

Chapter 2 – National Income Accounting

Question 1

Explain the meaning of non-market activities

- Production
- Non-marketable
- Involuntary
- Economic

Answer: Non-marketable

Question 2

What is real flow?

Answer: Real flow is the flow of services and goods between different sectors of an economy. For instance, flow sector services flow from the household to the enterprise and then vice versa, i.e., from the enterprise to the household again.

Question 3

Differentiate between personal income and private income.

Answer: Below mentioned are the differences between personal income and private income:

Personal Income	Private Income
It is the sum total of earned and transfer incomes received by the individuals from the income sources involves within and outside the nation. Personal income is calculated as: $\text{Personal income} = \text{Private income} - \text{Corporate tax} - \text{Corporate savings (undistributed profits)}$	It can be contemplated as the factor and transfer of the income received from all the private sources within and outside the country.

Question 4

Calculate the net value added at the market price of a firm:

Items	Amount
Sale	400
Change in stock	-20
Depreciation	30
Net indirect taxes	40

Purchase of machinery	200
Purchase of intermediate product	250

Answer:

Value of Output = Sale + Change in Stock

= 400 + (-) 20

= 380

Gross Value added at MP = Value of output – Purchase of intermediate product

= 380 – 250 = 130/-

Net value added at MP = Gross value added at MP – Depreciation

= 130 – 30 = 100/-

Thus, the final answer = ₹ 100/-

Question 5

Nominal GNP is the same as,

- GNP at constant prices
- Real GNP
- GNP at current prices
- GNP less Net factor income from abroad

Answer: GNP at current prices

Question 6

What must be added to the domestic factor income to avail national income?

Answer: Net factor income from the abroad must be added to the domestic factor income to avail national income.

Question 7

Define real GNP.

Answer: Gross national product is calculated at constant prices i.e., via base year price is known as real GNP in economics

Question 8

An example of transfer payment is,

- Free meals in the company canteen

- Employers' contribution to social security
- Retirement pension
- Old age pension

Answer: Old age pension

Question 9

Calculate the Nominal income and private income from the following data.

Contents	₹. (in crores)
Net current transfers from the rest of the world	10
Private final consumption expenditure	600
National debt interest	15
Net exports	-20
Current transfers from the government	5
Net domestic product at factor cost accruing to the government	25
Government final consumption expenditure	100
Net indirect tax	30
Net domestic capital formation	70
Net factor income from abroad	10

Answer:

National income = [Private final consumption expenditure + Government final consumption expenditure + Net domestic capital formation + Net exports + Net factor income from abroad – Net indirect tax]

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

$$= 780 - 50$$

$$= 730 \text{ crores}$$

Private income = NNP – Net domestic product at factor cost accruing to government + Transfer payments + National debt interest

$$= 730 - 25 + (10+5) + 15$$

$$= 760 - 25$$

$$= 735 \text{ crores}$$

Question 10

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

Profits earned by a branch of the foreign bank in India

Answer: Profits earned by a branch of the foreign bank in India will be included in the domestic income of India because the profits are earned within the domestic territory of India

Question 11

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

Payment of salaries to its staff by an embassy located in New Delhi

Answer: Payment of salaries to its staff by an embassy located in New Delhi will not be involved in the domestic income of India as it is not a part of the domestic territory of India

Question 12

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

Interest received by an Indian resident from its abroad firms

Answer: Interest received by an Indian resident from its abroad firms will not be included in the domestic income of India because it is the factor income from abroad.

Question 13

Microeconomics is different from macroeconomics as,

- Microeconomics deals with economic behaviour
- Microeconomics deals with individual behaviour
- Microeconomics deals with prices only
- Microeconomics deals with the government's decisions

Answer: Microeconomics deals with individual behaviour

Question 14

Which of the following is an example of macroeconomics?

- Price determination
- Consumer's equilibrium
- Producer's equilibrium
- Inflation

Answer: Inflation

Question 15

What is national disposable income?

Answer: National disposable income is that type of an income which is obtainable to the whole economy for the spending purpose or for disposition.

It is computed as, $NNP + \text{Net current transfers from abroad (NDI)}$