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MACROECONOMICS PRACTICE WORKSHEET: NATIONAL INCOME ACCOUNTING

Code:	Name:	Roll No:	Date:	Total Questions:
Worksheet_170926				36

SECTION A: OBJECTIVE & MULTIPLE CHOICE QUESTIONS

- Q1.** Answer the following MCQs based on basic aggregates and macroeconomic flow concepts:
- (i) Inventory is a _____ concept whereas the change in inventory is a _____ concept.
- (a) stock, flow (b) flow, stock
(c) stock, stock (d) flow, flow
- (ii) Read the following statements: *Statement 1:* Net investment is a stock concept. | *Statement 2:* Capital is a flow concept. Choose the correct alternative:
- (a) Statement 1 is true and statement 2 is false (b) Statement 1 is false and statement 2 is true
(c) Both statements 1 and 2 are true (d) Both statements 1 and 2 are false
- (iii) Flow of goods, services, and factor inputs across sectors in a barter economy is known as:
- (a) Circular flow (b) Real flow
(c) Monetary flow (d) Capital flow
- (iv) In the circular flow of income across three phases (Generation → Distribution → Disposition), choose the correct pair representing generation and disposition phases:
- (a) Output, production (b) Production, disposition
(c) Output, disposition (d) Wealth, development
- (v) If NFIA is ₹ 200 crores and Factor Income to Abroad (FITA) is ₹ 40 crores, identify the value of Factor Income from Abroad (FIFA):
- (a) ₹ 200 crores (b) ₹ 160 crores
(c) ₹ 240 crores (d) ₹ 180 crores
- (vi) For a closed economy without foreign trade, which one of the following relations is correct?
- (a) GDP = GNP (b) GDP > GNP
(c) GDP < GNP (d) GDP + GNP = 0

SECTION B: THEORETICAL & CONCEPTUAL QUESTIONS

- Q2.** Distinguish between **Final Goods** and **Intermediate Goods** giving suitable bases of distinction.
- Q3.** State with valid reasons whether each of the following statements is **True** or **False**:
- (a) Gross Value Added at market price (GVA_{MP}) and Gross Domestic Product at market price (GDP_{MP}) are one and the same thing.
(b) Intermediate goods are always durable in nature.
- Q4.** Define **Nominal Flow (Money Flow)**. How is it distinct from **Real Flow**?
- Q5.** Explain the **circular flow of income in a two-sector economy** (households and producing units) with the help of an explanatory diagram.
- Q6.** "Circular flow of income in a two-sector economy is based on the axiom that one's expenditure is the other's income." Justify the statement with economic rationale.
- Q7.** Give valid economic reasons for the following:
- (a) "Domestic/household services performed by a woman may not be considered as an economic activity." Defend or refute.
(b) "Compensation to the victims of a cyclone is a welfare measure." Should it be included in the estimation of National Income of India?
- Q8.** Explain the treatment of the following while estimating Domestic / Capital aggregates:
- (a) Payment made by American tourists for goods purchased in India.
(b) Tomatoes grown by Ms. Puja in her kitchen garden.
(c) "Machine purchased by a firm is always a capital good." Do you agree? Give valid reasons.
- Q9.** Giving valid reasons, explain which of the following will **not** be included in the estimation of National Income of India:
- (a) Purchase of shares of X Ltd. by an investor in the National Stock Exchange.
(b) Compensation paid by the Government of India to the victims of floods.

Q10. Will the following factor incomes be included in the **Domestic Factor Income** of India? Give reasons:

- (i) Compensation of employees to a resident of Japan working in the Indian Embassy in Japan.
- (ii) Payment of fees to a Chartered Accountant by a firm.
- (iii) Rent received by an Indian resident from the Russian Embassy situated in India.
- (iv) Compensation given by an insurance company to an injured worker.

Q11. State under what economic conditions each of the following statements holds true:

- (a) Domestic Income is equal to National Income.
- (b) Domestic Income is greater than National Income.
- (c) Value of Output is equal to Value Added.

