

DELHI PUBLIC SCHOOL, JJAMMU

FOUNDATION WORKSHEET

Class: XII

MONTH: APRIL

SUB: ECONOMICS

TOPIC: National Income

1. What is macro economics?

Ans. Macroeconomics is the part of economic theory that studies the economy as a whole, such as national income, aggregate employment, general price level, aggregate consumption, aggregate investment, etc. Its main instruments are aggregate demand and aggregate supply. It is also called the 'Income Theory' or 'Employment Theory'.

2. What are factor incomes?

Ans. Land, Labour, Capital and Entrepreneurship are the four factors of production and rent, wages, interest and profits are the respective factor incomes.

3. When will national income be less than domestic income?

Ans. When net factor income from abroad is negative, national income will be less than the domestic income.

4. What is the difference between Indirect taxes and Net Indirect taxes?

Ans. The difference between indirect taxes and net indirect taxes is of subsidies because.

$$\text{Net Indirect Taxes} = \text{Indirect Taxes} - \text{Subsidies}$$

5. Define 'depreciation'.

Ans. Depreciation means fall in the value of fixed capital goods due to normal wear and tear or foreseen obsolescence.

6. When can national income and domestic income be equal?

Ans. National Income and domestic income will be equal in a closed economy in which net factor income from abroad is zero.

7. What is meant by net exports?

Ans. It is the difference between exports and imports of a country.

$$\text{Net Exports} = \text{Exports} - \text{Imports}$$

8. What is economic territory?

Ans. The geographical area administered by a government in which there is free movement of goods, human resources and capital is called economic territory.

9. What is the difference between factor cost and market price?

Ans. The difference between factor cost and market price is Net Indirect Taxes.

$$\text{Market Price} - \text{Net Indirect Taxes} = \text{Factor Cost.}$$

10. What are transfer payments?

Ans. Transfer payments are unilateral payments which are received without rendering any productive services. For example old age pension, scholarships etc.

11. What are the two types of final goods?

Ans. The two types of final goods are:



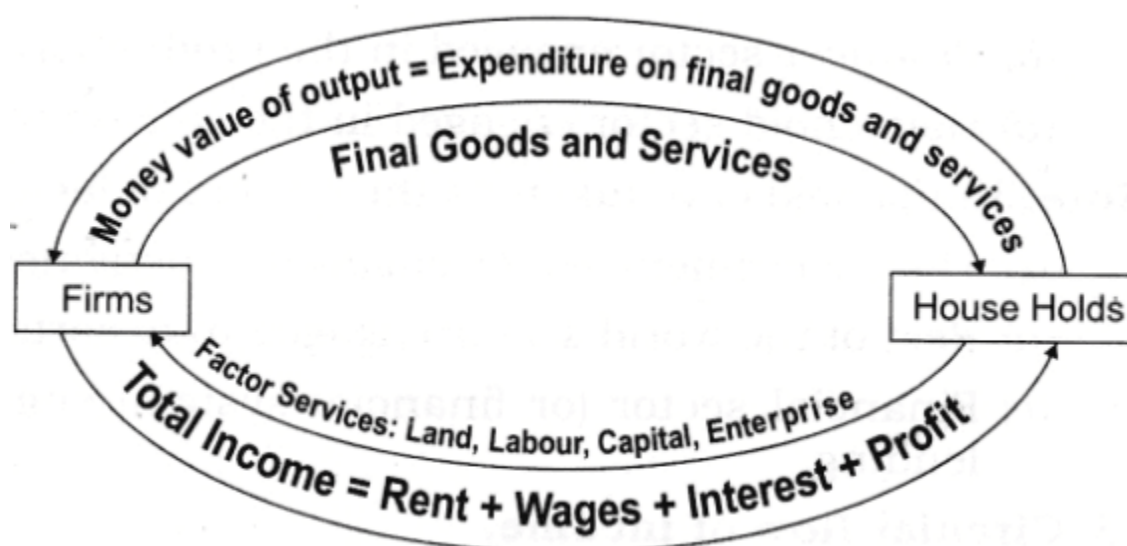
- (i) Consumption goods and
- (ii) Capital goods.

12. Explain circular flow of Income in a two sector model.

Ans. Circular Flow Of Income In Two Sector Model:

The following assumptions with regard to a simple economy with only two sector of economics activity are:

- (i) There are only two sectors in the economy; that is, household and firms.
- (ii) Household supply factor services to firms.
- (iii) Firms hire factor services from Households.



