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

Answer I. The four factors of productions are

1. Land It is a free gift of nature and it is called as natural, original or primary factor ot production.
2. Labour It is a person engaged in some physical work it is the human factor ot production.
3. Capital It means wealth, money or income which is invested in business it helps in the production function.
4. Entrepreneur It is the work ot an entrepreneur to bring the required factors together and work harmoniously.

The remuneration to them are as follows

1. Land Rent is a reward ior the use of land.
2. labour Wages are the reward for a labour.
3. Capital Interest is the reward for capital.
4. Entrepreneur Profit is the reward for an entrepreneur.

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

Answer In a simplified economy, income is either spent on the purchase of final goods and services or saved. Expenditure of income on the final
goods either causes final consumption expenditure or investment expenditure. To the extent income is saved, final goods remain unsold. But
it treated as inventory investment. So it is said that aggregate final expenditure of an economy is equal to aggregate factor payments. i.e.,

Y=C+S

Question 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 withb flow of water into a tank.

Answer Difference between Stock and Flow

S. No.	Stock	Flow
1	Stock refers to that variable, which is measured at a particular point of time	Flow refers to that variable which is measured over a period of time
2	It does not have a time dimension	It has a time dimension.
3	It is a stalic concept	It is a dynamic concept
4	Examples-1-Stock of goods In the godown. National Wealth. National Capital. Money supply etc.	Examples-National Income. Expenditure, Number of births during a particular year Ietc

Difference between Net Investment and Capital

S. No.	Net Investment	Capital
1	Net investment is a gross investment minus depreciation of the fixed assets. net Investment causes net addition the stock of capital.	Capital is the income which is used In the process of productions like plant and machinery
2	Net investment is a flow variable	Capital is a stock variable

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

Question 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 : Planned Inventory In case of an expected fall in sales, the firm will have unsold stock of goods which had not anticipated Hence, there will be planned accumulation of inventories. Wheras.

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

Relation between Change in Inventories and Value Added Change in inventories of a firm during a year = value added + intermediate goods used by the firm − sale of the firm during a year and value added In net contribution made by a firm in the process of production It IS value added = value of production − value of intermediate goods used.

Question 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 Three identities of calculating GOP are as follows

I. Product Method or Value Added Method It is that method which measures national income In terms of value addition by each producing enterprise In the economy It is calculated as Gross Value Added in the primary sector at Market Price + Gross Value Added in the secondary sector at Market Price + Gross Value Added in the Tertiary Sector at Market Price = GDP_{MP}

GDP_{MP} − Depreciation = Net Domestic Product at Market Price
NDP_{MP} − Net Indirect Tax = Net Domestic Product at Factor Cost
NDP_{MP} + NFIA = National Income

II. Income Method Under this method national Income is measured in terms of factor payments to the owners of factors of production. It is
calculated as

Compensation of Employees + Operating Surplus + Mixed Income of the self employed = Net Dornestlc Income
Net Domestic Income + NFIA = National Income

III Expenditure Method Under this method national income is measured in terms of expenditure on the purchase of final goods and services produced in the economy. it is calculated as.

Private Final Consumption Expenditure + Government Final Consumption Expenditure + Gross Domestic Fixed Capital Formation + Change in Stock + Net Exports = GDP_{MP}

GDP_{MP} – Depreciation = Net Domestic $Product_{MP}$
NDP_{MP} – Net Indirect Tax -= NDP_{FC}
NDP_{FC} + NFIA = National Income

Question 6. Define budget deficit and trade deficit. The excess of private investment over saving of a country in a particular year was ~ 2000 crores. The amount of budget deficit was (-) Rs. 1500 crores. What was the volume of trade deficit of that country?

Answer : Budget Deficit Budget deficit refers to the situation when amount of the governments expenditure exceeds the tax revenue earned by government.

Trade Deficit Trade deficit is the excess of import expenditure over the export revenue earned by the economy.

Trade Deficit = M – X or (I – S) + (G – T)

M (Outflow from the country) I (Investment) x (Inflow into the country) S (Saving) G- T (Budget Deficit)

It is given

I – S = 2000 crores
G – T = (-) 1500 crores
Trade Deficit = 2000 + (-1500) = Rs. 500 crores

Question 7. Suppose the GDP at market price of a country in a particular year Rs. 1100 crores. Net Factor Income from Abroad was Rs. 100 crores. The value of Indirect taxes. Subsidies was Rs. 150 crores and National Income was ~ 850 crores. Calculate the aggregate value of depreciation.

Answer :

Given- GDP_{MP}=1100 crores, NFIA = 100 crores

NIT = 150 crores, NNP_{FC}= 850 crores

GDP_{FC}=GDP_{MP} – NIT

= 1100 -150 = 950 crores

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

= 950 + 100 = 1050 crores

GNP_{FC}= NNP_{MP} Depreciation

1050 = 850 + Depreciation

Depreciation =1050 – 850 = 200 crores

Question 8. Net National Product at Factor Cost of a particular country in a year is Rs. 1900 crores. There are no interest payments made by the households to the firms/government to the households. The personal disposable income of the households is Rs. 1200 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 Given, Personal Disposable Income (POI) = 1200 crores

Personal Taxes (Direct tax) = 600

Personal Income =POI + Direct taxes

= 1200 + 600=1800

Private Income = Personal Income + Retained saving

= 1800 + 200 = 2000 crores

NNP_{FC} = Private Income – Transfer payments

1900 = 2000 – TP

TP = 100 crores

Value of Transfer Payment = 100 crores

Question 9. From the followinq data, calculate Personal Income and Personal Disposable Income.

	Rs. (Crore)
(a) Net Domestic Productat Factor Cost	8000
(b) Net FactorIncome from Abroad	200
(c) Undisbursed Profit	1000
(d) Corporate Tax	500
(e) interest Received by Households	1500
(f) Interest Paid by Households	1200
(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

Personal Disposal Income =Personal income – Direct tax – Interest paid

= 8500 – 500 -1200 = 6800 crores

Question 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) NNPat Market Price (c) NNP at Factor Cost (d) Personal Income (e) Personal Disposable Income.

Answer Given Indirect taxes = Rs. 30, Personal tax = Rs. 20

Depreciation Rs. 50,Retained earnings = Rs. 220

.. GDP_{MP} = Rs. 500

$NNP_{MP} = GDP_{MP}$ – Depreciation

= 500 – 50 = Rs. 450

$NNP_{FC} = NNP_{MP}$– NIT

= 450 – 30 = Rs. 420

Personal Income = NNP_{FC} – Retained earning

= 420 – 220 = Rs. 200

Personal Disposable Income = Personal Income – Direct tax

= 200 – 20= Rs. = 180