Q12. State and explain the four main components of the **Expenditure Method** used to calculate National Income.

Q13. Differentiate between **Value of Output** and **Value Added**.

Q14. State any two components of **Net Factor Income from Abroad (NFIA)**.

Q15. What is meant by the problem of **Double Counting** in national income accounting? Discuss the two alternative methods to avoid it.

Q16. State the precautions to be kept in mind while estimating National Income by:

- (a) Product / Value Added Method (any three precautions).
- (b) Expenditure Method (any two precautions).

Q17. Define and explain the meanings of: (i) Externalities, (ii) Operating Surplus, and (iii) Consumption Goods.

Q18. Differentiate between **GDP at Constant Prices (Real GDP)** and **GDP at Current Prices (Nominal GDP)**. Which of the two presents a better view of economic growth and why?

Q19. Explain any four key limitations of using **Gross Domestic Product (GDP) as an index of welfare** of a country.

Q20. Define **GDP Deflator**. Discuss its practical and analytical importance in macroeconomics.

Q21. Explain how '**Non-Monetary Exchanges**' create distortion when using GDP as an index of economic welfare.

Q22. "GDP as an index of welfare may understate or overstate economic welfare." Distinguish between **Positive** and **Negative Externalities**, and explain this statement with appropriate examples.

SECTION C: NUMERICAL PROBLEMS & QUANTITATIVE APPLICATIONS

Q23. Calculate '**Depreciation on Capital Asset**' per annum from the following data:

Particulars	Amount (in ₹ Crores)
(i) Capital Value of the asset	1,000
(ii) Estimated life of the asset	20 years
(iii) Scrap Value	Nil

Q24. In an economy, the following transactions took place:

- Firm A sold to Firm B goods of ₹ 80 crores; to Firm C ₹ 50 crores; to households ₹ 30 crores, and goods worth ₹ 10 crores remained unsold.
- Firm B sold to Firm C goods of ₹ 70 crores; to Firm D ₹ 40 crores; exported goods worth ₹ 30 crores, and sold goods worth ₹ 5 crores to the government.

Calculate: (a) Value of Output of Firm B, and (b) Value Added by Firm B.

Q25. Suppose in a hypothetical economy there are only two firms, A and B. Firm A sold goods for ₹ 2,000 to Firm B and purchased goods for ₹ 1,000. Firm B exported goods for ₹ 2,500 and had domestic sales of ₹ 1,500. Calculate **Net Domestic Product at Market Price (NDP_{MP})** if consumption of fixed capital is ₹ 200.

Q26. From the following data, calculate **Net Value Added at Factor Cost (NVA_{FC})** by Sambhav (a farmer):

Items	Amount (in ₹ Crores)
(i) Sale of wheat by the farmer in the local market	6,800
(ii) Purchase of Tractor	5,000
(iii) Procurement of Wheat by the Government from the farmer	200
(iv) Consumption of Wheat by the farming family during the year	50
(v) Expenditure on maintenance of existing capital stock	100
(vi) Subsidy	20

Q27. From the given data, calculate: (a) **National Income (NNP_{FC})** and (b) **Personal Disposable Income**:

Items	₹ (Crores)	Items	₹ (Crores)
(i) Mixed income of self-employed	2,500	(viii) Net Retained Earnings of Private Enterprises	500
(ii) Net factor income from abroad (NFIA)	(-) 50	(ix) Compensation of Employees	1,600
(iii) Rent	500	(x) Net Indirect Taxes (NIT)	500
(iv) Private Income	4,000	(xi) Net Current Transfers from Abroad	150
(v) Consumption of Fixed Capital	400	(xii) Net Exports	(-) 40
(vi) Corporation Tax	700	(xiii) Interest	500
(vii) Profits	300	(xiv) Direct Taxes paid by households	300

Q28. In an imaginary economy, GDP at market price was ₹ 4,000 crores, National Income was ₹ 2,500 crores, Net Factor Income paid to the rest of the world was ₹ 400 crores, and Net Indirect Taxes was ₹ 450 crores. Estimate the value of **Consumption of Fixed Capital (Depreciation)**.

