



V.M.G.RAJASEKARAN—RAMANI

SRI SARADA SAKTHI
MAT. HR. SEC. SCHOOL89 – A, Ramamoorthy Road, Virudhunagar – 626001
Recognized by Government of Tamilnadu**QUARTERLY EXAMINATION ANSWER KEY – 2024 – 2025****GRADE: XII****ECONOMICS****MARKS: 90****PART - I****I Multiple Choice questions:****20X1=20**

1.	b) J.M.Keynes	11.	a) Central bank
2.	b) Stock	12.	c) July 1982
3.	a) April 1 to March 31	13.	c) Profit making
4.	a) Industry	14.	b) Atomic energy
5.	b) Short run	15.	d) All of above
6.	a) Rate of interest	16.	b) Closed economy
7.	c) 4	17.	b) World Bank
8.	a) C/Y	18.	a) TRIPS
9.	a) Prices are rising	19.	a) IMF
10.	c) Plastic money	20.	1936

PART-II**II) ANSWER ANY SEVEN OF THE FOLLOWING QUESTIONS:****7X2=14****Q.NO 30 IS COMPULSORY****21) ‘Circular Flow of Income’ – Define.**

The circular flow of income is a model of an economy showing connections between different sectors of an economy. It shows flows of income, goods and services and factors of production between economic agents such as firms, households, government and nations.

22) What is disposable income?

Disposable Income is also known as Disposable personal income. It is the individuals income after the payment of income tax. This is the amount available for households for consumption.

23) What is Crypto Currency?

A digital currency in which encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds, operating independently of a Central Bank. Decentralised crypto currencies such as Bitcoin now provide an outlet for Personal Wealth that is beyond restriction and confiscation.

24) What is autonomous investment?

- Investment that is not dependent on the national income
- Mainly done with the welfare motive and not for making profits

- Examples : Construction of road, bridges, School, Charitable houses
- Not affected by rise in raw materials or wages of workers
- Essential to development of nation and out of depression

25) Define Commercial Banks.

Commercial bank refers to a bank, or a division of a large bank, which more specifically deals with deposit and loan services provided to corporations or large/ middle-sized business - as opposed to individual members of the public/small business. They do not provide, long-term credit, as liquidity of assets is to be maintained.

26) What is Free trade area?

A **free trade area** is the region encompassing a trade bloc whose member countries have signed a free-trade agreement (FTA). Such agreements involve cooperation between at least two countries to reduce trade barriers. e.g. SAFTA, EFTA.

27) Define Marginal Propensity to Save (MPS)

Marginal Propensity to Save is the ratio of change in saving to a change in income. MPS is obtained by dividing change in savings by change in income. It can be expressed algebraically as
 $\Delta S = \text{Change in Saving}$
 $\Delta Y = \text{Change in Income}$
 Since $MPC + MPS = 1$
 $MPS = 1 - MPC$ and $MPC = 1 - MPS$

28) What do you mean by balance of payments?

BoP is a systematic record of a country's economic and financial transactions with the rest of the world over a period of time. When a payment is received from a foreign country, it is a credit transaction while a payment to a foreign country is a debit transaction.

29) Write International Institution and Headquarters.

INSTITUTION	HEADQUARTERS
International Monetary Fund	Washington D.C
World Bank	Washington D.C
SAARC	Bangkok
BRICS	Shanghai

30) What is Disguised Unemployment?

Disguised unemployment occurs when more people are there than what is actually required. Even if some workers are withdrawn, production does not suffer. This type of unemployment is found in agriculture. A person is said to be disguisedly by unemployed if his contribution to output is less than what he can produce by working for normal hours per day. In this situation, marginal productivity of labour is zero or less or negative.

PART- III

III) ANSWER ANY SEVEN OF THE FOLLOWING QUESTIONS:

7X3=21

Q.NO 40 IS COMPULSORY

31) Describe the different types of economic systems.

