

REVISION OF KEY POINTS

- **Circular Flow of Income** refers to the cycle of generation of income in the production process, its distribution among the factors of production and finally, its circulation from households to the production units in the form of consumption expenditure on goods and services produced by these units.
- **Three Phases of Circular Flow of Income**
 - (i) Generation Phase; (ii) Distribution Phase; (iii) Disposition Phase.
- **Flow Variable** refers to that variable, which is measured over a period of time.
- **Stock Variable** refers to that variable, which is measured at a particular point of time.
- **Real Flow** refers to flow of factor services from households to firms and the corresponding flow of goods and services from firms to households.
- **Money Flow** refers to flow of factor payments from firms to households for their factor services and corresponding flow of consumption expenditure from households to firms for purchase of goods and services produced by the firms.

REVISION EXERCISE

Multiple Choice Questions (MCQs)

1. Which of the following is a phase of circular flow of income?

- (a) Generation Phase
- (b) Distribution Phase
- (c) Disposition Phase
- (d) All of these

2. Which of the following is not an example of flow variable?

- (a) Number of births during a year
- (b) National wealth
- (c) National Income
- (d) Wheat produced during a year

3. Which of the following is not considered a factor income?

- (a) Rent
- (b) Wages
- (c) Gifts from abroad
- (d) Profit

4. Two-sector economy consists of:

- (a) Households, firms
- (b) Firms, Foreign sector
- (c) Households, Government
- (d) Firms, Government

5. Stock variable is defined as a variable which is:

- (a) Measured over a period of time
- (c) Cannot be measured

- (b) Measured at a particular point of time
- (d) None of these

6. Losses are classified as:

- (a) Stock variable
- (c) Either (a) or (b)

- (b) Flow variable
- (d) Neither (a) nor (b)

7. Real flow is also known as:

- (a) Nominal flow
- (c) Money flow

- (b) Physical flow
- (d) Both (a) and (b)

