



# Higher Secondary Second Year **ECONOMICS**

**Based on the New Syllabus and  
New Textbook for the year 2019-20**

## *Salient Features*

- ✦ Exhaustive Additional MCQs, VSA, SA, LA questions with answers are given in each chapter.
- ✦ All the objective type (1 Mark) questions, are given with 4 options.
  - (i) Choosing the correct option
  - (ii) Matching
  - (iii) True or False
  - (iv) Correctly Matched
  - (v) Not Correctly Matched
  - (vi) Assertion & Reason
  - (vii) Picking the Odd one Out



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### Authors :

- Mr. A. Mohammed, M.A., M.Phil., B.Ed.,  
Chennai
- Ms. Rahima Ayisha, M.Com., M.Phil  
Namakkal.
- Mr. L. Somasundaram, M.A., M.Ed., M.Phil  
Coimbatore

### Edited by :

Ms. Anusuya, M.A., B.Ed., Chennai  
Mr. Ramamoorthy, M.A., M.Ed., Trichy

### Reviewed by :

Dr. Shanmugam M.A., M.Phil., Ph.D., Madurai  
Dr. Arjun, M.A., M.Phil., Ph.D., Vellore

### Head Office:

1620, 'J' Block, 16<sup>th</sup> Main Road,  
Anna Nagar, Chennai - 600 040.  
Phones: 044-26162173, 26161099.  
Mob : 81242 01000/ 81243 01000  
Fax : (91) 44-26162173  
e-mail : orders@surabooks.com  
website : www.surabooks.com

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## PREFACE

The woods are lovely, dark and deep.  
But I have promises to keep, and  
miles to go before I sleep

- Robert Frost

Respected Principals, Correspondents, Headmasters/  
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From the bottom of our heart, we at SURA Publications sincerely thank you for the support and patronage that you have extended to us for more than a decade.

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With due respect to Teachers, I would like to mention that this guide will serve as a teaching companion to qualified teachers. Also, this guide will be an excellent learning companion to students with exhaustive exercises and in-text questions in addition to precise answers for textual questions.

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I once again sincerely thank the Teachers, Parents and Students for supporting and valuing our efforts.

God Bless all.

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CHAPTER

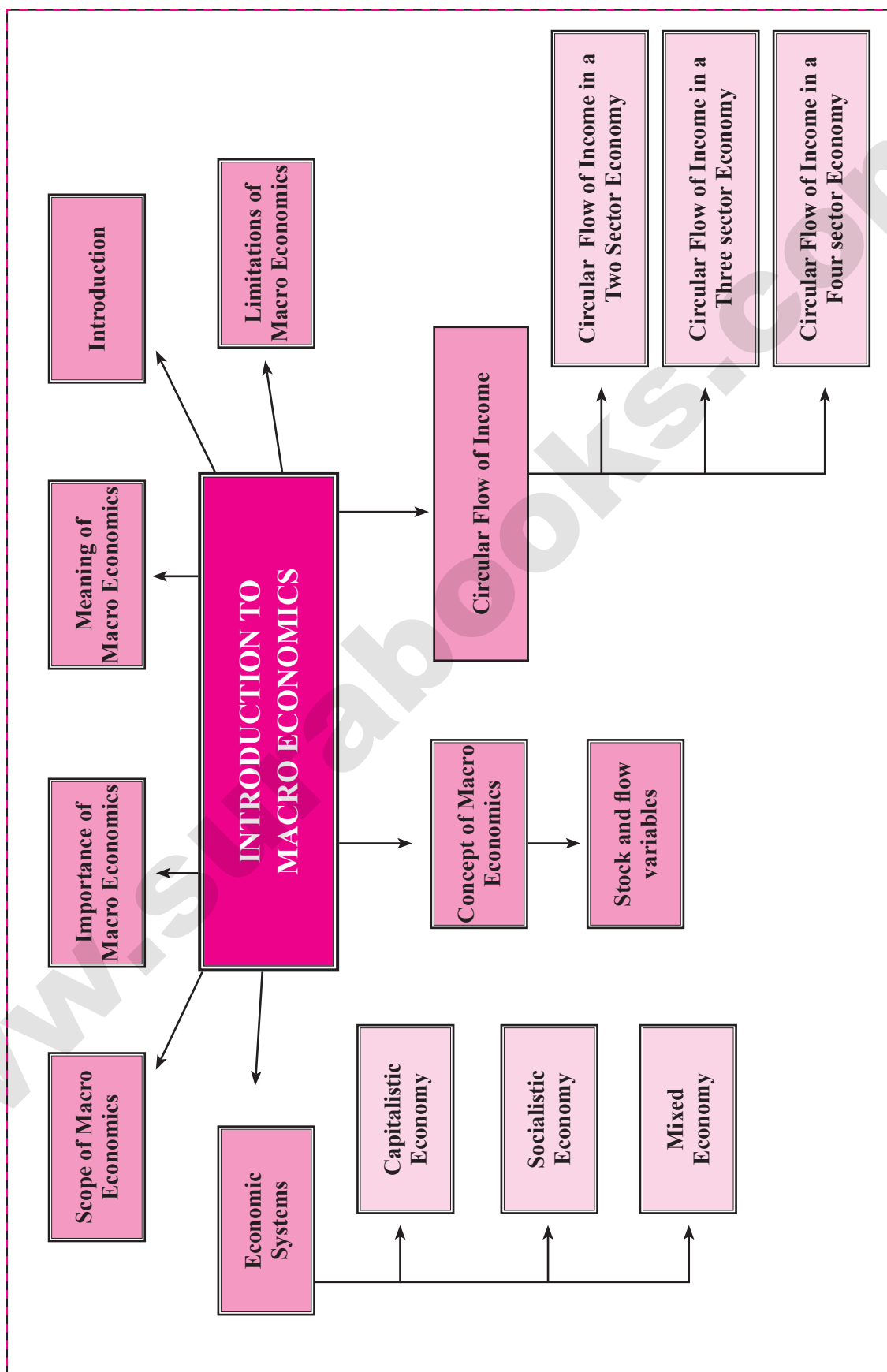
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# INTRODUCTION TO MACRO ECONOMICS