Economic System refers to the manner in which individuals and institutions are connected together to carry out economic activities in a particular area. It is the methodology of doing economic activities to meet the needs of the society. There are three major types of economic systems. They are:

1. Capitalistic Economy (Capitalism),
2. Socialistic Economy (Socialism) and
3. Mixed Economy (Mixedism)

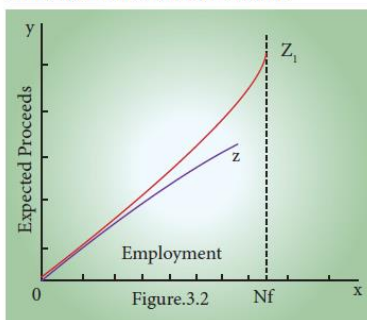
32) List out the uses of national income.

National income is of great importance for the economy of a country. Nowadays the national income is regarded as accounts of the economy, which are known as social accounts. It enables us

1. To know the relative importance of the various sectors of the economy and their contribution towards national income; from the calculation of national income, we could find how income is produced, how it is distributed, how much is spent, saved or taxed.
2. To formulate the national policies such as monetary policy, fiscal policy and other policies; the proper measures can be adopted to bring the economy to the right path with the help of collecting national income data.

33) Explain about aggregate supply with the help of diagram.

AGGREGATE SUPPLY CURVE



Aggregate supply function is an increasing function of the level of employment. Aggregate supply refers to the value of total output of goods and services produced in an economy in a year. In other words, aggregate supply is equal to the value of national product, i.e., national income.

Z curve is linear where money wages remains fixed; Z1 curve is non-linear since wage rate increases with employment. When full employment level of N_f is reached it is impossible to increase output by employing more men. So aggregate supply curve becomes inelastic (Vertical straight line).

34) What are the causes of inflation on the economy?

- i) Increase in Money Supply
- ii) Increase in Disposable Income
- iii) Increase in Public Expenditure
- iv) Increase in Consumer Spending
- v) Cheap Money Policy
- vi) Deficit Financing
- vii) Black Assests, Activities and Money
- viii) Repayment of Public Debt
- ix) Increase in Exports

35) What are the functions of NABARD?

(i) NABARD acts as a refinancing institution for all kinds of production and investment credit to agriculture, small-scale industries, cottage and village industries, handicrafts and rural crafts and real artisans and other allied economic activities with a view to promoting integrated rural development.

(ii) It provides short-term, medium-term and long-term credits to state co-operative Banks (SCBs), RRBs, LDBs and other financial institutions approved by RBI.

(iii) NABARD gives long-term loans (upto 20 Years) to State Government to enable them to subscribe to the share capital of co-operative credit societies.

36) Mention the objectives of demonetization.

1. Removing Black Money from the country.
2. Stopping of Corruption.
3. Stopping Terror Funds.
4. Curbing Fake Notes

37) Explain the Net Barter Terms of Trade and Gross Barter Terms of Trade.

1. Net Barter Terms of Trade This type was developed by Taussig in 1927. The ratio between the prices of exports and of imports is called the "net barter terms of trade". It is named by Viner as the 'commodity terms of trade'. It is expressed as: $T_n = (P_x / P_m) \times 100$

Where,

T_n = Net Barter Terms of Trade

P_x = Index number of export prices

P_m = Index number of import prices

This is used to measure the gain from international trade. If ' T_n ' is greater than 100, then it is a favourable terms of trade which will mean that for a rupee of export, more of imports can be received by a country.

2 Gross Barter Terms of Trade

This was developed by Taussig in 1927 as an improvement over the net terms of trade. It is an index of relationship between total physical quantity of imports and the total physical quantity of exports.

$$T_g = (Q_x / Q_m) \times 100$$

38) State briefly the functions of SAARC.

The main functions of SAARC are as follows.

1. Maintenance of the co operation in the region
2. Prevention of common problems associated with the member nations.
3. Ensuring strong relationship among the member nations.
4. Removal of the poverty through various packages of programmes.
5. Prevention of terrorism in the region.

