ECONOMICS

Macroeconomics (40)
- Numericals (25M)
- Theory (15M)

Indian Economy
- Theory (25M)
- Data / Names / Yrs (15M)

"MACRO ECONOMICS" Ch-1 Basic Concepts of Macroeconomics

Q What do you mean by Domestic Territory or Economic Territory?

ans) It refers to the political frontiers of a country but not confined to it and it includes following :-

① Ships, aircrafts owned and operated by normal residents of a country operating between two or more countries. For e.g.→ Planes operated by Air India between India, USA, Canada, etc.

② Fishing vessels, oil and natural gas rigs operated by residents of country in the international waters. For e.g.→ Fishing boats operated by residents in International water limits of Indian ocean.

③ Embassies, consulates and military establishments of a country located abroad. For e.g.→ Indian Embassy in USA.

Q Are following included in Domestic Territory :

1. An Indian company in London → No
2. Microsoft office in India → ~~N~~ Yes
3. Company in India owned by Japanese → Yes
4. Branch of foreign bank in India. → Yes
5. Branch of SBI in France. → No
6. Indian Embassy in Japan. → Yes
7. Tata rented its building to google in America. → No
8. Russian Embassy in India. → ~~Yes~~ No

Q Who are normal residents of a country?

ans) Normal residents refers to an individual or an ~~fs~~ institution who ordinarily resides in a country and whose centre of economic interest lies in that country.

Economic interest here includes 2 things :-
1. Residents living in domestic territory.
2. Residents carrying out economic activities of earning, spending & saving from such location.

Following aren't included in normal residents :-
1. Foreign tourists and visitors who visit a country for recreation, holidays, medical treatment, sports etc.

2. Foreign staff of embassies, diplomats and members of armed forces of a country located in given country.

3. International organisations like UNO, WHO are not considered as normal residents of the country in which they operate. They are normal residents of international area.

(4) employees of International organisations are considered as residents of country to which they belong and not of international area.

(5) Crew members of foreign vessels provided their stay is less than a year.

(6) Border workers who live near the international border and cross the border on regular basis to work in other country are residents of the country in which they live.

Q Who among following are normal residents of India?
domestic territory

ans) (1) Indian officials working in Indian Embassy in USA → R

(2) A japanese tourists who stays in India for 2 months. ✗ NRI

(3) Indian going to pakistan for watching cricket match. → R

(4) Indians working in UNO office in America for less than 1yr → R

(5) Indian employees working in WHO office in India. → R

(6) Foreign tourists visiting India for a month to see Taj Mahal.
↳ NRI

(7) Indian muslims going to Haj. → R

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Q. Discuss and differentiate between factor income and transfer income.

ans). Factor income → It refers to income received by factors of production for rendering factor services in the process of production like rent, interest, profit, wages, to land, capital, Entre & labour.

Transfer Income → It refers to income received without giving any productive services in the process of prodⁿ like gifts, scholarships, grants, etc.

Basis	Factor Income	Transfer Income
1. Meaning	Definition	Definition
2. Nature	It's included in national and domestic income.	It's not included in any of them.
3. Concept	It's an earning concept	It's a receipt concept
4. Recipient	It's received by factors of prodⁿ.	It's received generally by households & Govt.
5. Example	Rent, Int, profit, wages	Scholarship, old age pension unemployment allowance, etc.

Q

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Q what are final goods ?

ans) Those goods which are used either for consumption or for investments are known as final goods.

For instance : Goods purchased by households for consumption like milk, fruits, etc.

goods purchased by firm for capital formation or investment like machine purchased by firms.

Q what are intermediate goods ?

ans) Those goods which are used either for resale or fore further production in the same year are known as intermediate goods.