## CHAPTER SNAPSHOT

- |       |                                   |       |   |
|-------|-----------------------------------|-------|---|
| 1.1   | Introduction                      | 1.8   | Concepts of Macro Economics                       |
| 1.2   | Meaning of Macro Economics        | 1.8.1 | Stock and flow variables                          |
| 1.3   | Importance of Macro Economics     | 1.9   | Circular flow of Income                           |
| 1.4   | Scope of Macro Economics          | 1.9.1 | Circular flow of income in a Two Sector Economy   |
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| 1.7   | Economic Systems                  |       |   |
| 1.7.1 | Capitalistic Economy (Capitalism) |       |   |
| 1.7.2 | Socialistic Economy (Socialism)   |       |   |
| 1.7.3 | Mixed Economy (Mixedism)          |       |   |

# Concept Map



## Important Terms

<b>Macro Economics</b>	: Macro Economics deals with aggregates such as national, income, employment and output.
<b>Business Cycle</b>	: All the economies face the problem of business fluctuations and business cycle.
<b>Economic Systems</b>	: Economic system refers to the manner in which individuals and institutions are connected together to carry out economic activities in a particular area.
<b>Globalism</b>	: Globalisation that connects nations together through international trade and aiming at global development.
<b>Capitalistic Economy / Market Economy / Free Trade Economy</b>	: Capitalist economy is where the role of the government is minimum and market determines the economic activities.
<b>Socialistic Economy / Command Economy / Socialism</b>	: Socialism refers to system of total planning, public ownership and state control on economic activities.
<b>Mixed Economy / Mixedism</b>	: In a mixed economy system both private and public sectors co-exist and work together towards economic development.
<b>Economic Model</b>	: A model is a simplified representation of real situation.
<b>Circular flow of Income</b>	: The circular flow of income is a model of an economy showing connections between different sectors of an economy.
<b>Stock</b>	: A quantity of a commodity that is constant at a point of time.

## Definitions

<b>Macro Economics</b>	: According to - Dorn Busch, Fischer and Startz “ Macro Economics is very much about tying together facts and theories”.
<b>Economy</b>	: The term economy has been defined by A.J. Brown as, “A system by which people earn their living”.
<b>J.R. Hicks Definition of Economy</b>	: J.R. Hicks defined as, “An economy is a cooperation of producers and workers to make goods and services that satisfy the wants of the consumers”.
<b>Capitalistic Economy</b>	: According to “Adam Smith” capitalistic economy is also termed as a free economy (Laissez Faire, in Latin) or market economy where the role of government is minimum and market determines the economic activities.

- Socialism** : Any of various economic and political theories advocating collective or governmental ownership and administration of the means of production and distribution of goods.
- Mixed Economy** : An economic system combining private and state enterprise.
- Circular flow of income** : Circular flow of income is the flow of money made as payments in exchange for products and services between various sectors in the economy, balanced by the flow of payments made in exchange for goods and services.