39) Explain Regional Rural Banks (RRBs)

One of the important points of the 20 points economic programme of Mrs. Indira Gandhi during emergency was the liquidation of rural indebtedness by stages and provide institutional credit to farmers and artisans in rural areas. It was in pursuance of this aspect of the New Economic programme that the Government of India setup Regional Rural Banks (RRBs) on 1975. The share capital of RRB is subscribed by the Central Government (50%), the State Government concerned (15%), and the sponsoring commercial bank (35%).

The main objective of the RRBs is to provide credit and other facilities particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs so as to develop agriculture, trade, commerce, industry and other productive activities in the rural areas.

40) Income = 10,000, Consumption = 6,000, Saving = 4,000,

Change Income = 2,500, Change Consumption = 1,000

Change Savings = 1,500 - Find out the APC, APS, MPC & MPS

$$APC = C/Y = 6,000/10,000 = 0.6$$

$$APS = S/Y = 4,000/10,000 = 0.4$$

$$MPC = \Delta C/\Delta Y = 1,000/2,500 = 0.4$$

$$MPS = \Delta S/\Delta Y = 1,500/2,500 = 0.6$$

PART-D

IV.ANSWER ALL THE QUESTIONS

7X5=35

41)a) Bring out the functions of World Bank.

1. Investment for productive purposes

The World Bank performs the function of assisting in the reconstruction and development of territories of member nations through facility of investment for productive purposes. It also encourages the development of productive facilities and resources in less developed countries.

2. Balanced growth of international trade

Promoting the long range balanced growth of trade at international level and the maintaining equilibrium in BOPs of member nations by encouraging international investment.

3. Provision of loans and guarantees

Arranging the loans or providing guarantees on loans by various other channels so as to execute important projects.

4. Promotion of foreign private investment

The promotion of private foreign investment by means of guarantees on loans and other investment made by private investors. The Bank supplements private investment by providing finance for productive purpose out of its own resources or from borrowed funds.

5. Technical services

The World Bank facilitates different kinds of technical services to the member countries through Staff College and experts.

41)b) Discuss the various types of disequilibrium in the balance of payments.

There are three main types of BOP Disequilibrium, which are discussed below.

- (a) Cyclical Disequilibrium,
- (b) Secular Disequilibrium,
- (c) Structural Disequilibrium.

a) Cyclical Disequilibrium: Cyclical disequilibrium occurs because of two reasons. First, two countries may be passing through different phases of business cycle. Secondly, the elasticities of demand may differ between countries.

b) Secular Disequilibrium: The secular or long-run disequilibrium in BOP occurs because of long-run and deep seated changes in an economy as it advances from one stage of growth to another. In the initial stages of development, domestic investment exceeds domestic savings and imports exceed exports, as it happens in India since 1951.

c) Structural Disequilibrium: Structural changes in the economy may also cause balance of payments disequilibrium. Such structural changes include development of alternative sources of supply, development of better substitutes, exhaustion of productive resources or changes in transport routes and costs.

42)a) Elucidate the functions of Commercial banks.

Functions of Commercial Banks

(a) Primary Functions:

1. Accepting Deposits It implies that commercial banks are mainly dependent on public deposits. **There are two types of deposits, which are discussed as follows**

(i) Demand Deposits It refers to deposits that can be withdrawn by individuals without any prior notice to the bank. In other words, the owners of these deposits are allowed to withdraw money anytime by writing a withdrawal slip or a cheque at the bank counter or from ATM centres using debit card.

(ii) Time Deposits It refers to deposits that are made for certain committed period of time. Banks pay higher interest on time deposits. These deposits can be withdrawn only after a specific time period by providing a written notice to the bank.

2. Advancing Loans It refers to granting loans to individuals and businesses. Commercial banks grant loans in the form of overdraft, cash credit, and discounting bills of exchange.