8. Which of the following is the consumption sector?

- (a) Households
- (c) Foreign

- (b) Firms
- (d) Government

9. Money flow involves exchange of:

- (a) Goods and services
- (c) Money

- (b) Gifts
- (d) None of these

10. Real flow refers to the flow of factor services from _____ to _____.

- (a) Firms to households
- (c) Firms to government

- (b) Households to firms
- (d) Households to government

11. In a closed economy, _____ is not included.

- (a) Households
- (c) Government

- (b) Firms
- (d) Foreign sector

12. Which of the following is not a flow?

- (a) Capital
- (c) Investment

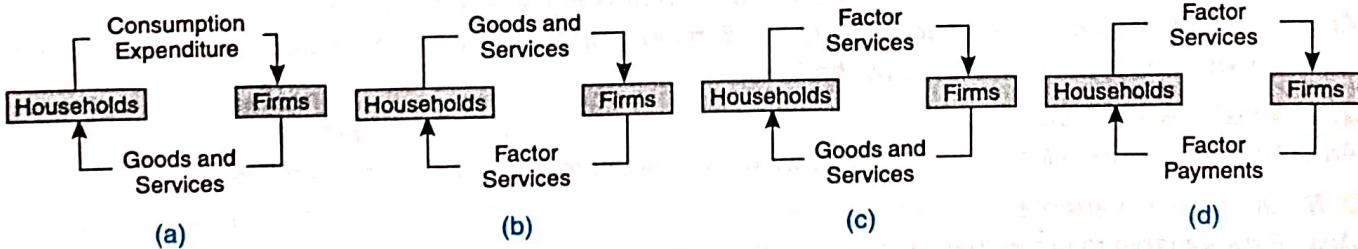
- (b) Income
- (d) Depreciation

13. Which of the following is a stock?

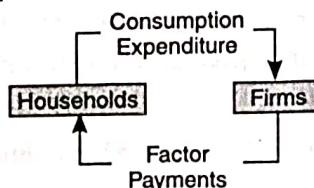
- (a) Wealth
- (c) Exports

- (b) Saving
- (d) Profits

14. Which of the following diagram represents Real Flow?



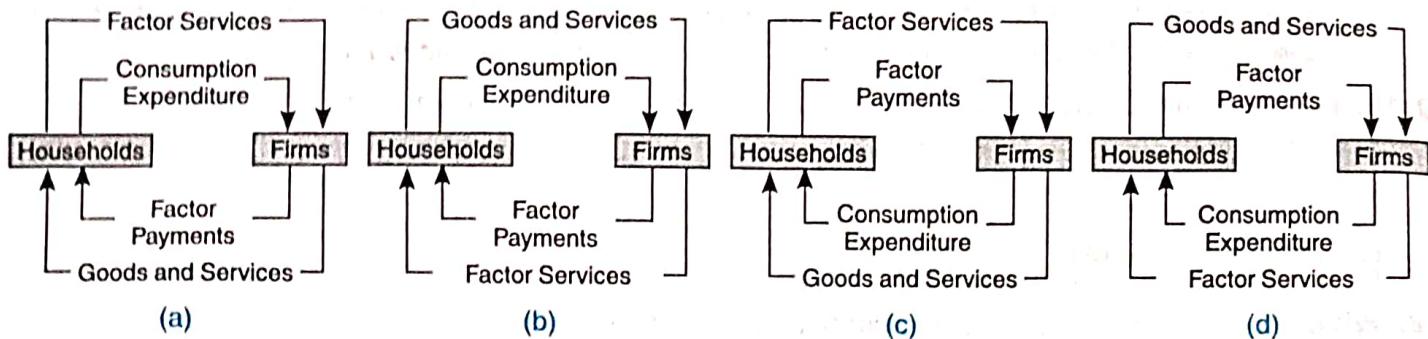
15. What does the following diagram represent?



- (a) Real Flow
- (c) Nominal Flow

- (b) Money Flow
- (d) Both (b) and (c)

16. Circular Flow of Income is correctly represented in the diagram:



17. Which of the following is a flow?

(a) Deposits in a bank
(b) Capital
(c) Depreciation
(d) Wealth

{CBSE, Delhi Comptt. 2016}

18. Which of the following is a stock?

(a) Savings
(b) Production
(c) Consumption of fixed capital
(d) Capital

{CBSE, All India Comptt. 2016}

19. Flow of Goods and services and factors of production across different sectors in a barter economy is known as:

(a) Circular Flow
(b) Real Flow
(c) Monetary Flow
(d) Capital Flow

{CBSE, Sample Paper 2016}

Ans. 1. (d); 2. (b); 3. (c); 4. (a); 5. (b); 6. (b); 7. (b); 8. (a); 9. (c); 10. (b); 11. (d);
12. (a); 13. (a); 14. (c); 15. (d); 16. (a); 17. (c); 18. (d); 19. (b)

Very Short Answer Type Questions (1 Mark each)

Q. 1. What is meant by circular flow of income?

Ans. Circular flow of income refers to cycle of generation of income in the production process, its distribution among the factors of production and finally, its circulation from households to firms in the form of consumption expenditure on goods and services produced by them.

Q. 2. What are the three phases of circular flow of income?

Ans. Generation Phase; Distribution Phase and Disposition Phase.

Q. 3. What is the function of households in the circular flow (two-sector model)?

Ans. Households supply factor services to the firms and spend their entire income on the consumption of goods and services produced by the firms.

Q. 4. What are stock variables?

{CBSE, All India 2011, Delhi 2012, 2016}

Ans. Stock variables refer to the variables, which are measured at a particular point of time.

Q. 5. Define flow variable.

{CBSE, Delhi 2011, All India 2012, 2016}

Ans. Flow variable refers to that variable, which is measured over a period of time.

Q. 6. Is national income a stock concept or flow concept?

Ans. National income is a flow concept as it is measured over a period of time.

Q. 7. What are the two types of circular flows?

Ans. The two types of circular flows are: (i) Real flow; (ii) Money flow.

Q. 8. What is meant by real flow or physical flow?

Ans. Real flow or physical flow refers to the flow of factor services from households to firms and the corresponding flow of goods and services from firms to households.

Q. 9. Define nominal flow.

(CBSE, Sample Paper 2017)

Ans. Money flow or nominal flow refers to the flow of factor payments from firms to households for their factor services and the corresponding flow of money, from households to firms, in the form of consumption expenditure on the purchase of goods and services produced by the firms.

Q. 10. Name the two sectors in which real flow takes place in a simple economy.

Ans. (i) Household Sector, (ii) Firm Sector.

Short Answer Type Questions (3-4 Marks each)

1. Explain the circular flow of income. (CBSE, Delhi 2009, Delhi Comptt. 2014, All India 2017 (II))

2. What are the different phases of a circular flow of income?

3. What is meant by circular flow of income? Distinguish between Real Flow and Money Flow.

(CBSE, Delhi 2003)

4. "Households and Firms depend on each other in the circular flow of income." Justify the statement in case of a two-sector model.

5. Distinguish between stocks and flows. Give an example of each.

(CBSE, Foreign 2010, All India 2013, 2017 (III))

Long Answer Type Questions (6 Marks each)

1. Briefly explain the money flow and the real flow of income.

2. Describe the circular flow of income in a two-sector economy (without financial market).