## MODEL QUESTIONS

### PART - A

#### MULTIPLE CHOICE QUESTIONS 1 MARK

1. The branches of the subject Economics is
  - (a) Wealth and welfare
  - (b) Production and consumption
  - (c) Demand and supply
  - (d) Micro and macro

[Ans. (d) micro and macro]
2. Who coined the word 'Macro'?
  - (a) Adam Smith
  - (b) J M Keynes
  - (c) Ragnar Frisch
  - (d) Karl Marx

[Ans. (c) Ragnar Frisch]
3. Who is regarded as Father of Modern Macro Economics?
  - (a) Adam Smith
  - (b) J M Keynes
  - (c) Ragnar Frisch
  - (d) Karl Marx

[Ans. (b) J M Keynes]
4. Identify the other name for Macro Economics.
  - (a) Price Theory
  - (b) Income Theory
  - (c) Market Theory
  - (d) Micro Theory

[Ans. (b) Income Theory]
5. Macro economics is a study of \_\_\_\_\_.
  - (a) individuals
  - (b) firms
  - (c) a nation
  - (d) aggregates

[Ans. (d) aggregates]
6. Indicate the contribution of \_\_\_\_\_ J M Keynes to economics.
  - (a) Wealth of Nations
  - (b) General Theory
  - (c) Capital
  - (d) Public Finance

[Ans. (b) General Theory]
7. A steady increase in general price level is termed as \_\_\_\_\_.
  - (a) Wholesale price index
  - (b) Business Cycle
  - (c) Inflation
  - (d) National Income

[Ans. (c) Inflation]
8. Identify the necessity of Economic policies.
  - (a) to solve the basic problems
  - (b) to overcome the obstacles
  - (c) to achieve growth
  - (d) all the above

[Ans. (d) all the above]
9. Indicate the fundamental economic activities of an economy.
  - (a) Production and Distribution
  - (b) Production and Exchange
  - (c) Production and Consumption
  - (d) Production and Marketing

[Ans. (c) Production and Consumption]
10. An economy consists of
  - (a) Consumption sector
  - (b) Production sector
  - (c) Government sector
  - (d) All the above

[Ans. (d) All the above]
11. Identify the economic system where only private ownership of production exists.
  - (a) Capitalistic Economy
  - (b) Socialistic Economy
  - (c) Globalisic Economy
  - (d) Mixed Economy

[Ans. (a) Capitalistic Economy]

## Introduction to Macro Economics



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**12. Economic system representing equality in distribution is \_\_\_\_\_.**

- (a) Capitalism (b) Globalism  
(c) Mixedism (d) Socialism

**[Ans. (d) Socialism]**

**13. Who is referred as 'Father of Capitalism'?**

- (a) Adam Smith (b) Karl Marx  
(c) Thackeray (d) J M Keynes

**[Ans. (a) Adam Smith]**

**14. The country following Capitalism is \_\_\_\_\_.**

- (a) Russia (b) America  
(c) India (d) China

**[Ans. (b) America]**

**15. Identify The Father of Socialism.**

- (a) J M Keynes (b) Karl Marx  
(c) Adam Smith (d) Samuelson

**[Ans. (b) Karl Marx]**

**16. An economic system where the economic activities of a nation are done both by the private and public together is termed as \_\_\_\_\_.**

- (a) Capitalistic Economy  
(b) Socialistic Economy  
(c) Globalistic Economy  
(d) Mixed Economy

**[Ans. (d) Mixed Economy]**

**17. Quantity of a commodity accumulated at a point of time is termed as \_\_\_\_\_.**

- (a) production (b) stock  
(c) variable (d) flow

**[Ans. (b) stock]**

**18. Identify the flow variable.**

- (a) money supply  
(b) assets  
(c) income  
(d) foreign exchange reserves

**[Ans. (c) income]**

**19. Identify the sectors of a Two Sector Model.**

- (a) Households and Firms  
(b) Private and Public  
(c) Internal and External  
(d) Firms and Government

**[Ans. (a) Households and Firms]**

**20. The Circular Flow Model that represents an open Economy.**

- (a) Two Sector Model  
(b) Three Sector Model  
(c) Four Sector Model  
(d) All the above

**[Ans. (c) Four Sector Model]**

## PART - B

**ANSWER THE FOLLOWING QUESTIONS IN ONE OR TWO SENTENCES 2 MARKS**

**21. Define Macro Economics.**

**Ans.** The word 'Macro' is derived from the Greek word 'Makros' meaning 'large' - Hence, Macro Economics is the study of the economy as a whole. In other words macro economics deals with aggregates such as national income, employment and output. Macro Economics is also known as "Income theory".

**22. Define the term Inflation.**

**Ans.** Inflation refers to steady increase in general price level.

**23. What is meant by an 'Economy'?**

J.R. Hicks defined as, "An economy is a cooperation of producers and workers to make goods and services that satisfy the wants of the consumer".