(b) Secondary Functions The secondary functions can be classified under three heads, namely, agency functions, general utility functions, and other functions.

1. Agency Functions: It implies that commercial banks act as agents of customers by performing various functions.

(i) Collecting Cheques Banks collect cheques and bills of exchange on the behalf of their customers through clearing house facilities provided by the central bank.

(ii) Collecting Income Commercial banks collect dividends, pension, salaries, rents, and interests on investments on behalf of their customers. A credit voucher is sent to customers for information when any income is collected by the bank.

(iii) Paying Expenses

Commercial banks make the payments of various obligations of customers, such as telephone bills, insurance premium, school fees, and rents. Similar to credit voucher, a debit voucher is sent to customers for information when expenses are paid by the bank.

(2) General Utility Functions: It implies that commercial banks provide some utility services to customers by performing various functions.

(i) Providing Locker Facilities

Commercial banks provide locker facilities to its customers for safe custody of jewellery, shares, debentures, and other valuable items. This minimizes the risk of loss due to theft at homes. Banks are not responsible for the items in the lockers.

(ii) Issuing Traveler's Cheques

Banks issue traveler's cheques to individuals for traveling outside the country. Traveler's cheques are the safe and easy way to protect money while traveling.

(iii) Dealing in Foreign Exchange

Commercial banks help in providing foreign exchange to businessmen dealing in exports and imports. However, commercial banks need to take the permission of the Central Bank for dealing in foreign exchange.

3. Transferring Funds

It refers to transferring of funds from one bank to another. Funds are transferred by means of draft, telephonic transfer, and electronic transfer.

4. Letter of Credit

Commercial banks issue letters of credit to their customers to certify their creditworthiness.

(i) Underwriting Securities

Commercial banks also undertake the task of underwriting securities. As public has full faith in the creditworthiness of banks, public do not hesitate in buying the securities underwritten by banks.

(ii) Electronic Banking

It includes services, such as debit cards, credit cards, and Internet banking.

(C) Other Functions:

(i) Money Supply

It refers to one of the important functions of commercial banks that help in increasing money supply. For instance, a bank lends ₹5 lakh to an individual and opens a demand deposit in the name of that individual. Bank makes a credit entry of ₹5 lakh in that account. This leads to creation of demand deposits in that account. The point to be noted here is that there is no payment in cash. Thus, without printing additional money, the supply of money is increased.

(ii) Credit Creation

Credit Creation means the multiplication of loans and advances.

Commercial banks receive deposits from the public and use these deposits to give loans. However, loans offered are many times more than the deposits received by banks. This function of banks is known as 'Credit Creation'.

(iii) Collection of Statistics:

Banks collect and publish statistics relating to trade, commerce and industry. Hence, they advice customers and the public authorities on financial matters.

42)b) Critically explain Say's law of market.

According to Say, "When goods are produced by firms in the economy, they pay reward to the factors of production. The households after receiving rewards of the factors of production spend the amount on the purchase of goods and services produced by them. Therefore, each product produced in the economy creates demand equal to its value in the market.

In short, this classical theory explains that "A person receives his income from production which is spent on the purchase of goods and services produced by others. For the economy as a whole, therefore, total production equals total income".

Assumptions of the Say's law of market

The Say's Law of market is based on the following assumptions:

1. No single buyer or seller of commodity or an input can affect price.
2. Full employment.
3. People are motivated by self interest and self – interest determines economic decisions.
4. The laissez faire policy is essential for an automatic and self adjusting process of full employment equilibrium. Market forces determine everything right.
5. There will be a perfect competition in labour and product market.
6. There is wage-price flexibility.
7. Money acts only as a medium of exchange.
8. Long - run analysis.

Implications of Say's Law

1. There is no possibility for over production or unemployment.
2. If there exist unutilized resources in the economy, it is profitable to employ them up to the point of full employment. This is true under the condition that factors are willing to accept rewards on a par with their productivity.
3. As automatic price mechanism operates in the economy, there is no need for government intervention. (However, J.M. Keynes emphasized the role of the State)
4. Interest flexibility brings about equality between saving and investment.
5. Money performs only the medium of exchange function in the economy, as people will not hold idle money.