- (iv) Households spend their entire income on consumption.
- (v) Firms sell all that is produced to the households.
- (vi) There is no government or foreign trade.

Such an economy described above has two types of markets.

- (i) Market for goods and services, that is product market.
- (ii) Market for factors of production, factor market.

As a result we can derive the following, in the case of our simple economy:

- (i) Total production of goods and services by firms = Total consumption of goods and services by Household Sector.
- (ii) Factor Payments by Firms = Factor Incomes of Household Sector.
- (iii) Consumption expenditure of Household sector = Income of Firm.
- (iv) Hence, Real flows of production and consumption of Firms and households = Money flows of income and expenditure of Firms and Households.

13. Discuss the phases of Circular flow.

Ans. Phases Of Circular Flow:

There are three types of phases of Circular flow.

(i) **Production Phase:**

- It deals with the production of goods and services by the producer sector.
- If we study it in term of the quantity of goods and services produced, it is a Real Flow. But, it is a Money flow, if we study it in terms of the market value of the goods produced.

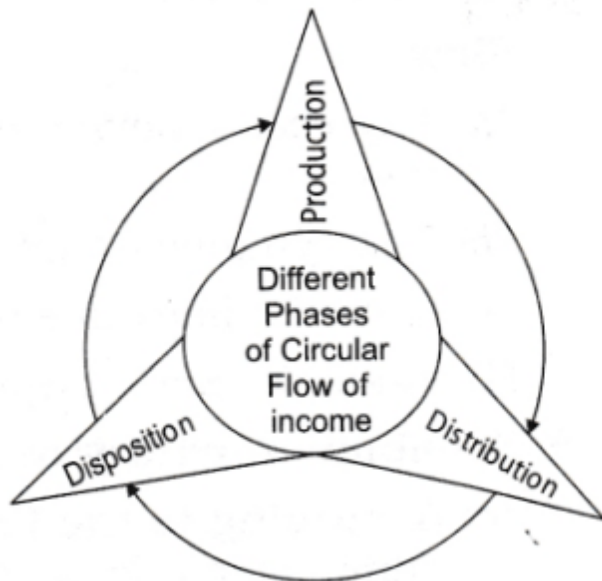
(ii) **Distribution Phase:** It means the flow of income in the form of rent, interest,



profit and wages, paid by producer sector to the household sector

(iii) **Disposition Phase:**

- Disposition means expenditure made. This phase deals with expenditure on the purchase of goods and services by households and other sectors.
- This is a Money Flow from other sectors to the producer sector. These phases are illustrated in the figure given here.



14. Differentiate between Intermediate goods and Final goods.

Ans.

Intermediate goods	Final goods
Intermediate goods refer to those goods which are used either for resale or for further production in the same year.	Final goods refer to those goods which are used either for consumption or for investment.
They are not ready for use in the sense some value has to be added to the intermediate goods.	They are ready for use in the sense that no value has to be added.
They are still within the production boundary.	They have crossed the boundary line of production.

15. Explain types of consumer goods.

Ans. Consumption goods are those goods which satisfy the wants of consumers directly. Its types are:

DURABLE GOODS: These goods can be used for several years and are of relatively high value. Eg- TV, Radio, Car etc.

SEMI-DURABLE GOODS: These goods which can be used for a period of one year or slightly more. These are not of very high value. Eg- Clothes, Furniture, Crockery etc.

NON-DURABLE GOODS: These are single use consumption goods. Eg- Bread, Milk, Petrol etc.

SERVICES: These are non-material goods which directly satisfy human wants. Eg- Services of a Doctor, Lawyer, Domestic servant, etc.

16. Explain the four sectors of the economy.

Ans. Four major sectors in an economy according to the macroeconomic point of view are:

a) Household sector: It includes consumers of goods and services. Households are also the owners of the factors of production.

b) Producer sector: It includes all producing units in the economy. For the production of goods and services, the firms purchase factors of production.

c) Government sector: It includes government as a welfare agency and government as producer.

d) The external sector: It includes all such activities which are related to export and import of goods, and the flow of capital between the domestic economy and rest of the world.

Practice Exercise :

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Dear students,



Answer the following questions :

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4. Define 'depreciation'.
5. When can national income and domestic income be equal?
6. What is meant by net exports?
7. What is economic territory?
8. What is the difference between factor cost and market price?
9. What are transfer payments?
10. What are the two types of final goods?