**24. Classify the economies based on status of development.**

- Ans. (i)** Status of Development  
**(ii)** System of Activities  
**(iii)** Scale of Activities  
**(iv)** Nature of Functioning  
**(v)** Nature of Operation

**25. What do you mean by Capitalism?**

**Ans.** Adam Smith is the Father of Capitalism. He defined that "capitalistic economy is also termed as a free economy (Laissez faire, in Latin) or market economy where the role of the government is minimum and market determines the economic activities.

**26. Define 'Economic Model'.**

**Ans.** A Model is a simplified representation of real situation. Economists use models to describe economic activities, their relationships and their behaviour.

**27. 'Circular Flow of Income' - Define.**

**Ans.** It shows flows of income, goods and services and factors of production between economic agents such as firms, house - holds government and nations.

**PART - C**
**ANSWER THE FOLLOWING QUESTIONS IN ONE PARAGRAPH**
**3 MARKS****28. State the importance of Macro Economics.**

**Ans. (i)** There is a need to understand the functions of an economy at the aggregate level to evolve suitable strategies and to solve the basic problems prevailing in an economy.

**(ii)** Understanding the future problems needs and challenges of an economy as a whole.

**(iii)** Macro economics provides ample opportunities to use scientific investigation to understand the reality.

**(iv)** Macro economics helps to make meaningful comparison and analysis of economic indicators.

**(v)** Macro economics helps for better prediction about future.

**29. Describe the different types of economic systems.**

**Ans.** There are three major types of economic systems. They are,

**(i) Capitalistic Economy (Capitalism) :**

Capitalistic economy is also known as and Market economy / free trade economy. Where in capitalistic economy the role of the government is minimum.

**(ii) Socialistic Economy (Socialism) :**

Socialism refers to a system of total planning, public and state control on economic activity.

**(iii) Mixed Economy (Mixedism) :**

In a mixed economy system both private and public sectors co-exist and work together towards economic development.

**30. Outline the major merits of capitalism.****Ans. (i) Automatic Working :**

Without any government intervention the economy works automatically.

**(ii) Efficient use of Resources :**

All resources are put into optimum use.

**(iii) Incentives for Hard work :**

Hard work is encouraged and entrepreneurs get more profit for more efficiency.

**(iv) Consumers sovereignty :**

All production activities are aimed at satisfying the consumers,

**(vi) Higher Rates of Capital Formation :**

Leads to higher rates of capital formation.

**31. Indicate the demerits of socialism.**

**Ans. (i)** As decision are taken by government agencies, approval of many officials and movement of files from one table to other takes time and leads to red tapism.

**(ii)** The major limitation of socialism is that this system does not provide any incentive for efficiency.

**(iii)** Consumers do not enjoy freedom of choice over the consumption of goods and services.

**(iv)** The state takes all major decisions.

**32. Enumerate the features of mixed economy.****Ans. Features of Mixed Economy :**

**1. Ownership of Property and Means of Production :** The means of production and properties are owned by both private and public. Public and Private have the right to purchase, use or transfer their resources.

**2. Coexistence of Public and Private Sectors :** In mixed economies, both private and public sectors coexist. Private industries undertake activities primarily for profit. Public sector firms are owned by the government with a view to maximize social welfare.

## Introduction to Macro Economics



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3. **Economic Planning :** The central planning authority prepares the economic plans. National plans are drawn up by the Government and both private and public sectors abide. In general, all sectors of the economy function according to the objectives, priorities and targets laid down in the plan.
4. **Solution to Economic Problems :** The basic problems of what to produce, how to produce, for whom to produce and how to distribute are solved through the price mechanism as well as state intervention.
5. **Freedom and Control :** Though private has freedom to own resources, produce goods and services and distribute the same, the overall control on the economic activities rests with the government.

### 33. Distinguish between Capitalism and Globalism.

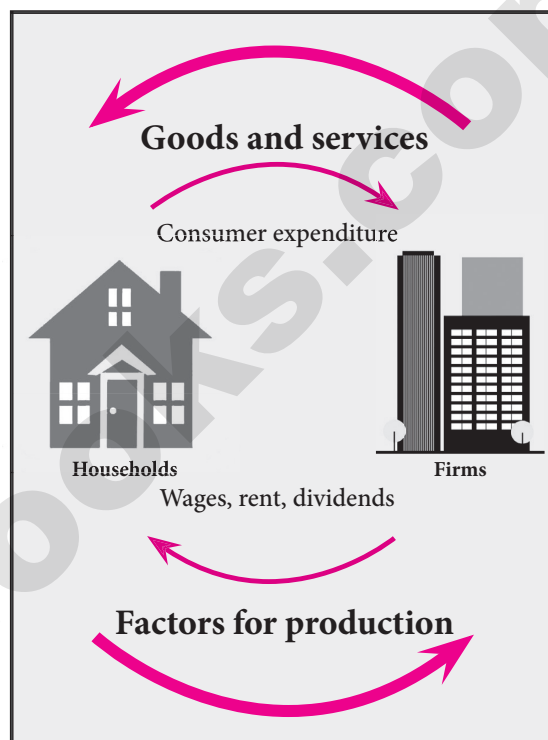
Ans.