Some important facts about them :-

1. They are generally purchased by one production unit from another prodn unit within prodn boundary.

2. They have derived demand as their demand depends on demand for final goods.

3. Value of intermediate goods is generally deducted to calculate National income.

4. In the process of prodn they loose their individual identity.

Q. Differentiate b/w Intermediate and final goods

Basis	Intermediate	Final goods.
1. Meaning	Defintion	Definition
2. Nature	They aren't Included in national/domestic Income.	They are included in national/domestic income.
3. Value added	Value is added to these goods to make them final goods	Value isn't added to these goods as they are already final goods.
4. Production Boundary	They are within the production boundary	They have crossed the production boundary.
6. Example.	Milk used by a shop for resale.	Milk used by household

Q. Categorise the following into intermediate and final goods.

1. Paper purchased by a publisher. → ~~final~~ Inter
2. Furniture purchased by a school. → final
3. Milk purchased by households. → final
4. Purchase of rice by a grocery shop. → intermediate
5. Coal used by manufacturing firm → Inter.
6. Computers installed in a office. → final
7. Mobile purchased by a mobile seller. → inter
8. Purchase of chalks, dusters by school. → ~~final~~ inter
9. Fertiliser used by farmers → ~~final~~ Inter.
10. Printer purchased by a lawyer. → Final

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Q What is meant by production boundary?

ans Production boundary is an imaginary line around the productive sector. As long as goods remain within the production boundaries they are intermediate goods and when they come out of production boundary they become final goods.

For e.g. → 'A' a farmer produces wheat, gives it to flour mill 'B' which produces flour and then it's given to a baker 'C' who produces bread. Now A, B & C remain within production boundary, goods wheat and flour are intermediate goods whereas the bread which is consumed by household is a final good.

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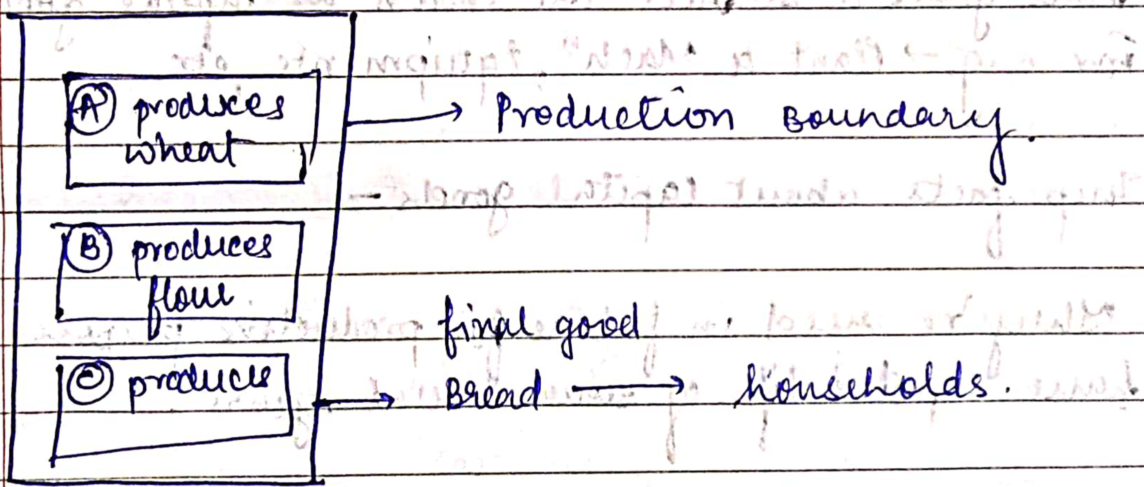

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Q What is consumer goods and capital goods?

Ans Consumer goods : Those goods which satisfy the wants of consumers directly are known as consumer / consumption goods.
E.g → bread, butter, T.V., etc.

These goods can be further classified into following :-

(1) Durable goods — used for years

(2) Semi-durable goods — second time use

(3) Non durable goods — Not used after once

(4) Services

Capital Goods : Those goods which help in production of other goods & services are known as capital goods.
For e.g. → Plant & Mach^n, Equipments, etc.

