



NCERT Solutions for 12th Class Economics (Macroeconomics): Chapter 2-National Income



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1. What are the four factors of production and what are the remunerations to each of these called?

Answer

The four factors of production are;

- Land: It is a gift of nature. Land is necessary for any type of production activities. It is called primary factor of production. For use of land, rent is rewarded.
- Labour: Labour is human factor of production. Labour represents all the people that are available to transform resources into goods and services that can be purchased. Wages are rewarded for labour.
- Capital: Capital is a form of money that the producers can be invested for the process of production. It is an important factor of production because it allows land and labour to be purchased. Interest is rewarded for the capital.
- Entrepreneur: Entrepreneur is a person who works to bring required factors together and sufficiently use that for the process of production. Profit is rewarded for the entrepreneur.

2. Why should the aggregate final expenditure of an economy be equal to the aggregate factor payments? Explain.

Answer

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The households spend their money on purchase of goods and services. The producers spend their money on factors of production. Therefore, the income will come back to the households in the form of reward of their services. So, there is no difference between expenditure by the households and factor payments by the producers.

3. Distinguish between stock and flow. Between net investment and capital which is a stock and which is a flow? Compare net investment and capital with flow of water into a tank.

Answer

	Stock	Flow
Meaning	Stock refers to the amount of assets at a point of time.	Flows refers to the total value of transaction during an accounting year.
Time Dimension	Stock has no time dimension.	Flow has time dimension.
Nature	Stock is static.	Flow is dynamic.

There are many differences between net investment and capital.

	Net Investment	Capital
Meaning	Net investment is the amount invested by any company for purchase of fixed assets.	Capital is the amount of investment for the process of production.

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Nature Net investment is flow variable.

Capital is stock variable.

Flow of water in a tank is measured in per unit of time period. So, it is a flow concept. Whereas, stock of water in a tank is measured at a point of time. So, it is stock concept. Capital is like a stock of water in the tank at a point of time.

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4. What is the difference between planned and unplanned inventory accumulation? Write down the relation between change in inventories and value added of a firm.

Answer

In case of planned inventory accumulation, firm has an expected fall in sales, the firm will have unsold stock of goods which has been not anticipated.

Whereas. In case of unplanned inventory accumulation, firm has an unexpected fall in sales, the firm has unsold goods which it has not been anticipated. Hence, there will be unplanned accumulation of inventories.

Value added refers to market value of goods and services produced by a firm during an accounting year.

Value of output = Sales + Δ Stock

Δ Stock = Closing stock – opening stock

5. Write down the three identities of calculating the GDP of a country by the three methods. Also briefly explain why each of these should give us the same value of GDP.

Answer

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(i) Value Added Method

In this Method, GDP_{MP} is calculated by subtracting intermediate consumption from value of output.

$$GDP_{MP} = \text{Value of output} - \text{Intermediate consumption.}$$

Value of output

It refers to market value of goods and services produced by a firm during an accounting year.

$$\text{Value of output} = \text{Sales} + \Delta \text{ Stock}$$

$$\Delta \text{ Stock} = \text{Closing stock} - \text{opening stock}$$

• National Income (NNP_{FC}) = GDP_{MP} – Depreciation – Net Indirect Taxes + Net Factor Income from Abroad.

(ii) Income Method

In this method, NDP_{FC} is calculated by adding Compensation of employees, Operating surplus and Mixed Income of Self-employed.

$$NDP_{FC} = \text{Compensation of employees} + \text{operating surplus} + \text{Mixed Income of Self-employed.}$$

• National Income (NNP_{FC}) = NDP_{FC} + Net Factor Income from Abroad.

(iii) Expenditure Method

In this method, GDP_{MP} is calculated by adding Private Final Consumption Expenditure, Government Final Consumption Expenditure, Investment Expenditure and Net Exports.

$$GDP_{MP} = \text{Private Final Consumption Expenditure} + \text{Government Final Consumption Expenditure} + \text{Investment Expenditure} + \text{Net Exports.}$$

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All these three methods give the same value of GDP. Because, what produced in the economy is either consumed or invested.

- National Income (NNP_{FC}) = GDP_{MP} – Depreciation – Net Indirect Taxes + Net Factor Income from Abroad.

6. Define budget deficit and trade deficit. The excess of private investment over saving of a country in a particular year was Rs 2,000 crores. The amount of budget deficit was (–) Rs.1,500 crores. What was the volume of trade deficit of that country?

Answer

Budget deficit refers to the situation when the amount of the government's expenditure exceeds the tax revenue earned by the government.

Budget deficit = Tax revenue – Government expenditure.

Trade deficit refers to the situation when the amount of the import expenditure exceeds the export revenue earned by the economy.

Trade Deficit = Import – Export or, $(I - S) + (G - T)$

- Trade Deficit = $(I - S) + (G - T)$

= $2000 + (-1500)$

= $2000 - 1500$

= 500 crores.

7. Suppose the GDP at market price of a country in a particular year was Rs 1,100 crores. Net Factor Income from Abroad was Rs

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100 crores. The value of Indirect taxes – Subsidies was Rs 150 crores and National Income was Rs 850 crores. Calculate the aggregate value of depreciation.