S. No.	Capitalism	Globalism
1.	The system where the means of production are privately owned and market determines the economic activities.	An economic system where the economic activities of a nation are interconnected and inter dependent on each other nation.
2.	The role of the government is limited.	Governments of various nations play a major role in policy making.
3.	All economic activities are regulated by price mechanism. i.e. demand and supply.	All economic activities are regulated by government policies on imports and exports. i.e. Import policy and Export policy.

### 34. Briefly explain the two sector circular flow model.

**Ans. Circular flow of Income in a Two-Sector economy :**

There are only two sectors namely house hold sector and firm sector.



- In a two-sector economy, production and sales are equal and there will be a circular flow of income and goods.
- Outer circle represents real flow (factors and goods)
- The inner circle represents the monetary flow factor prices and commodity prices.
- Real flow indicates the factor services flow from house hold sector to the business sector and goods and services flow from business sector to the household.
- The basic identities of the two sector economy are as under  $Y = C + I$

**Where :**

Y is Income, C is Consumption, I is Investment.

**PART - D**

**ANSWER THE FOLLOWING QUESTIONS IN ONE PAGE** **5 MARKS**

**35. Discuss the scope of Macro Economics.**

**Ans.** The study of macro economics has wide scope and it covers the major areas as follow.

- (i) Measurement of national income and its composition by sectors are the basic aspects of macro economic analysis.
- (ii) The trends in National Income and its composition provide a long term understanding at the growth process of an economy.

**Inflation :**

- (i) Inflation refers to steady increase in general price level.
- (ii) Estimating the general price level by constructing various price index numbers such as Wholesale Price Index, Consumer Price Index, etc, are needed.

**Business Cycle :**

- (i) Almost all economies face the problem of business fluctuations and business cycle.
- (ii) 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.

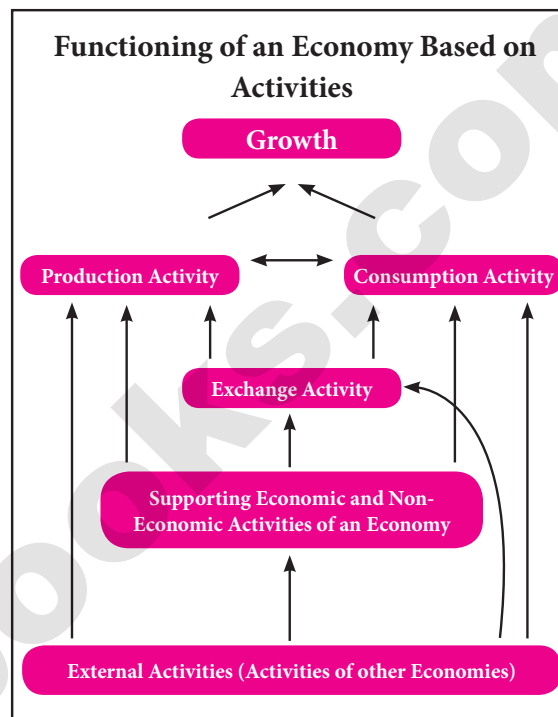
**Economic Growth :** The growth and development of an economy and the factors determining them could be understood only through macro analysis.

**Economic Policies :**

- (i) Macro Economics is significant for evolving. Suitable economic policies.
- (ii) Economic policies are necessary to solve the basic problems, to over come the obstacles and to achieve growth.

**36. Illustrate the functioning of an economy based on its activities.**

**Ans. (i)** The functioning of an economy by its activities is explained in the flow chart.



- (ii) In an economy the fundamental economic activities are production and consumption.
- (iii) The ultimate aim of these activities is to achieve growth.
- (iv) The exchange activity supports the production and consumption activities.
- (v) The major economic activities include transportation banking advertising planning government policy and others the major non-economic activities are environment, health regulations, etc.,
- (vi) Other economies such as imports, exports, International relations, emigration, immigration foreign investment, foreign exchange earning etc. also influence the entire functioning of the economy.

