

REVISION OF KEY POINTS

- **Domestic Territory** refers to the geographical territory administered by a government within which persons, goods and capital circulate freely.
- **Normal resident** refers to an individual or an institution who ordinarily resides in the country for a period more than one year and whose centre of interest also lies in that country.
- **Factor Income** is the income received by the factors of production for rendering factor services in the process of production.
- **Transfer Income** refers to the income received without rendering any productive service in return.
- **Final Goods** refer to those goods which are used either for consumption or for investment.
- **Intermediate Goods** refer to those goods which are used either for resale or for further production in the same year.
- **Consumption goods** refer to those goods which satisfy the wants of the consumers directly.
- **Capital Goods** are those final goods which help in production of other goods and services.
- **Gross Investment** refers to total investment made in a given period in an economy.
- **Depreciation** refers to a fall in the value of fixed assets due to normal wear and tear, passage of time and expected obsolescence.
- **Net Indirect Tax** refers to the difference between indirect taxes and subsidies.
- **Net Factor Income from Abroad** refers to the difference between the factor income received from the rest of the world and the factor income paid to the rest of the world.
- **Three Components of NFIA:** (i) Net compensation of employees; (ii) Net income from property and entrepreneurship; (iii) Net retained earnings.

Multiple Choice Questions (MCQs)

1. Which of the following are covered under the domestic territory of India?
 - (a) State Bank of India in London
 - (b) Google office in India
 - (c) Office of Tata Motors in Australia
 - (d) Russian Embassy in India
2. Which one of the following is an intermediate product?
 - (a) Purchase of pulses by consumers
 - (b) Machine purchased by a firm
 - (c) Wheat used by a flour mill
 - (d) Wheat used by households
3. Which one of the following is not an example of final goods?
 - (a) Chalk, dusters, etc. purchased by a school
 - (b) Fertilizers used by the farmers
 - (c) Wheat used by the flour mill
 - (d) All of the above
4. Which of the following constitute the reason for difference between Market Prices and Factor Cost?
 - (a) Indirect Taxes
 - (b) Subsidies
 - (c) Both (a) and (b)
 - (d) Neither (a) nor (b)
5. If factor cost is greater than market price, then it means that:
 - (a) Indirect Taxes > Subsidies
 - (b) Indirect Taxes = Subsidies
 - (c) Indirect Taxes < Subsidies
 - (d) Indirect Taxes \geq subsidies

6. Final goods refer to those goods which are used either for _____ or for _____.

- (a) Consumption, investment
- (b) Consumption, resale
- (c) Resale, investment
- (d) Resale, further production

7. Net factor income from abroad is:

- (a) Exports minus Imports
- (b) Visible Exports minus Visible Imports
- (c) Factor incomes received from abroad minus factor incomes paid abroad
- (d) Factor incomes received from abroad

8. Depreciation means:

- (a) Destruction of a plant in a fire accident
- (b) Loss of fixed assets over time due to wear and tear
- (c) Loss of fixed assets in an earthquake
- (d) Closure of the plant due to lockout

9. Market price and Factor cost will be equal when there is:

- (a) No direct tax
- (b) No indirect tax
- (c) No subsidy
- (d) No indirect tax and no subsidy

10. Which of the following is an example of transfer income?

- (a) Bonus
- (b) Unemployment Allowance
- (c) Compensation from the employer
- (d) All of the above

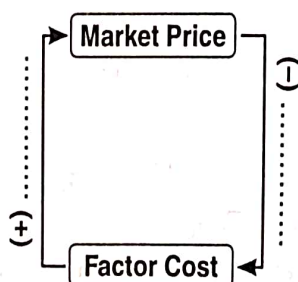
11. Which of the following is an example of an intermediate goods?

