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.
Ans:

Stock	Flow
The variables that are measured at a particular point of time. For example, bank balance as on 1st Oct 2010 is Rs.5000.	The variables that are measured over an interval of time. For example, interest earned on bank deposits for 1 year, i.e. from 1 Oct-2009 to 30 Sep 2010.
It has no time dimensions.	It has time dimensions, like 1 year, 6 months, 10 days, etc.
Examples: Capital, bank deposits, water in a tank.	Examples: Capital formation, interest on capital, water flowing in a stream.

Q4. What is the difference between planned and unplanned inventory accumulation? Write down the relation between change in inventories and value added of a firm.An example of stock can be the amount or level of water in a tank. At any point of time the amount or the level of water in a tank can be measured. Similarly, the capital is also a stock variable, as the capital can also be measured at any point of time.
Now, if water is flowing out of a tank through a tap, then the level of water will change over time. The difference in water level over an interval of time is an example of a flow variable. Similarly, net investment gives the difference in the investment level over a period of time.

Ans: The stock of unsold goods (finished and semi-finished), which a firm carry forward from one year to another year is termed as an inventory.
Inventory accumulation can be planned or unplanned. The planned inventory accumulation refers to the inventory that a firm can anticipate or plan. For example, a firm want to raise its inventory from 1000 to 2000 units of denims and expects sales to be 10000 units. Thereby, it produces 10000 + 1000 units, i.e. 11000 units (in order to raise the inventory by 1000 units). If, at the end of the year it is found that the actual sales that got realised were also 10000, then the firm experiences the rise in its inventory from 1000 to 2000 units. The closing balance of inventory is calculated in the following manner:
Final Inventory = Opening inventory + Production – Sale
= 1000 + 11000 – 10000
= 2000 units of denims
In this case the inventory accumulation is equal to the expected accumulation. Hence, this is an example of a planned inventory accumulation.

Unplanned inventory accumulation is an unexpected change in an inventory. There is an unplanned accumulation in an inventory when the actual sales are unexpectedly low or high. For example, let us assume, a firm want to raise inventory from Rs 1000 to 2000 and expects sales to be 10000 and thereby produces 11000 units of denims. If, at the end of the year, the actual sales realised were 9000 units only, which were not anticipated by the firm and therefore the inventory rose by 3000 units. The unexpected inventory accumulation is calculated as:

Final Inventory = Opening inventory + Production – Sale
= 1000 + 11000 – 9000
= 3000 units of denims

Hence, this is example of unexpected inventory accumulation.
The relation between value added and the change in inventory is shown by the given equation:
Gross value added by a firm = Sales + Change in inventory – Value of intermediate goods
It implies that, as inventory increases, the value added by a firm will also increase, thus confirming the positive relationship between the two.

********** END **********