Imp. facts about capital goods –

(i) They're used in future for productive purposes and have expected life of ~~three~~ several years.

(ii) Don't loose their identity in prod^n process.

(iii) They have derived demand, as their demand depends on demand of final goods ~~as they~~ that they produce.

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Q Differentiate b/w consumer goods and capital goods

Basis	Consumer Goods	Capital Goods
1. Human wants	These goods satisfy human wants directly.	These goods satisfy human wants indirectly
2. Demand.	They've direct demand.	They have derived demand.
3. Production capacity	They don't affect or promote production capacity.	They affect/ promote production capacity.
4. Expected life	They have limited expected life.	They have an expected more life than a year.

point of prodn & consumption consumption is same unlike goods.

Q Explain when the following goods shall be consumer, capital or intermediate goods.

		Consumer	Capital	Intermediate
(a)	Car	H.H Purchased by households	Purchased by taxi drivers	Purchased by a dealer
(b)	Sugar	"	Stock held at ~~Purchased by~~ the end of year	Purchased by shopkeeper
(c)	Services of doctor	"	—	For a hospital or an enterprise

Services can't be capital goods.

Q What do you mean by depreciation ? How is it different from Capital loss ?

ans) Depreciation - It refers to the reduction in value of fixed assets due to normal wear & tear or pass of time.

It's a non cash expense due to which value of assets falls but cash doesn't go out.

Capital Loss : Its loss in the value of asset due to an unforeseen absolescence, natural calamities, thefts, etc.

outdated

Basis ~~Meaning~~.	Depreciation	Capital Loss
Meaning	Definition	Definition.
. Provision of Loss	Provision for loss is made for replacement of assets as it's an expected loss.	Prov^n for loss isn't made because it's an unexpected loss.
Prod^n rocess	It doesn't hamper prod^n process.	It ~~happe~~ hampers prod^n process.

Q What do you mean by gross and net investments?

ans Investment refers to addition to the capital stock of an economy. For e.g → Construction of Bg, purchase of machine, etc
It can be classified ~~as gross Investment~~

Gross Investment → refers to addition in capital stock before making allowance for depreciation.

Net Investments → refer to addition in capital stock for a given period after making allowance for depreciation.

So Net Investment = Gross Investment − Depreciation

Q What do you mean by Indirect taxes and subsidies?

ans) Taxes are a compulsory charge imposed by Govt. on people to be charged on certain basis that can be : income, wealth, prodn, etc.
income tax & wealth tax/property tax.
These taxes can be direct or indirect. not transferable
A tax charged on a person paid by another is known as an Indirect Tax. They're generally charged on factors like prodn, sales, etc. For e.g. → gst (goods & services tax).

Subsidies are the economic assistance given by Govt to firms and households with a motive of general welfare. They're given by Govt. generally to reduce the Impact of Indirect taxes. In India, LPG cylinders are given at subsidised rates where Govt. gives a part of price to the producer in cash or in kind.

Q What do you mean by factor cost and market price?

ans Factor cost is the amount paid to factors of prod^n for their contribution in the prod^n process. In other words its the sum total of factor payments like rent, interest, profit, wages, etc.

Market price is the price at which the product is finally sold to the consumer. It's calculated by adding net indirect taxes to the factor cost.

∴ Mkt price = Factor ~~pri~~ cost + Net indirect taxes

Net Indirect taxes = Indirect taxes − Subsidies

Q What do you mean by net factor income from abroad (NFIA)?

ans It refers to the difference between factor income from rest of the world and factor income paid to rest of the world.

So NFIA = Factor income from abroad − Factor income to abroad

$\boxed{NFIA = FIFA - FITA}$

* Components of NFIA →

There're mainly 3 components of NFIA.

1) Net compensation to employees → It refers to the diff. b/w income from work received by resident workers working abroad for less than 1yr and similar ~~pam~~ payments made to non resident workers ~~in~~ employed within the domestic territory for less than 1yr.

