing to government 150

(ix) Rent 200

(x) Interest 300

(xi) Royalty 50

42. Find Net Domestic Product at factor cost and personal income : (₹ in Crore)

(i) Rent 200

(ii) Net current transfers to abroad 10

(iii) National debt interest 60

(iv) Corporate tax 100

(v) Compensation of employees 900

(vi) Current transfers by government 150

(vii) Interest 400

(viii) Undistributed profits 50

(ix) Dividend 250

(x) Net factor income to abroad (-) 10

(xi) Income accruing to government 120

43. Find net national product at market price and personal disposable income: (₹ in Crore)

(i) Personal taxes 200

(ii) Wages and salaries 1200

(iii) Undistributed profits 50

(iv) Rent 300

(v) Corporation tax 200

(vi) Private income 2000

(vii) Interest 400

(viii) Net indirect tax 300

(ix) Net factor income to abroad 20

(x) Profit 500

(xi) Social security contributions by employers 250

44. Find Gross National Product at Market Price and Private Income:

(₹ in Crore)

(i) Private final consumption expenditure 800

(ii) Net current transfers to abroad 20

(iii) Net factor income to abroad (-) 10

(iv) Government final consumption expenditure 300

(v) Net indirect tax 150

(vi) Net domestic capital formation 200

(vii) Current transfers from government 40

(viii) Depreciation 100

(ix) Net imports 30

(x) Income accruing to government 90

(xi) National debt interest 50

45. Calculate Net National Product at Market Price and Private Income.　　　(₹ in Crore)

(i) Net current transfers to abroad 10

(ii) Private final consumption expenditure 500

(iii) Current transfers from government 30

(iv) Net factor income to abroad 20

(v) Net exports (-) 20

(vi) Net indirect tax 120

(vii) National debt interest 70

(viii) Net domestic capital formation 80

(ix) Income accruing to government 60

(x) Government final consumption expenditure 100

46. Calculate National Income and Personal Disposable Income:　　　(₹ in Crore)

(i) Corporation tax 100

(ii) Private final consumption expenditure 900

(iii) Personal income tax 120

(iv) Government final consumption expenditure 200

(v) Undistributed profits 50

(vi) Change in stocks (-) 20

(vii) Net domestic fixed capital formation 120

(viii) Net imports 10 (ix) Net indirect tax 150

(x) Net factor income from abroad (-) 10

(xi) Private income 1000

47. Calculate National Income and Personal Disposable Income:　　　(₹ in Crore)

(i) Personal tax 80

(ii) Private final consumption expenditure 600

(iii) Undistributed profits 30

(iv) Private income 650

(v) Government final consumption expenditure 100

(vi) Corporate tax 50

(vii) Net domestic fixed capital formation 70

(viii) Net indirect tax 60

(ix) Depreciation 14

(x) Change in stocks (-) 10

(xi) Net imports 20

(xii) Net factor income to abroad 10

48. Calculate 'Gross National Product at Market Price' and 'Net National Disposable Income':   (₹ in Crore)

(i) Rent 100

(ii) Net current transfers to rest of the world 30

(iii) Social security contributions by employers 47

(iv) Mixed income 600

(v) Gross domestic capital formation 140

(vi) Royalty 20

(vii) Interest 110

(viii) Compensation of employees 500

(ix) Net domestic capital formation 120

(x) Net factor income from abroad (-) 10

(xi) Net indirect tax 150

(xii) Profit 200

49. Calculate 'Net domestic Product at Factor Cost' and 'Gross National Disposable Income': (₹ in Crore)

(i) Net current transfers to abroad 15

(ii) Private final consumption expenditure 800

(iii) Net imports (-) 20

(iv) Net domestic capital formation 100

(v) Net factor income to abroad 10

(vi) Depreciation 50

(vii) Change in stocks 17

(viii) Net indirect tax 120

(ix) Government final consumption expenditure 200

(x) Exports 30

50. Giving reasons, explain how should the following be treated in estimation of national income?

(i) Expenditure by a firm on payment of fees to a chartered accountant.

