

## ***Unit I – National Income and Related Aggregates***

### **Solved Textual Q&A**

#### **A. 1-Mark Very Short Answers**

**1. Define Macroeconomics.**

→ The study of aggregate economic variables like national income, output, and general price level.

**2. Name the four major sectors in the circular flow model.**

→ Households, Firms, Government, External sector (foreign).

**3. Differentiate intermediate goods from final goods.**

→ Intermediate goods are inputs used in production; final goods are ready for consumption or investment.

**4. What is Net National Product at Factor Cost (NNP at FC)?**

→ GNP minus depreciation and net indirect taxes.

**5. Define Personal Disposable Income.**

→ Income available to individuals after paying personal taxes, available for consumption and saving.

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#### **B. Short Answer (2–3 Marks)**

**1. Explain Gross Investment vs. Net Investment.**

→ Gross investment is total spending on capital assets; net investment = gross investment minus depreciation.

**2. What is the Value Added (or Product) method of GDP calculation?**

→ Sum of gross value added across all economic sectors (output minus intermediate consumption).

**3. State two differences between GDP at Market Price and GDP at Factor Cost.**

→ Market Price includes indirect taxes less subsidies; Factor Cost excludes indirect taxes and adds subsidies.

**4. How do you calculate Personal Income from National Income?**

→ Start with NNP at FC, subtract retained earnings and corporate taxes, add transfer payments.

**5. What is the distinction between Nominal and Real GDP?**

→ Nominal GDP uses current prices; Real GDP uses constant (base year) prices to account for inflation.

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**C. Long Answer (4–6 Marks)**

**1. Describe the three methods of calculating National Income.**

→ *Product method*: Sum of value added across sectors. *Income method*: Sum of incomes earned by factors of production (wages, interest, rent, profit). *Expenditure method*: Sum of consumption, investment, government spending and net exports.

**2. Explain aggregate relationships between GNP, NNP, GDP, NDP.**

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- $GNP = GDP + \text{Net Factor Income from Abroad (NFIA)}$
- $NNP = GNP - \text{Depreciation}$
- $NDP = GDP - \text{Depreciation}$
- $NNP \text{ at FC} = NNP - \text{Net Indirect Taxes}$

**3. Define and distinguish Personal Income (PI), Personal Disposable Income (PDI), National Disposable Income (NDI) and Private Income.**

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- $PI: NNP \text{ at FC} - \text{corporate taxes} - \text{retained earnings} - \text{undistributed profits} + \text{transfer incomes.}$

- PDI: PI – personal taxes.
  - NDI: National income plus net current transfers from abroad.
  - Private income = national income plus net current transfers to private sector.
4. **Critically analyse limitations of GDP as an index of welfare.**  
 → Excludes non-monetized services (housewives' work), ignores distribution of income, externalities (pollution), sits on value of harmful goods (liquor), and doesn't capture leisure or quality of life
5. **Numerical problem:** Using given data, compute GDP, NNP at MP, NNP at FC, and PDI.  
*(Use the "Raju the barber" example or similar model numericals from NCERT/AHSEC)*
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## 20 Additional Model Questions & Answers

### ◆ Short Answer Type (2–3 Marks)

1. **Why are transfer payments excluded from national income?**  
 → They are non-productive transfers, not payment for current production.
2. **What is Net Factor Income from Abroad (NFIA)?**  
 → Factor income earned by nationals abroad minus similar payments to foreigners.
3. **Define Market Price vs Factor Cost.**  
 → Market price includes indirect taxes; factor cost is market price minus indirect taxes plus subsidies.
4. **What is National Disposable Income?**  
 → NNP at MP + net current transfers from foreign sources.

5. **Why is NNP considered a better indicator than GDP?**  
→ Because it reflects depreciation and value of output net of capital consumption.
6. **Define Gross Domestic Product (GDP).**  
→ Total market value of final goods and services produced within a country's territory in a year.
7. **What is Private Income?**  
→ Income received by private sector including factor incomes and current transfers.
8. **Give one example of an imputed item in national income.**  
→ Imputed rent of owner-occupied housing.
9. **What is meant by double counting?**  
→ Counting intermediate goods along with final goods, leading to inflated national income.
10. **What is the difference between gross and net value added?**  
→ Net value added = gross value added – depreciation.

◆ **Long Answer Type (4–6 Marks)**

11. **Explain the circular flow of income in a two-sector model.**  
→ Households supply factors to firms, receive factor incomes, spend on goods & services; firms use household spending as revenue, paying for factors in return. Money and goods flow in opposite directions.
12. **Apply income method with itemized categories.**  
→ Include wages, rent, interest, profit, operating surplus, mixed income. State precautions (exclude transfer payments, include imputed items)

13. **Using numerical data calculate personal disposable income.**  
→ Given: GDP, depreciation, indirect taxes, retained earnings & taxes, compute PI and PDI.
14. **Explain the importance of real GDP in welfare comparison.**  
→ Real GDP adjusts for inflation, allowing comparison of actual output and welfare across years.
15. **Discuss the concept of national income at factor cost vs market price.**  
→ Factor cost removes distortion of tax/subsidies; gives actual earning of factors.
16. **Distinguish between personal disposable income and national disposable income.**  
→ PDI belongs to individuals; NDI includes public sector as well and represents total useable resources of nation.
17. **Numerical on GNP and GDP conversion including NFIA.**  
→ Provided base values: GDP, NFIA, depreciation, compute GNP and NNP components.
18. **What are consumption goods and capital goods?**  
→ Consumption goods satisfy current wants; capital goods are used for further production.
19. **Why is Real GDP considered superior to Nominal GDP for economic analysis?**  
→ It excludes price changes, focusing purely on volume changes of goods and services.
20. **How does national income accounting help government policy?**  
→ Provides data for planning, budgeting, monitoring economic growth, inflation control, and redistribution policies.