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2) Net income from property & entrepreneurship → It refers to the difference between income from property and entrepreneurship received by residents of a country and similar payments made to non-residents.

3) Net retained Earnings → It refers to the difference between retained earnings of resident companies located abroad and retained earnings of non resident companies located within the domestic territory.

2/04/'22

Q. Which among the following are capital goods and which are consumer goods?

(a) A car used as a taxi → Capital goods
(b) Refrigerator in a hotel → Capital good
(c) Air conditioner in home → consumer good

Q. Which among the following are final or intermediate goods?

(a) Milk purchased by a tea stall → intermediate
(b) Bus purchased by a school → final
(c) Juice purchased a student from school canteen → final.

final goods can be capital goods as well as consumer goods.

Q. Classify following into intermediate and final goods

(a) Machine purchased for installation in a factory → final
(b) Fees paid to lawyer by producer → ~~final~~ intermediate
(c) Milk purchased by a hotel → ~~Intermediate~~ Intermediate

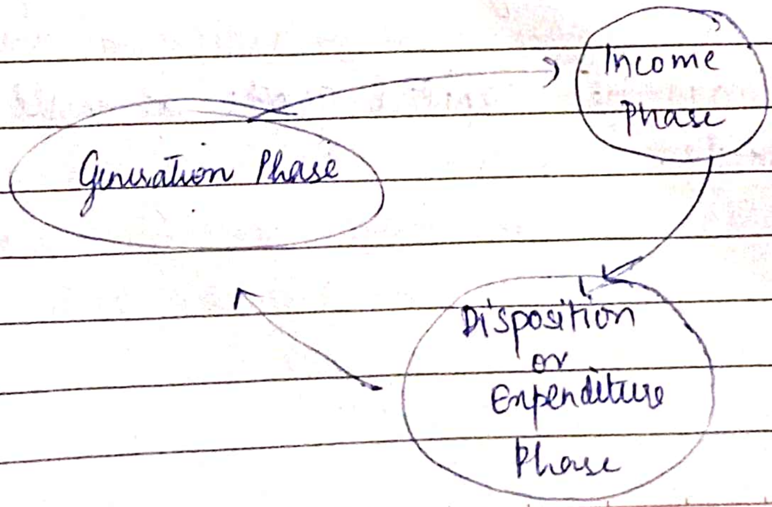
Q What do you mean by circular flow of income?

ans It refers to cycle of generation of income in prod^n process, its distribution among factors of prod^n and finally its circulation from household to firm in the form of consumption expenditure on goods and services.
This circular flow of income is divided into following 3 phases :-

(i) Generation Phase → In this phase firms produce goods & services with the help of factors of prod^n.

(ii) Distribution Phase → This phase involves flow of income from firms to households.

(iii) Disposition Phase → In this phase income received by factors of prod^n is spent on goods and services produced by firms.



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Q. Define & differentiate between stock and flow

Stock → is a variable that can be measured at a particular point of time. For e.g. → stock of goods in godown on 31st March 2022.

Flow → It refers to the variable that can be measured over a period of time. For e.g. → prodn of goods during March 2022.

Basis	Stock	Flow
Meaning	Definition	1. Definition
Time Dimension	It doesn't have a time dimension.	2. It has time dimension as it can be measured over a period of time only.
Nature	It's a static (constant) concept.	3. It's a dynamic (changing) concept.
Examples (imp)	Water in a tank Stock of goods on 31.3.'22 National wealth.	4. Water in a river Prodn of goods during March'22 National income