(ii) Payment of corporate tax by a firm.

(iii) Purchase of refrigerator by a firm for own use.

51. Calculate (a) national income and (b) gross national disposable income. (₹ in Crore)

(i) Private final consumption expenditure 500

(ii) Net domestic fixed capital formation 100

(iii) Net factor income from abroad 30

(iv) Change in stock 20

(v) Net exports 40

(vi) Net indirect taxes 50

(vii) Mixed income 300

(viii) Government final consumption expenditure 200

(ix) Consumption of fixed capital 60

(x) Net current transfers to abroad (-) 10

52. From the following data calculate (a) Gross national product at market price and (b) Net national disposable income: (₹ in Crore)

(i) Dividends 300

(ii) Compensation of employees 3000

(iii) Rent 500

(iv) Depreciation 200

(v) Interest 800

(vi) Net factor income to abroad 100

(vii) Mixed income 5000

(viii) Net indirect taxes 400

(ix) Profit 1500

(x) Net current transfers to abroad (-) 50

53. Calculate the 'National Income' and 'Private Income':   (₹ in Crore)

(i) Rent 200

(ii) Net factor income to abroad 10

(iii) National debt interest 15

(iv) Wages and salaries 700

(v) Current transfers from government 10

(vi) Undistributed profits 20

(vii) Corporation tax 30

(viii) Interest

(ix) Social security contributions by employers 100

(x) Net domestic product accruing to government 250

(xi) Net current transfers to rest of the world 5

(xii) Dividends 50

54. Calculate the 'Net National Product at Market Price' and 'Personal Income': (₹ in Crore)

(i) Transfer payment by government 7

(ii) Government final consumption expenditure 50

(iii) Net imports (−)10

(iv) Net domestic fixed capital formation 60

(v) Private final consumption expenditure 300

(vi) Private income 280

(vii) Net factor income to abroad (-) 5

(viii) Closing stock 8

(ix) Opening stock 8

(x) Depreciation 12

(xi) Corporate tax 60

(xii) Retained earnings of corporations 20

55. Calculate 'Net Domestic Product at Market Price' and 'Gross National Disposable Income':   (₹ in Crore)

(i) Private final consumption expenditure 400

(ii) Opening stock 10

(iii) Consumption of fixed capital 25

(iv) Imports 15

(v) Government final consumption expenditure 90

(vi) Net current transfers to rest of the world 5

(vii) Gross domestic fixed capital formation 80

(viii) Closing stock 20

(ix) Exports 10

(x) Net factor income to abroad (-) 15

56. Calculate 'Net National Product' at factor cost and 'Private Income' from the following: (₹ in Crore)

(i) National debt interest 60

(ii) Wages and salaries 600

(iii) Net current transfers to abroad 20

(iv) Rent 200

(v) Transfer payments by government 70

(vi) Interest 300

(vii) Net domestic product at factor 400

cost accruing to government

(viii) Social security contributions 100

by employers

(ix) Net factor income paid to abroad 50

(x) Profits 300

57. From the following data calculate personal disposable income: (₹ in Crore)

(i) Net domestic product at factor cost accruing to private sector 800

(ii) National debt interest 50

(iii) Current transfers from government 70

(iv) Savings of private corporate sector 200

(v) Corporation tax 40

(vi) Direct taxes paid by households' expenditure 30

(vii) Depreciation 60

(viii) Net factor income from abroad 20

(ix) Net current transfers to abroad (-) 10

58. Calculate National Income and Gross National Disposable Income from the following: (₹ in Arab)

(i) Net current transfers to abroad (−)15

(ii) Private final consumption expenditure 600

(iii) Subsidies 20

(iv) Government final consumption expenditure 100

(v) Indirect tax 120

(vi) Net imports 20

(vii) Consumption of fixed capital 35

(viii) Net change in stocks (-) 10

(ix) Net factor income to abroad 5

(x) Net domestic capital formation 110

59. Calculate Net Domestic Product at factor cost and net national disposable income from the following:

(₹ in Arab)