## Introduction to Macro Economics



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**37. Compare the features of capitalism and socialism.**

**Ans.**

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	Internal 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

**38. Compare the features among Capitalism, Secularism and Mixedism.**

**Ans.**

S. No.	Features	Capitalism	Socialism	Mixedism
1.	Ownership of means of production	Private ownership	Public ownership	Private ownership and Public ownership
2.	Economic motive	Profit	Social welfare	Social welfare & profit motive
3.	Solution of central problems	Free market system	Central planning system.	Central planning system and free market system
4.	Government Role	Internal Regulation only	Complete Involvement	Limited Role
5.	Income Distribution	Unequal	Equal	Less unequal
6.	Nature of Enterprise	Private Enterprise	Government Enterprise	Both private and state enterprises
7.	Economic Freedom	Complete Freedom	Lack of Freedom	Limited freedom
8.	Major problem	Inequality	Inefficiency	Inequality and Inefficiency



## ADDITIONAL QUESTIONS AND ANSWERS

### PART - A

#### MULTIPLE CHOICE QUESTIONS 1 MARK

##### (i) Choose the Correct Option.

1. A steady fall in general price level is termed as \_\_\_\_\_.

- (a) Deflation
- (b) Inflation
- (c) Trade
- (d) To achieve growth

[Ans. (a) Deflation]

2. Micro means \_\_\_\_\_.

- (a) Large
- (b) Big
- (c) Small
- (d) Both 'a' and 'b'

[Ans. (c) Small]

3. Macro means \_\_\_\_\_.

- (a) Large
- (b) Aggregate
- (c) Economy as a whole
- (d) All the above

[Ans. (d) All the above]

4. Macro economics is also known as \_\_\_\_\_.

- (a) Price theory
- (b) Income theory
- (c) Business cycle
- (d) Poverty and unemployment

[Ans. (b) Income theory]

5. Planned economy is also known as \_\_\_\_\_.

- (a) Capitalist Economy
- (b) Socialist Economy
- (c) Mixed Economy
- (d) All the above

[Ans. (b) Socialist Economy]

6. Father of socialism \_\_\_\_\_.

- (a) Adam Smith
- (b) J.M. Keynes
- (c) Karl Marx
- (d) J.R. Hicks

[Ans. (c) Karl Marx]

7. Example for Mixed Economy \_\_\_\_\_.

- (a) India
- (b) France
- (c) China
- (d) Both 'a' and 'b'

[Ans. (d) Both 'a' and 'b']

8. Combination of both capitalism and socialism \_\_\_\_\_.

- (a) Capitalist Economy
- (b) Traditional Economy
- (c) Mixed Economy
- (d) Socialist Economy

[Ans. (c) Mixed Economy]

9. Socialist Economy promote \_\_\_\_\_.

- (a) Social welfare motive
- (b) Collective welfare motive
- (c) Profit motive
- (d) Both 'a' and 'b'

[Ans. (d) Both 'a' and 'b']

10. Market forces are \_\_\_\_\_.

- (a) Supply and price
- (b) Demand and price
- (c) Prices of commodity
- (d) Supply and demand

[Ans. (d) Supply and demand]

11. The right to property exists largely in \_\_\_\_\_.

- (a) Traditional society
- (b) Capitalism
- (c) Socialism
- (d) Mixed economy

[Ans. (b) Capitalism]

12. Absence of Price Mechanism is a characteristic feature of the \_\_\_\_\_.

- (a) Socialist economy
- (b) Capitalist economy
- (c) Traditional economy
- (d) Mixed economy

[Ans. (a) Socialist economy]

13. Non-interference of the state is a characteristic features of the \_\_\_\_\_.

- (a) Socialist Economy
- (b) Capitalist Economy
- (c) Traditional Economy
- (d) Command Economy

[Ans. (b) Capitalist Economy]

14. \_\_\_\_\_ sector sells the entire output to house holds.

- (a) Firm
- (b) House hold
- (c) Government
- (d) Foreign trade

[Ans. (a) Firm]

## Introduction to Macro Economics



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**15.** In addition to household and firms, inclusion of the government sector make this model a \_\_\_\_\_ model.

- (a) Single sector model
- (b) Two sector model
- (c) Three sector model
- (d) Four sector model

[Ans. (c) Three sector model]

**16.** \_\_\_\_\_ is a combination of both capitalism and socialism.

- (a) Socialistic economy
- (b) Capitalistic economy
- (c) Traditional economy
- (d) Mixed economy

[Ans. (d) Mixed economy]

**17.** Identify the Father of Scientific Socialism.

- (a) Adamsmith
- (b) J.M. Keynes
- (c) Karl Marx
- (d) Marshall

[Ans. (c) Karl Marx]

**18.** Identify the stock variable.

- (a) Wealth
- (b) Income
- (c) Foreign exchange
- (d) Money

[Ans. (a) Wealth]

**19.** Identify the economic system where only public ownership of production exists.

- (a) Capitalistic economy
- (b) Socialistic economy
- (c) Globalistic economy
- (d) Mixed economy

[Ans. (b) Socialistic economy]

**20.** Identify the economic system where all decision are under taken by the central planning authority.

- (a) Socialist economy
- (b) Globalistic economy
- (c) Mixed economy
- (d) Capitalistic economy