- (a) Car sold by a dealer of second hand cars
- (b) Steel and cement used to construct a flyover
- (c) Fertilizers purchased by a farmer
- (d) All the these

12. Sugar purchased by a Sweet shop is an _____ good, while it is a _____ good when it is purchased by a consumer.

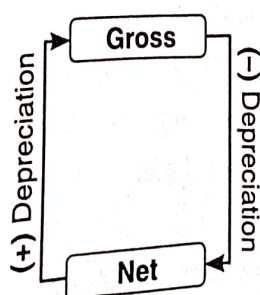
- (a) capital, final
- (b) final, intermediate
- (c) intermediate, final
- (d) final, producer

13. Identify the missing item in the following flowchart:

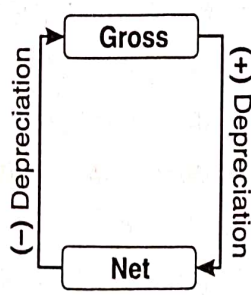


- (a) Depreciation
- (b) Net Indirect Taxes
- (c) Net Factor Income from Abroad
- (d) Indirect Taxes

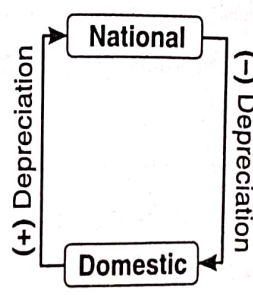
14. Which of the following flowchart correctly establishes the treatment of 'Depreciation'?



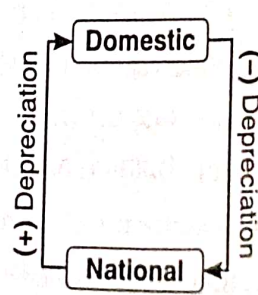
(a)



(b)



(c)



(d)

15. Depreciation of fixed capital assets refers to: {CBSE, Delhi 2016}
 (a) Normal wear and tear (b) Foreseen obsolescence
 (c) Normal wear & tear & foreseen obsolescence (d) Unforeseen obsolescence
16. Unforeseen obsolescence of fixed capital assets during production is: {CBSE, Foreign 2016}
 (a) Consumption of Fixed Capital (b) Capital Loss
 (c) Income Loss (d) None of the above
17. Refrigerator purchased by a confectionery shop is an example of:
 (a) Final Good (b) Intermediate Good
 (c) Capital Good (d) Both (a) and (c)
18. Which of the following is an example of Non-durable good?
 (a) Milk (b) Bread
 (c) Both (a) and (b) (d) Clothes
19. Addition to the capital stock of an economy is termed as:
 (a) Investment (b) Capital Loss
 (c) Consumption of Fixed Capital (d) All of these
20. Japanese Embassy in India is a part of domestic territory of:
 (a) India (b) Japan
 (c) Both (a) and (b) (d) International Area
21. Foreign embassies in India are a part of India's: (Choose the correct alternative) {CBSE, Delhi Comptt. 2017}
 (a) Economic territory (b) Geographical territory
 (c) Both (a) and (b) (d) None of the above
22. Goods purchased for the following purpose are final goods: (choose the correct alternative) {CBSE, All India Comptt. 2017}
 (a) For satisfaction of wants (b) For investment in firm
 (c) Both (a) and (b) (d) None of the above
- Ans. 1. (b); 2. (c); 3. (d); 4. (c); 5. (c); 6. (a); 7. (c); 8. (b); 9. (d); 10. (b); 11. (d); 12. (c); 13. (b); 14. (a); 15. (c); 16. (b); 17. (d); 18. (c); 19. (a); 20. (b); 21. (b); 22. (c)**

Very Short Answer Type Questions (1 Mark each)

- Q. 1.** Give the meaning of factor income.
Ans. Factor income refers to the income received by the factors of production for rendering factor services in the process of production.
- Q. 2.** What is meant by transfer income?
Ans. Transfer income refers to the income received without rendering any productive service in return.
- Q. 3.** Out of factor income and transfer income, which one is included in the national income?
Ans. Factor income.
- Q. 4.** Define current transfers. {CBSE, Delhi 2003}
Ans. Current transfers refer to transfers made out of the current income of the payer and added to the current income of the recipient.
- Q. 5.** Define final goods. {CBSE, All India Comptt. 2013}
Ans. Final goods refer to those goods which are used either for consumption or for investment.

Q. 6. What is meant by intermediate goods?

Ans. Intermediate goods refer to those goods which are used either for resale or for further production in the same year.

Q. 7. Can purchase of a new car be categorised as an intermediate good?

Ans. Yes, purchase of a new car can be categorised as an intermediate good if it is purchased by a car dealer for resale.