(i) Net current transfers to abroad 5

(ii) Government final consumption expenditure 100

(iii) Net indirect tax 80

(iv) Private final consumption expenditure 300

(v) Consumption of fixed capital 20

(vi) Gross domestic fixed capital formation 50

(vii) Net imports (-) 10

(viii) Closing stock 25

(ix) Opening stock 25

(x) Net factor income to abroad 10

60. Calculate "Personal Disposable Income":   (₹ in Lacs)

(i) Net domestic product at factor cost accruing to private sector 700

(ii) Corporation tax 40

(iii) Net factor income from abroad (-) 20

(iv) Depreciation 50

(v) Savings of private corporate sector 150

(vi) Current transfers from government 80

(vii) National debt interest 60

(viii) Direct taxes paid by households 70

(ix) Net current transfers to abroad (-) 10

61. Calculate National Income: (₹ in Crore)

(i) Net domestic capital formation 150

(ii) Government final consumption 300

(iii) Net factor income from abroad (-) 20

(iv) Private final consumption expenditure 600

(v) Depreciation 30

(vi) Net exports 50

(vii) Net indirect taxes 90

(viii) Net current transfers from rest of the world 40

62. How should the following be treated in estimating the national income of a country? You must give reason for your answer

(i) Take care of aged parents

(ii) Payment of corporate tax

(iii) Expenditure on providing police services by the government.

63. Calculate 'National Income' and 'Net National Disposable Income' from the following: (₹ in Arab)

(i) Net change in stocks 50

(ii) Government final consumption expenditure 100

(iii) Net current transfers to abroad 30

(iv) Gross domestic fixed capital formation 200

(v) Private final consumption expenditure 500

(vi) Net imports 40

(vii) Depreciation 70

(viii) Net factor income to abroad (-) 10

(ix) Net indirect tax 120

(x) Net capital transfers to abroad 25

64. Calculate 'Net National Product at Market Price' and 'Gross National Disposable Income' from the following:

(₹ in Arab)

(i) Closing stocks 10

(ii) Consumption of fixed capital 40

(iii) Private final consumption expenditure 600

(iv) Exports 50

(v) Opening stock 20

(vi) Government final consumption expenditure 100

(vii) Imports 60

(viii) Net domestic fixed capital formation 80

(ix) Net current transfers to abroad (-) 10

(x) Net factor income to abroad 30

65. Calculate 'Net National Product at Factor Cost' and 'Gross National Disposable Income' from the following:

(₹ in Arab)

(i) Social security contributions 90

by employers

(ii) Wages and Salaries 800

(iii) Net current transfers to abroad (-) 30

(iv) Rent and royalty 300

(v) Net factor income to abroad expenditure 50

(vi) Social security contributions by employers 100

(vii) Profit 500

(viii) Interest 400

(ix) Consumption of fixed capital 200

(x) Net indirect tax 200

2.3 AGGREGATES RELATED TO NATIONAL INCOME

MCQ

66. National income is the sum of factor income accruing to:

(a) Nationals   (b) Economic territory

(c) Residents   (d) Both residents and non-residents.

VSA (1/2 MARK)

67. Distinguish between Factor Income and Transfer Income.

68. Distinguish Domestic Income and National Income.

69. Define Real Gross Domestic Product.

70. Discuss briefly the three components of Income from Property and Entrepreneurship'. R

71. Define domestic product.

SAI (3 MARKS)

72. Suppose the Gross Domestic Product (GDP) at market price of a country in a particular year was ₹ 1,500 crore. Factor Income from Abroad was ₹ 100 crore. The value of Net Indirect Taxes was ₹ 180 crore, and the National Income was ₹ 1,050 crore. Calculate the value of depreciation for the economy.

73. Suppose only one good X is produced in the country. Output of good X during 2018 and 2019 were 100 units and 110 units respectively. The market price of the product during the two years was ₹ 50 and ₹ 55 per unit respectively.