[Ans. (a) Socialist economy]

**21.** Capitalism leads to \_\_\_\_\_.

- (a) Central planning
- (b) Class struggle
- (c) Welfare
- (d) All the above

[Ans. (b) Class struggle]

**(ii) Match the following and choose the correct answer by using codes given below.**

**1.**

(A)	Father of Macro Economics	(i)	J.M. Keynes
(B)	Father of Socialist Economy	(ii)	Karl Marx
(C)	Micro	(iii)	Small
(D)	Macro	(iv)	Large

**Codes :**

- (a) A - (i), B - (ii), C - (iii), D - (iv)
- (b) A - (ii), B - (i), C - (iii), D - (iv)
- (c) A - (iv), B - (iii), C - (ii), D - (i)
- (d) A - (i), B - (iv), C - (ii), D - (iii)

Ans. (a) [A - (i), B - (i), C - (iii), D - (iv)]

**2.**

(A)	The General Theory of employment interest and money	(i)	Income Theory
(B)	Macro	(ii)	Inflation
(C)	Aggregate Economics	(iii)	1936
(D)	Steady increase in general price	(iv)	Greek

**Codes :**

- (a) A - (iv), B - (iii), C - (ii), D - (i)
- (b) A - (ii), B - (i), C - (iv), D - (iii)
- (c) A - (iii), B - (iv), C - (i), D - (ii)
- (d) A - (iv), B - (i), C - (ii), D - (iii)

Ans. (c) [A - (iii), B - (iv), C - (i), D - (ii)]

**3.**

(A)	Socialist Economy	(i)	Free Trade Economy
(B)	Traditional Economy	(ii)	Command Economy
(C)	Mixed Economy	(iii)	Subsistence Economy
(D)	Capitalistic Economy	(iv)	Co-existence of both public and private

**Codes :**

- (a) A - (ii), B - (iii), C - (iv), D - (i)  
(b) A - (iv), B - (iii), C - (ii), D - (i)  
(c) A - (i), B - (iv), C - (iii), D - (ii)  
(d) A - (ii), B - (iii), C - (i), D - (iv)

**Ans. (a) [A - (ii), B - (iii), C - (iv), D - (i)]**

**4.**

(A)	Role of Government	(i)	Mixed Economy
(B)	Customs and Tradition	(ii)	Capitalistic Economy
(C)	Profit Motive	(iii)	Socialistic Economy
(D)	Co-existence of public and private	(iv)	Traditional Economy

**Codes :**

- (a) A - (ii), B - (iii), C - (iv), D - (i)  
(b) A - (iii), B - (iv), C - (ii), D - (i)  
(c) A - (iii), B - (i), C - (iv), D - (ii)  
(d) A - (iv), B - (iii), C - (i), D - (ii)

**Ans. (b) [A - (iii), B - (iv), C - (ii), D - (i)]**

**5.**

(A)	Market force	(i)	Socialism
(B)	Bureaucratic expansion	(ii)	Inefficiency of production
(C)	Private property	(iii)	Supply, demand and price
(D)	Red tapism and corruption	(iv)	Laissez Faire economy

**Codes :**

- (a) A - (iii), B - (i), C - (iv), D - (ii)  
(b) A - (iv), B - (iii), C - (ii), D - (i)  
(c) A - (ii), B - (iv), C - (i), D - (iii)  
(d) A - (ii), B - (iii), C - (iv), D - (i)

**Ans. (a) [A - (iii), B - (i), C - (iv), D - (ii)]**

**6.**

(A)	Planned Economy	(i)	West Germany
(B)	Capitalist Country	(ii)	Cuba
(C)	Socialist Country	(iii)	India
(D)	Mixed Economy	(iv)	Socialistic Economy

**Codes :**

- (a) A - (iii), B - (ii), C - (iv), D - (i)  
(b) A - (iv), B - (i), C - (ii), D - (iii)  
(c) A - (iv), B - (iii), C - (ii), D - (i)  
(d) A - (ii), B - (iii), C - (iv), D - (i)

**Ans. (b) [A - (iv), B - (i), C - (ii), D - (iii)]**

**7.**

(A)	Only Internal Regulation	(i)	Traditional economy
(B)	Complete involvement	(ii)	Mixed economy
(C)	Limited Role	(iii)	Capitalism
(D)	Federal Government	(iv)	Socialistic Economy

**Codes :**

- (a) A - (iii), B - (iv), C - (ii), D - (i)  
(b) A - (i), B - (ii), C - (iv), D - (iii)  
(c) A - (iv), B - (iii), C - (ii), D - (i)  
(d) A - (i), B - (ii), C - (iii), D - (iv)