Criticisms of Say's Law

The following are the criticisms against Say's law:

1. According to Keynes, supply does not create its demand. It is not applicable where demand does not increase as much as production increases.
2. Automatic adjustment process will not remove unemployment. Unemployment can be removed by increase in the rate of investment.
3. Money is not neutral. Individuals hold money for unforeseen contingencies while businessmen keep cash reserve for future activities.

43)a) Compare the features of capitalism and socialism.

S.No.	Features	Capitalism	Socialism
1	Ownership of Means of Production	Private Ownership	Public Ownership
2	Economic Motive	Profit	Social Welfare
3	Solution of Central Problems	Free Market System	Central Planning System
4	Government Role	Interanal Regulation only	Complete Involvement
5	Income Distribution	Unequal	Equal
6	Nature of Enterprise	Private Enterprise	Government Enterprise
7	Economic Freedom	Complete Freedom	Lack of Freedom
8	Major Problem	Inequality	Inefficiency

43)b) Write a note on (a) SAARC (b) BRICS**(a) SAARC**

The South Asian Association for Regional Co-operation (SAARC) is an organisation of South Asian nations, which was established on 8 December 1985. The SAARC Group (SAARC) comprises of Bangladesh, Bhutan, India, The Maldives, Nepal, Pakistan and Sri Lanka. In April 2007, Afghanistan became its eighth member.

The SAARC Secretariat was established in Kathmandu (Nepal) on 16th January 1987.

(b) BRICS

BRICS is the acronym for an association of five major emerging national economies: **Brazil, Russia, India, China and South Africa**. Originally the first four were grouped as "BRIC" before the induction of South Africa in 2010. The term 'BRIC' was coined in 2001. The BRICS members are known for their significant influence on regional affairs. Since 2009, the BRICS nations have met annually at formal summits. South Africa hosted the 10th BRICS summit in July 2018. The agenda for BRICS summit 2018 includes Inclusive growth, Trade issues, Global governance, Shared Prosperity, International peace and security.

It's headquarters is at **Shanghai, China**. The New Development Bank (NDB) formerly referred to as the BRICS Development Bank was established by BRICS States.

44)a) What are the difference between MEC and MEI?

MEC	(MEI)
1) It is based on a given supply price for capital.	1) It is based on the induced change in the price due to change in the demand for capital.
2) It represents the rate of return on all successive units of capital without regard to existing capital.	2) It shows the rate of return on just those units of capital over and above the existing capital stock.
3) The capital stock is taken on the X axis of diagram.	3) The amount of investment is taken on the X - axis of diagram.
4) It is a "stock" concept.	4) It is a "flow" concept.
5) It determines the optimum capital stock in an economy at each level of interest rate.	5) It determines the net investment of the economy at each interest rate given the capital stock.

44)b) Describe the types of unemployment.

