Chapter 2: Basic Concepts of Macroeconomics

Question 1

Define factor income.

Ans:

Factor income refers to the income received by the factors of production for rendering factor services in the process of production.

Question 2

Define the current transfer.

Ans:

Current transfers refer to transfers made out of the current income of the payer and added to the current income of the recipient.

Question 3

Define gross investment

Ans:

Gross investment is the addition to the stock of capital before making allowance for depreciation.

Question 4

Mention three differences between Consumption Goods vs Capital Goods.

Ans:

The three differences between consumption goods and capital goods are.

Basis	**Consumption Goods**	**Capital Goods**
Satisfaction of Human wants	These goods satisfy human wants directly. So, such goods have direct demand	Such goods satisfy human wants indirectly. So, such goods have derived demand
Production Capacity	They do not promote the production	They help in raising production capacity
Expected Life	Most of the consumption goods (except durable goods) have limited expected life	Capital goods generally have an expected life of more than one year

Question 5

Mention three differences between Depreciation vs Capital Loss.

Ans:

The three differences between Depreciation and Capital Loss are

Basis	**Depreciation**	**Capital Loss**
Meaning	It refers to the fall in the value of fixed assets due to normal wear and tear, the passage of time or outdated technology	It refers to the loss in value of the fixed assets because it is outdated
Provision for loss	Provision is made for replacement of assets as it is an expected loss	No such provision is made in case of capital loss as it is an unexpected loss
Production Process	It does not hamper the production process	It hampers the production process

Question 6

What are the reasons for the depreciation of assets

Ans:

The three reasons for the depreciation of assets are.

- **Normal wear and tear**– Regular use of fixed assets in the production process reduces the productive capacity and value
- **Passage of time-** Due to the passage of time the value of fixed assets decreases the productive capacity even if it’s not used regularly. Nature agents like wind, water, weather add up to the fall in their value.
- **Expected Obsolescence**– The fixed assets value also decreases because the technology, goods, and services become outdated.