Answer

As per question, $GDP_{MP} = 1100$ crores,

$NFIA = 100$ crores

$NIT = 150$ crores,

$NNP_{FC} = 850$ crores

$\therefore GDP_{FC} = GDP_{MP} - NIT$

$= 1100 - 150$

$= 950$ crores.

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

$= 950 + 100$

$= 1050$ crores.

$NNP_{FC} = GNP_{FC} + \text{Depreciation}$

$1050 = 850 + \text{Depreciation}$

$\text{Depreciation} = 1050 - 850$

$= 200$ crores.

8. Net National Product at Factor Cost of a particular country in a year is Rs 1,900 crores. There are no interest payments made by the households to the firms/government, or by the firms/government to the households. The Personal Disposable

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Income of the households is Rs 1,200 crores. The personal income taxes paid by them is Rs 600 crores and the value of retained earnings of the firms and government is valued at Rs 200 crores. What is the value of transfer payments made by the government and firms to the households?

Answer

As per question, Personal Disposable Income (PDI) = 1200 crores

Personal Taxes (Direct tax) = 600 crores

Personal Income = PDI + Direct taxes

= 1200 + 600

= 1800 crores

Private Income = Personal Income + Retained saving

= 1800 + 200

= 2000 crores.

$\therefore \text{NNP}_{FC} = \text{Private Income} - \text{Transfer payments}$

= 1900 = 2000 - TP

TP = 2000 - 1900

= 100 crores

Vale of Transfer Payment = 100 crores.

9. From the following data, calculate Personal Income and Personal Disposable Income.

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	Rs. (crore)
(a) Net Domestic Product at factor cost	8,000
(b) Net Factor Income from abroad	200
(c) Undisbursed Profit	1,000
(d) Corporate Tax	500
(e) Interest Received by Households	1,500
(f) Interest Paid by Households	1,200
(g) Transfer Income	300
(h) Personal Tax	500

Answer

Private Income = Net Domestic Product + NFIA + Transfer payment + Interest received

$$= 8000 + 200 + 300 + 1500$$

=10000 crores.

Personal Income = Private income – Undistributed Profit – Corporate Tax

$$= 10000 - 500 - 1000$$

= 8500 crores.

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$$\begin{aligned}\text{Personal Disposal Income} &= \text{Personal income} - \text{Direct tax} - \text{Interest paid} \\ &= 8500 - 500 - 1200 \\ &= 6800 \text{ crores.}\end{aligned}$$

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10. In a single day Raju, the barber, collects Rs 500 from haircuts; over this day, his equipment depreciates in value by Rs 50. Of the remaining Rs 450, Raju pays sales tax worth Rs 30, takes home Rs 200 and retains Rs 220 for improvement and buying of new equipment. He further pays Rs 20 as income tax from his income. Based on this information, complete Raju's contribution to the following measures of income (a) Gross Domestic Product (b) NNP at market price (c) NNP at factor cost (d) Personal income (e) Personal disposable income.

Answer

As per question, Indirect taxes = 30,

Personal tax = 20,

Depreciation = 50,

Retained earnings = 220,

(a) $GDP_{MP} = 500$

(b) $NDP_{MP} = GDP_{MP} - \text{Depreciation}$

$= 500 - 50$

$= \text{Rs.}450$

(c) $NNP_{FC} = NNP_{MP} - \text{NIT}$

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$$= 450 - 30$$

$$= \text{Rs.}420$$

$$(d) \text{ Personal Income} = \text{NNP}_{FC} - \text{Retained earning}$$

$$= 420 - 220$$

$$= \text{Rs.}200.$$

$$(e) \text{ Personal Disposable Income} = \text{Personal Income} - \text{Direct tax}$$

$$= 200 - 20$$

$$= \text{Rs.}180$$

11. The value of the nominal GNP of an economy was Rs 2,500 crores in a particular year. The value of GNP of that country during the same year, evaluated at the prices of same base year, was Rs. 3,000 crores. Calculate the value of the GNP deflator of the year in percentage terms. Has the price level risen between the base year and the year under consideration?

Answer

$$\text{GNP Deflator} = (\text{Nominal GNP})/(\text{Real GNP}) \times 100$$

$$= 2500/3000 \times 100$$

$$= 83.33\%.$$

No, the price level has fallen down by $(100 - 83.33)16.67\%$.

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12. Write down some of the limitations of using GDP as an index of welfare of a country.

Answer

Following are the limitations of using GDP as an index of welfare of a country.

(i) Distribution of GDP

Increase in rate of Gross Domestic Product is not an indicator of a good economic welfare. Because of, GDP is concentrated in the hands of some individual.

(ii) Non-monetary exchanges

Gross Domestic Product is underestimated by the way of not calculating of Non-monetary exchanges. In India, non-monetary transactions are quite evident in rural areas. So, Gross Domestic Product is not a good indicator of economic welfare.

(iii) Externalities

Externalities refers to good and bad impact of an activity without paying the price or penalty for that. In this case, if GDP is taken to measure welfare. It will affect actual welfare of the economy.

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Chapterwise NCERT Solutions for Class 12 Economics (Macroeconomics):

- Chapter 1 - Introduction to Macro Economics
- Chapter 2 - National Income
- Chapter 3 - Money and Banking
- Chapter 4 - Determination of Income and Employment
- Chapter 5 - Government Budget and the Economy
- Chapter 6 - Open Economy

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