Q29. Calculate **National Income (NNP_{FC})** using the **Expenditure Method** from the following data:

Items	₹ (Crores)	Items	₹ (Crores)
(i) Current transfers from rest of world	50	(vii) Compensation of Employees	500
(ii) Net Indirect Taxes	100	(viii) Net Factor Income from Abroad	-10
(iii) Net Exports	-25	(ix) Govt Final Consumption Expenditure	400
(iv) Rent	90	(x) Profit	220
(v) Private Final Consumption Expenditure	900	(xi) Mixed Income of Self Employed	400
(vi) Net Domestic Capital Formation	200	(xii) Interest	230

Q30. On the basis of the given data, estimate the value of **Domestic Income (NDP_{FC})**:

Items	₹ (Crores)	Items	₹ (Crores)
(i) Household Consumption Expenditure	600	(v) Net Exports	(-) 40
(ii) Gross Fixed Capital Formation	200	(vi) Net Indirect Taxes	120
(iii) Change in Stock	40	(vii) Net Factor Income from Abroad	20
(iv) Govt Final Consumption Expenditure	200	(viii) Consumption of Fixed Capital	40

Q31. From the following data, compute: (a) **Domestic Income (NDP_{FC})** and (b) **Net National Disposable Income**:

Items	₹ (Crores)	Items	₹ (Crores)
(i) Net Exports	(-) 420	(vi) Net decrease in inventories	100
(ii) Govt Final Consumption Expenditure	2,500	(vii) Net Indirect Taxes	470
(iii) Gross Domestic Fixed Capital Formation	1,190	(viii) Net Current transfers from abroad	350
(iv) Net Factor Income to Abroad	125	(ix) Current replacement cost	145
(v) Private Final Consumption Expenditure	2,200		

Q32. Calculate the **Compensation of Employees** from the following data:

Items	₹ (Crores)	Items	₹ (Crores)
(i) Profits after tax	20	(v) Consumption of Fixed Capital	50
(ii) Interest	45	(vi) Rent	25
(iii) Gross Domestic Product at MP (GDP_{MP})	200	(vii) Corporate Tax	5
(iv) Goods and Services Tax (GST)	10		

Q33. From the following data, calculate the value of **Domestic Income (NDP_{FC})**:

Items	₹ (Crores)	Items	₹ (Crores)
(i) Compensation of Employees	2,000	(vi) Subsidies	20
(ii) Rent and Interest	800	(vii) Dividend	940
(iii) Indirect Taxes	120	(viii) Undistributed Profits	300
(iv) Corporate Tax	460	(ix) Net Factor Income from Abroad	150
(v) Consumption of Fixed Capital	100	(x) Mixed Income of Self Employed	200

Q34. The GDP of Nation X was ₹ 2,000 crores in 2018–19 and rose to ₹ 4,000 crores in 2019–20. The GDP of Nation Y was ₹ 1,20,000 crores in 2018–19 and rose to ₹ 2,00,000 crores in 2019–20. Calculate the **percentage growth rate of GDP** for both nations and analyze which economy demonstrated faster relative growth.

Q35. "Real Gross Domestic Product is a better indicator of economic growth than Nominal Gross Domestic Product." Justify the statement with the help of a suitable hypothetical numerical illustration showing quantities and price changes.

Q36. Study the economic data in the table below:

Year	2014-15	2015-16	2016-17
Nominal GDP (in ₹ Crores)	6.5	8.4	9.0
GDP Deflator	100	140	125

(i) For which year is Real GDP and Nominal GDP the same, and why?

(ii) Calculate Real GDP for each of the given years. Identify if there is any year in which Real GDP registered a decline, and state the probable reason.

(iii) If Real GDP in another period is ₹ 500 crores and the Price Index is 125, compute its Nominal GDP.