Calculate the percentage change in Real Gross Domestic Product (GDP) in the year 2019, using 2018 as the base year.

74. Suppose in a financial year, the Gross Domestic Product (GDP) at market price of a country was ₹ 1,100 crore. Net factor income from Abroad was ₹ 100 crore, the net indirect taxes was ₹ 150 crore, and National income was ₹ 850 crore.

Calculate the value of depreciation, on the basis of the above information.

75. Calculate the value of Domestic Income from the following data:

S. No.	Particulars	Amount in (₹ crores)
(i)	Rent and Royalties	1,300
(ii)	Net Indirect Taxes	200
(iii)	Wages and Salaries (in cash and in kind)	1,700
(iv)	Corporate Tax	400
(v)	Depreciation	400
(vi)	Retained Earnings	300
(vii)	Dividends	400
(viii)	Net Factor Income from Abroad	(−)120
(ix)	Mixed Income of Self Employed	1,400
(x)	Change in Stock	(-) 200

76. From the following data, calculate the value of compensation of employees (COE):

S. No.	Items	Amount in (₹ Crore)
(i)	Old age pension	2,000

(ii)	Wages and Salaries in cash	60,000
(iii)	Rent free accommodation to employees	30,000
(iv)	Employer's contribution to provident fund	7,500
(v)	Payment of life insurance premium by the employees	2,500
(vi)	Contribution to provident fund by employees	35,000

77. "Increase in domestic income always leads to an increase in national income." Do you agree with the given statement? Support your answer with a valid example.

78. Assuming real income to be ₹ 200 Crore and price index to be 135, calculate nominal income.

79. If nominal income is ₹500 and price index is 125, calculate real income.

80. If real income is ₹ 400 and price index is 105, calculate nominal income.

81. If real GDP is ₹ 200 and price index (with base = 100) is 110, calculate nominal GDP.

82. If the nominal GDP is ₹1200 and price index (with base = 100) is 120, calculate real GDP.

83. If the real GDP is ₹ 300 and nominal GDP is ₹ 330, calculate price index (base = 100).

84. If the real GDP is ₹ 400 and nominal GDP is ₹ 450, calculate the price index (base =100). 85. If the real GDP is ₹500 and price index (base = 100) is 125, calculate the nominal GDP.

86. If the nominal GDP is ₹600 and price index (base = 100) is 120, calculate the real GDP.

SA II (4 MARKS)

87. From the following data, calculate the value of operating surplus:

S. No.	Items	Amount in (₹ Crore)
(i)	Royalty	5
(ii)	Rent	75
(iii)	Interest	30
(iv)	Net domestic product at factor cost	400
(v)	Profit	45
(vi)	Dividends	20

LA (5/6 MARKS)

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

(a) Profits earned by branches of country's bank in other countries.

(b) Gifts given by an employer to his employees on Independence Day.

(c) Purchase of goods by foreign tourists.

89. Giving reason explain how the following should be treated in estimation of national income: (i) Payment of interest by a firm to bank.

(ii) Payment of interest by a bank to an individual.

(iii) Payment of interest by an individual to a bank.

90. 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.

91. Calculate national income: (₹ in Crore)

(i) Net current transfers from 30

(ii) Private final consumption expenditure 400

(iii) Net domestic capital formation 100

(iv) Change in stock 50

(v) Depreciation 20

(vi) Government final consumption expenditure 200

(vii) Net exports 40

(viii) Net indirect taxes 80

(ix) Net factor income paid to abroad 10

2.4 GDP AND WELFARE

SAI (3 MARKS)

92. "Gross Domestic Product (GDP) as indicator of welfare loses its significance if the distribution of income turns unequal".

Justify the given statement with valid reason.

93. What are 'externalities'? State its types with suitable examples.

94. "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.

SA II (4 MARKS)

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

96. Sale of petrol and diesel cars is rising particularly in big cities. Analyse its impact on Gross Domestic Product and welfare.

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