- 1. Cyclical Unemployment** This unemployment exists during the downturn phase of trade cycle in the economy. In a business cycle during the period of recession and depression, income and output fall leading to widespread unemployment. It is caused by deficiency of effective demand. Cyclical unemployment can be cured by public investment or expansionary monetary policy.
- 2. Seasonal Unemployment** This type of unemployment occurs during certain seasons of the year. In agriculture and agro based industries like sugar, production activities are carried out only in some seasons. These industries offer employment only during that season in a year. Therefore people may remain unemployed during the off season. Seasonal unemployment happens from demand side also; for example ice cream industry, holiday resorts etc.
- 3. Frictional Unemployment (Temporary Unemployment)** Frictional unemployment arises due to imbalance between supply of labour and demand for labour. This is because of immobility of labour, lack of necessary skills, break down of machinery, shortage of raw materials etc. The persons who lose jobs and in search of jobs are also included under frictional unemployment.
- 4. Educated Unemployment** Sometimes educated people are underemployed or unemployed when qualification does not match the job. Faulty education system, lack of employable skills, mass student turnout and preference for white collar jobs are highly responsible for educated unemployment in India.
- 5. Technical Unemployment** Modern technology being capital intensive requires less labourers and contributes to technological unemployment. Now a days, invention and innovations lead to the adoption of new techniques there by the existing workers are retrenched. Labour saving devices are responsible for technological unemployment.
- 6. Structural Unemployment** Structural unemployment is due to drastic change in the structure of the society. Lack of demand for the product or shift in demand to other products cause this type of unemployment. For example rise in demand for mobile phones has adversely affected the demand for cameras, tape recorders etc. So this kind of unemployment results from massive and deep rooted changes in economic structure.
- 7. Disguised Unemployment** Disguised unemployment occurs when more people are there than what is actually required. Even if some workers are withdrawn, production does not suffer. This type of unemployment is found in agriculture. A person is said to be disguisedly by unemployed if his contribution to output is less than what he can produce by working for normal hours per day. In this situation, marginal productivity of labour is zero or less or negative.

45)a) What are the objectives of Monetary Policy? Explain.

- 1. Neutrality of Money** Economists like Wicksteed, Hayek and Robertson are the chief exponents of neutral money. They hold the view that monetary authority should aim at neutrality of money in the economy. Monetary changes could be the root cause of all economic fluctuations. According to neutralists, the monetary change causes distortion and disturbances in the proper operation of the economic system of the country.
- 2. Exchange Rate Stability** Exchange rate stability was the traditional objective of monetary authority. This was the main objective under Gold Standard among different countries. When there was disequilibrium in the balance of payments of the country, it was automatically corrected by movements. It was popularly known as "Expand Currency and Credit when gold is coming in; contract currency and credit when gold is going out." This system will correct the disequilibrium in the balance of payments and exchange rate stability will be maintained. It must be noted that if there is instability in the exchange rates, it would result in outflow or inflow of gold resulting in unfavorable balance of payments. Therefore, stable exchange rates are advocated.
- 3. Price Stability** Economists like Crustave Cassel and Keynes suggested price stabilization as a main objective of monetary policy. Price stability is considered the most genuine objective of monetary policy. Stable prices repose public confidence. It promotes business activity and ensures equitable distribution of income and wealth. As a consequence, there is general wave of prosperity and welfare in the community.

But it is admitted that price stability does not mean 'price rigidity' or price stagnation'. A mild increase in the price level provides a tonic for economic growth. It keeps all virtues of a stable price.

4. Full Employment

During world depression, the problem of unemployment had increased rapidly. It was regarded as socially dangerous, economically wasteful and morally deplorable. Thus, full employment was considered as the main goal of monetary policy. With the publication of Keynes' General Theory of Employment, Interest and Money in 1936, the objective of full employment gained full support as the chief objective of monetary policy.

5. Economic Growth

Economic growth is the process whereby the real per capita income of a country increases over a long period of time. It implies an increase in the total physical or real output, production of goods for the satisfaction of human wants.

Therefore, monetary policy should promote sustained and continuous economic growth by maintaining equilibrium between the total demand for money and total production capacity and further creating favourable conditions for saving and investment. For bringing equality between demand and supply, flexible monetary policy is the best course.

6. Equilibrium in the Balance of Payments

Equilibrium in the balance of payments is another objective of monetary policy which emerged significant in the post war years. This is simply due to the problem of international liquidity on account of the growth of world trade at a more faster speed than the world liquidity.