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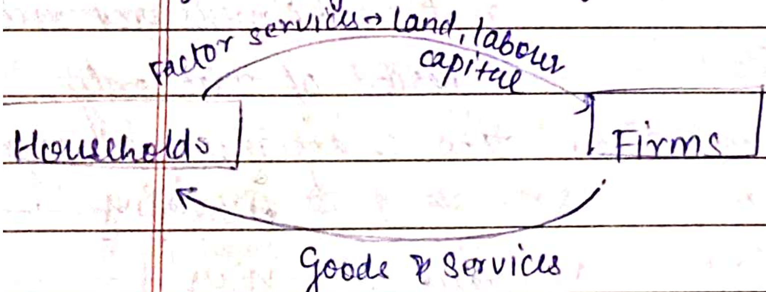
Q What are the different types of circular flow of income?

ans. There are mainly two types of circular flow of income in 2 sector economy:-

(a) Real Flow

→ It refers to flow of factor services from households to firm and corresponding flow of goods & services from firm to households.

* Its also known as physical flow where there is exchange of goods and service between 2 sectors without involvement of money shown as follows:-

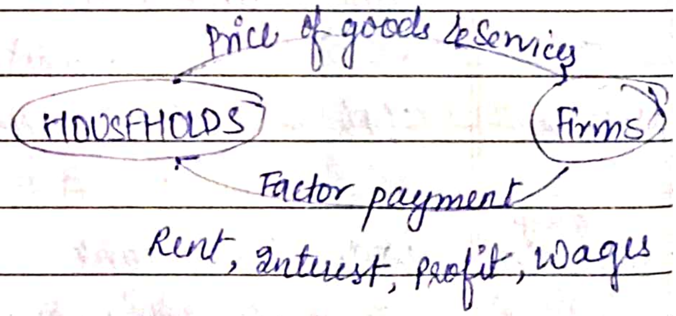


∴ REAL FLOW

This real flow determines the rate of growth process in an economy. For instance when more factor services are offered to firms the volume of prodn will be more & the rate of growth will be high.

(b) Money flow

→ It refers to the flow of factor payments from firm to households for their factor services and corresponding flow of consumption expenditure from household to firm in terms of price for goods & services. *This flow is also known as nominal flow shown as follows:-



∴ MONEY FLOW

This flow involves movement of money in between 2 sectors in the form of factor payments and price for goods & services.

Q Differentiate between Real Flow & Money Flow

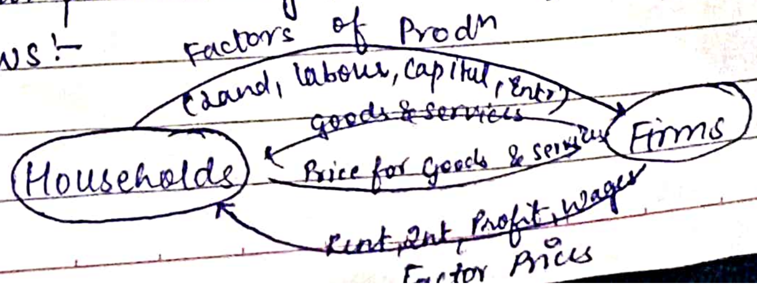
Basis	Real Flow	Money Flow
1. Meaning	It's the flow of goods & services b/w firms & households.	It's the flow of money b/w firms & households.
2. Kind of exchange	It involves exchange of goods and services.	It involves exchange of money.
3. Difficulty in Exchange	There can be difficulties in their exchange as there is a barter going on.	There is no such difficulty in case of money flow.
4. Alternative name	It's also known as 'physical flow'.	It's also known as 'nominal flow'.

Q Explain circular flow of income in 2 sector economy? (simple economy)

ans A simple economy is the one in which there exists only 2 sectors - 1. households & 2. firms.

1. Households are the consumers as well as owners of factors of production.
2. Firms are the producers of goods & services and sell them to households.

In a simple economy, circular flow of income can be drawn as follows:-



In explaining circular flow of income following assumptions has been taken:-

a. There are only 2 sectors in economy household & firms.
b. Household supply factor services to firms only & firms supply goods and services to household only.
c. Household receive factor income for their services and spend the entire income on consumption of goods & services.
d. There're no savings in the economy - neither households nor firms make any savings.