Q. 8. Define consumption goods?

Ans. Consumption goods refer to those goods which satisfy the wants of the consumers directly. {CBSE, All India 2012, Delhi Comptt. 2014 (II)}

Q. 9. Define capital goods.

Ans. Capital Goods are those final goods which help in the production of other goods and services. {CBSE, Delhi 2012, Delhi Comptt. 2014 (II)}

Q. 10. What is meant by Net factor income from abroad?

Ans. Net factor income from abroad refers to the difference between the factor income received from the rest of the world and the factor income paid to the rest of the world.

Q. 11. Give an example of a person who is staying abroad for a period more than one year and still he is treated as normal resident of India.

Ans. An Indian working in Indian Embassy in USA will be treated as normal resident of India.

Q. 12. Define 'depreciation'.

{CBSE, All India 2011, All India Comptt. 2014}

OR

What is meant by 'Consumption of fixed capital'?

{CBSE, Delhi Comptt. 2013}

Ans. Depreciation refers to a fall in the value of fixed assets due to normal wear and tear, passage of time or expected obsolescence (change in technology).

Q. 13. Define capital formation.

{CBSE, Delhi Comptt. 2011}

OR

Define investment.

{CBSE, Delhi Comptt. 2013 (III), 2014 (III)}

Ans. Capital formation refers to addition to the capital stock of an economy. For example, construction of building, purchase of machinery, etc.

Q. 14. Define Gross Investment.

{CBSE, Foreign 2016}

Ans. Gross Investment is addition to the stock of capital before making allowance for depreciation.

Q. 15. Give two examples of intermediate goods.

{CBSE, All India 2013, Delhi Comptt. 2014 (III)}

Ans. (i) Milk used in dairy shop for resale; (ii) Coal used in factory for further production.

Q. 16. Define 'resident'?

{CBSE, Delhi Comptt. 2013 (II)}

Ans. Resident refers to an individual or an institution who ordinarily resides in the country and whose centre of economic interest also lies in that country.

Q. 17. What are 'subsidies'?

{CBSE, Sample Paper 2017}

Ans. Subsidies are the 'economic assistance' given by the government to the firms and households, with a motive of general welfare.

Short Answer Type Questions (3-4 Marks each)

1. Distinguish between factor income and transfer receipt.

{CBSE, Delhi 2003}

2. Distinguish between intermediate products and final products. Give examples.

{CBSE, Delhi 2009, Delhi Comptt. 2015, Delhi 2017}

OR

Explain the basis of classifying goods into intermediate and final goods. Give suitable examples.

{CBSE, Delhi 2010 (I, III), All India 2017 (I)}

3. 'Machine' purchased is always a final good.' Do you agree? Give reasons for your answer.
{CBSE, Sample Paper 2012}
4. Which of the following expenditures incurred are on intermediate products and which are on final products? You must state reason for your answer:
{CBSE, Delhi 2001}
- (i) Purchase of ticket for train journey by an individual.
 - (ii) Purchase of eatables by a firm.
 - (iii) Purchase of a car by an employer for office use by his employees.
- Hint: Intermediate Products: (ii); Final Products: (i), (iii).*
5. Discuss the meaning of consumption goods and capital goods.
6. Distinguish between consumer goods and capital goods. Which of these are final goods?
{CBSE, Delhi 2010 (II)}
7. What is meant by net factor income from abroad? Briefly discuss its various components.
8. Define intermediate goods and final goods. Can milk be an intermediate good? Give reasons for your answer.
{CBSE, All India Comptt. 2015 (III)}
- Hint for 2nd Part: Milk purchased by a restaurant is intermediate good because it is purchased for reselling.*
9. Distinguish between: (a) Final good and intermediate good; (b) Consumption good and capital good.
{CBSE, All India Comptt. 2016}

Long Answer Type Questions (6 Marks each)

1. Explain the concept of normal residents.
2. Briefly discuss the meaning of domestic territory.
3. Discuss the concept of factor income and transfer income with the help of examples.
4. Distinguish between Intermediate product and final product, giving suitable examples in support of your answer.
{CBSE, Delhi 2005}