45)b) Discuss the difference between Internal Trade and International Trade

Sl.No.	Internal Trade	International Trade
1.	Trade takes place between different individuals and firms within the same nation.	Trade takes place between different individuals and firms in different countries.
2.	Labour and capital move freely from one region to another.	Labour and capital do not move easily from one nation to another.
3.	There will be free flow of goods and services since there are no restrictions.	Goods and services do not easily move from one country to another since there are a number of restrictions like tariff and quota.
4.	There is only one common currency.	There are different currencies.
5.	The physical and geographical conditions of a country are more or less similar.	There are differences in physical and geographical conditions of the two countries.
6.	Trade and financial regulations are more or less the same.	Trade and financial regulations such as interest rate, trade laws differ between countries.
7.	There is no difference in political affiliations, customs and habits of the people and government policies.	Differences are pronounced in political affiliations, habits and customs of the people and government policies.

46)a) Discuss the scope of Macro Economics.

The study of macro economics has wide scope and it covers the major areas as follows

National Income: Measurement of national income and its composition by sectors are the basic aspects of macroeconomic analysis. The trends in National Income and its composition provide a long term understanding of the growth process of an economy.

□ **Inflation:** Inflation refers to steady increase in general price level.

Estimating the general price level by constructing various price index numbers such as Wholesale Price Index, Consumer Price Index, etc, are needed.

□ **Business Cycle:** Almost all economies face the problem of business fluctuations and business cycle. The cyclical movements (boom, recession, depression and recovery) in the economy need to be carefully studied based on aggregate economic variables.

□ **Poverty and Unemployment:** The major problems of most resource - rich nations are poverty and unemployment. This is one of the economic paradoxes. A clear understanding about the magnitude of poverty and unemployment facilitates allocation of resources and initiating corrective measures.

□ **Economic Growth:** The growth and development of an economy and the factors determining them could be understood only through macro analysis.

□ **Economic Policies:** Macro Economics is significant for evolving suitable economic policies. Economic policies are necessary to solve the basic problems, to overcome the obstacles and to achieve growth.

46)b) Explain Keynes psychological law of consumption function with diagram.

The law implies that there is a tendency on the part of the people to spend on consumption less than the full increment of income.

Propositions of the Law:

This law has three propositions:

(1) **When income increases, consumption expenditure also increases but by a smaller amount.** The reason is that as income increases, our wants are satisfied side by side, so that the need to spend more on consumer goods diminishes. So, the consumption expenditure increases with increase in income but less than proportionately.

(2) **The increased income will be divided in some proportion between consumption expenditure and saving.** This follows from the first proposition because when the whole of increased income is not spent on consumption, the remaining is saved. In this way, consumption and saving move together.

(3) **Increase in income always leads to an increase in both consumption and saving.** This means that increased income is unlikely to lead to fall in either consumption or saving. Thus with increased income both consumption and saving increase.

Table 3. The three propositions of the law

Income Y	Consumption C	Savings S = Y - C
120	120	0
180	170	10
240	220	20

Proposition (1):

Income increases by ₹ 60 crores and the increase in consumption is by ₹ 50 crores.

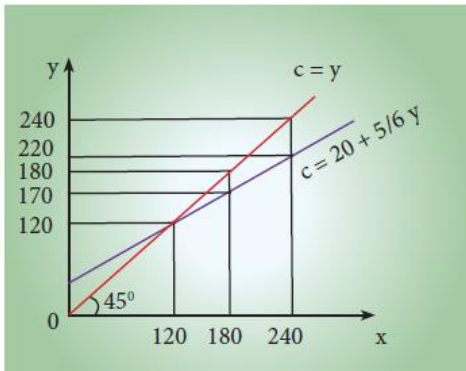
Proposition (2):

The increased income of ₹ 60 crores in each case is divided in some proportion between consumption and saving respectively. (i.e., ₹ 50crores and ₹ 10 crores).

Proposition (3):

As income increases consumption as well as saving increase. Neither consumption nor saving has fallen.

Diagrammatically, the three propositions are explained in Figure 4.2. Here, income is measured horizontally and consumption and saving are measured on the vertical axis. C is the consumption function curve and 45° line represents income consumption equality.



Proposition (1):

When income increases from 120 to 180 consumption also increases from 120 to 170 but the increase in consumption is less than the increase in income, 10 is saved.