V.V. Imp.
Q 'In a 2 sector economy national product is equal to nation income.' Comment.

ans In a 2 sector economy, the national product in terms of money value of goods & services produced is distributed among factors of prodn. In other words, the total money value of output is given to factors of prodn in the form of rent, interest, profit, wages, that becomes national income so national product is equal to national income in a simple economy. For e.g. → There's only one producing firm in economy that produces clothes. The value of clothes produced is ₹10,00,000 i.e. national product. This ₹10,00,000 is given in the form of rent ₹3,00,000, interest ₹1,00,000, wages ₹4,00,000 and a balance ₹2,00,000 profit. This makes total ₹10 L as national income.

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Q What do you mean by macroeconomics? and how it's diff. from microeconomics?

ans).

Macroeconomics is the study of behaviour of aggregate covering the entire economy such as national income, full employment, aggregate demand, aggregate consumption, etc.

"The term 'macro' has been derived from a latin word called makros which means large so macroeconomics is the study of economy as a whole.

Basis	Microeconomics	Macroeconomics.
(1) Meaning	It's the study of behaviour of individual units that can be a product, a firm or a market.	(1) It's the study of economy as as a whole and its aggregates like national income, national output, aggregate demand, etc.
(2) Objective	It's main objective is allocation of resources.	It's main objective is to determine national income & employment.
(3) Tools	It's main tools are demand & supply.	It's main tools are aggregate demand & aggregate supply
(4) Basic assumption	It assumes all macro-variables like national income, total consumption, etc to be constant.	It assumes all microvariables like price of individual products, etc are to be constant
(5) Alternative Name	Price theory	Income & Employment theory.

Q Name the economist who gave understanding of macroeco. for the first time.

ans Prof. J. M. ~~Keins~~. Keynes

Q Give 2 examples of macroeconomic studies / variables

(a) National Income
(b) Level of Employment
(c) Aggregate demand
(d) Aggregate consumption

Q Give 2 examples of microeconomic studies

(i) Price determination
(ii) Consumer Equilibrium
(iii) Producer equilibrium, etc

Q What do you mean by Gross Domestic Product (GDP)?

ans It refers to the money value of final goods & services produced within domestic territory during a particular year. It can be calculated at base year prices or current year prices. If it's calculated on base year prices it's known as real GDP or GDP at constant prices. If its calculated on the basis of current year prices its known as nominal GDP or GDP at current prices.
Real GDP is oftenly used to evaluate growth in an economy.

B. Com (H) → Eng + A/c, BST, Eco

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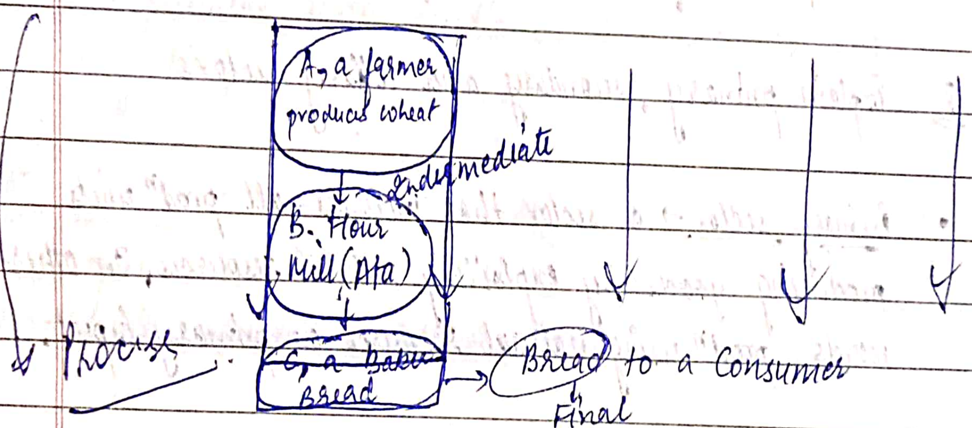
Calculating National Income

Q What do you mean by the problem of double counting? How it can be avoided?

ans The problem of adding value of one commodity for more then one's in the process of calculating national income is known as the problem of Double Counting.
For instance → adding the value of wheat and bread amounts to double counting. This problem can be avoided by any of the following way :-



1. Deducting value of intermediate goods from the value of final goods to get value added.

2. Adding only the value of final goods while calculating National Income.

3. Practically the second option isn't so feasible because it's difficult to identify which good is a final good. For example, in the process of prodⁿ of bread if we say that bread is a final good and if someone makes sandwhich from the same bread then that sandwich will be final good. Therefore option 1 i.e. deducting value of intermediate good from the value of prodⁿ is most appropriate method.

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Q What do you mean be value added?

ans. Value added is the diff. between value of output and value of input bought from other firms. This is the value of we need to add to get domestic product.

For e.g. → A farmer produces wheat worth ₹100 and sells it to a flour mill which produces flour valued at ₹140, so the value added by the flour mill in this process is ₹40 and this should be added to get national income avoiding the probelm of double counting.

Q Explain primary, secondary and tertiary sectors.

- Primary sector → a sector that includes all prodⁿ units producing goods by exploiting natural resources, In other words, prodⁿ using natural resource as primary input.

For instance – farming, fishing, mining, etc.

- Secondary sector – it includes all prodⁿ units that're engaged in transforming one good into another, This sector mainly includes manufacturing and construction units.

- Tertiary sector – It include all prodⁿ units that're engaged in prodⁿ of services like Banks, Insurance Company's, transport companies, etc.

etcetra

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Q What do you mean by positive and negative externalities?

ans An externality is a cost or benefit of an economic activity experienced by an unrelated third party. This external cost isn't reflected in the final cost of a good or a service. These externalities are categorised into :-

① Negative Externality → It's a negative consequence of an economic activity experienced by an unrelated third party. The majority of externalities are negative only.
For e.g. →
Air pollution, water pollution, passive smoking, traffic conjestion, etc.

② Positive Externality → It's the benefit from an activity experienced by an unrelated third party. These externalities create market inefficiencies.
Examples are :-
Infrastructure development, vaccination, planting trees, etc.

Q Explain the meaning of non-market activities

ans These activities refer to acquiring final goods & services but not through regular market transaction. In these activities exchange of money doesn't take place. For e.g. → growing vegetables in kitchen garden.

~~MONEY AND BANKING~~

Q Some limitations of using GDP as an index of welfare of country. Comment.

ans ~~GDI~~ GDP of a country is by and large used as an index of welfare of people in a country but GDP cannot serve as an adequate indicator of its welfare on account of some limitations given as follows:-

(a) Distribution of GDP → there's a possibility that GDP is not distributed uniformly and the increase in GDP may benefit more the richer class and making poorer more poor so inequality in GDP distribution may result in ~~ineq~~ inadequate welfare of people.

(b) Non-monetory exchanges → There're certain exchanges like services of housewives, barter exchange, etc. which increase the economic welfare but not included in GDP. As a result, GDP remains underestimated.

(c) Externalities → are those activities which affect an unknown third party. This can be a ~~possi~~ positive or negative externality but there are not bought or sold in market so they affect the welfare but not counted in GDP estimation.

(d) Different effects of Products on Welfare → While calculating GDP production of all commodities is treated alike and they are added in ~~in~~ GDP.
For instance → prodⁿ of wheat and tobacco are treated similarly in calculation of GDP but wheat has a positive impact on welfare whereas tobacco has negative impact.

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(e) Prodⁿ of Defense Goods → Prodⁿ of goods like arms and ammunition is added to GDP but they don't have any direct impact on welfare of people.