Proposition (2):

When income increases to 180 and 240, it is divided in some proportion between consumption by 170 and 220 and saving by 10 and 20 respectively.

Proposition (3):

Increases in income to 180 and 240 lead to increased consumption 170 and 220 and increased saving 20 and 10 than before. It is clear from the widening area below the C curve and the saving gap between 45° line and C curve.

47)a) Discuss the various methods of estimating the national income of a country.

Product Method

Product method measures the output of the country. It is also called inventory method. Under this method, the gross value of output from different sectors like agriculture, industry, trade and commerce, etc., is obtained for the entire economy during a year. The value obtained is actually the GNP at market prices. Care must be taken to avoid double counting.

Precautions

1. Double counting is to be avoided under value added method.
2. The value of output used for self consumption should be counted while measuring national income.
3. In the case of durable goods, sale and purchase of second hand goods (for example pre owned cars) should not be included.

Income Method (Factor Earning Method)

This method approaches national income from the distribution side. Under this method, national income is calculated by adding up all the incomes generated in the course of producing national product.

National income is calculated as domestic factor income plus net factor incomes from abroad. In short,

$$Y = w + r + i + \pi + (R - P)$$

w = wages, r = rent, i = interest, π = profits, R = Exports and P = Imports

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This method is adopted for estimating the contributions of the remaining sectors, viz., small enterprises, banking and insurance, commerce and transport, professions, liberal arts and domestic service, public authorities, house property and foreign sector transaction.

Items not to be included

1. Transfer payments are not to be included in estimation of national income as these payments are not received for any services provided in the current year such as pension, social insurance etc.
2. The receipts from the sale of second hand goods should not be treated as part of national income as they do not create new flow of goods or services in the current year.
3. Windfall gains such as lotteries are also not to be included as they do not represent receipts from any current productive activity.
4. Corporate profit tax should not be separately included

Items to be included

1. Imputed value of rent for self occupied houses or offices is to be included.
2. Imputed value of services provided by owners of production units (family labour) is to be included.

The Expenditure Method (Outlay method)

Under this method, the total expenditure incurred by the society in a particular year is added together. To calculate the expenditure of a society, it includes personal consumption expenditure, net domestic investment, government expenditure on consumption as well as capital goods and net exports. Symbolically,

$$\text{GNP} = \text{C} + \text{I} + \text{G} + (\text{X}-\text{M})$$

C - Private consumption expenditure

I - Private Investment Expenditure

G - Government expenditure

X-M = Net exports

Precautions

1. **Second hand goods:** The expenditure made on second hand goods should not be included.
2. **Purchase of shares and bonds :** Expenditures on purchase of old shares and bonds in the secondary market should not be included.
3. **Transfer payments :** Expenditures towards payment incurred by the government like old age pension should not be included.
4. **Expenditure on intermediate goods :** Expenditure on seeds and fertilizers by farmers, cotton and yarn by textile industries are not to be included to avoid double counting. That is only expenditure on final products are to be included.

47)b) Explain the types of Terms of Trade given by Viner.

1 The Single Factoral Terms of Trade

Viner has devised another concept called “the single factoral terms of trade” as an improvement upon the commodity terms of trade. It represents the ratio of export-price index to the import-price index adjusted for changes in the productivity of a country’s factors in the production of exports. Symbolically, it can be stated as

$$Tf = (Px / Pm) Fx$$

Where, Tf stands for single factoral terms of trade index. Fx stands for productivity in exports (which is measured as the index of cost in terms of quantity of factors of production used per unit of export).

2 Double Factoral Terms of Trade

Viner constructed another index called “Double factoral terms of Trade”. It is expressed as

$$Tff = (Px / Pm) (Fx / Fm)$$

which takes into account the productivity in country’s exports, as well as the productivity of foreign factors. Here, Fm represents import index (which is measured as the index of cost in terms of quantity of factors of production employed per unit of imports).