**Ans. (a) [A - (iii), B - (iv), C - (ii), D - (i)]**

**(iii) State whether the Statements are true or false.**

- 1.** (i) There is a competition in the socialistic economy.  
(ii) Profit is the main motive of capitalistic economy.  
(a) Both (i) and (ii) are true  
(b) Both (i) and (ii) are false  
(c) (i) is true but (ii) is false  
(d) (i) is false but (ii) is true

**[Ans. (d) (i) is false but (ii) is true]**

- 2.** (i) In a socialistic economy complete determined and controlled by a central planning authority.  
(ii) In a mixed economy both private and public co-exist.  
(a) Both (i) and (ii) are true  
(b) Both (i) and (ii) are false  
(c) (i) is true but (ii) is false  
(d) (i) is false but (ii) is true

**[Ans. (d) (i) is false but (ii) is true]**

## Introduction to Macro Economics



## Sura's - XII Std - Economics

- 3.** (i) J.M. Keynes is the Father of modern Micro Economics.  
(ii) J.M. Keynes is the Father of Modern Macro Economics.  
(a) Both (i) and (ii) are true  
(b) Both (i) and (ii) are false  
(c) (i) is true but (ii) is false  
(d) (i) is false but (ii) is true

[Ans. (d) (i) is false but (ii) is true]

- 4.** (i) The word 'Macro' is derived from the Greek word.  
(ii) The word 'Macro' is derived from the latin word.  
(a) Both (i) and (ii) are true  
(b) Both (i) and (ii) are false  
(c) (i) is true but (ii) is false  
(d) (i) is false but (ii) is true

[Ans. (c) (i) is true but (ii) is false]

- 5.** (i) The word Micro means small.  
(ii) The word Macro means large.  
(a) Both (i) and (ii) are true  
(b) Both (i) and (ii) are false  
(c) (i) is true but (ii) is false  
(d) (i) is false but (ii) is true

[Ans. (a) Both (i) and (ii) are true]

- (iv) Which is the following is correctly matched.

**1.**

(a)	Capitalism	-	Welfare motive
(b)	Socialist	-	Profit motive
(c)	Traditional economy	-	Modern technology
(d)	Mixed economy	-	Social welfare and profit motive

[Ans. (d) Mixed economy - Social welfare and profit motive]

**2.**

(a)	Two sector model	-	Firm and Industry
(b)	Three sector model	-	Firms, Households and Industry
(c)	Four sector model	-	Firm, Households Government and Foreign Trade
(d)	India	-	Two sector model

[Ans. (c) Four sector model - Firm, Households Government and Foreign Trade]

**3.**

(a)	Micro	-	Large
(b)	Macro	-	Small
(c)	Father of macro economics	-	Adam Smith
(d)	Father of Socialism	-	Karl Marx

[Ans. (d) Father of Socialism - Karl Marx]

- (v) Which is the following is Not correctly matched.

**1.**

(a)	In equality leads to	-	Monopoly
(b)	Fair and Hire Policy	-	Capitalists
(c)	Equal opportunity to all	-	Mixed
(d)	Maximum Social Benefit	-	Socialism

[Ans. (c) Equal opportunity to all - Mixed]

**2.**

(a)	Mixed Economy	-	Efficient utilization
(b)	Socialism	-	Promotes Social Welfare
(c)	Capitalistic Economy	-	Profit Motive
(d)	Traditional Economy	-	Modern Technology

[Ans. (d) Traditional Economy - Modern Technology]

**3.**

(a)	Two Branch of Economics	-	Micro and Macro Economics
(b)	First Nobel Price in Economic Science	-	Ragnar Frisch
(c)	Father of Modern Macro Economics	-	Adam Smith
(d)	Father of Macro Economics	-	J.M. Keynes

[Ans. (c) Father of Modern Macro Economics - Adam Smith]

**4.**

(a)	General System of Economics	-	Socialistic Economy
(b)	One of the scope of Macro Economics	-	Central Planning Authority
(c)	Father of Capitalism	-	Adam Smith
(d)	Capitalistic Economy	-	Welfare Motive

**[Ans. (d) Capitalistic Economy - Welfare Motive]**

**5.**

(a)	Market Economy	-	Command Economy
(b)	Merits of Socialism	-	Reduction in inequalities
(c)	Karl Marx	-	Father of Scientific Socialism
(d)	Mixed Economy	-	USA

**[Ans. (d) Mixed Economy - USA]**

**6.**

(a)	Circular flow models	-	Two
(b)	Four Sectors	-	House holds, firms, Government and external sector
(c)	Socialism	-	Central planning authority
(d)	Total Freedom	-	Capitalism

**[Ans. (a) Circular flow models - Two]**

**7.**

(a)	Fundamental Economic Activity	-	Production and Consumption
(b)	Economic Systems	-	Three
(c)	Mixedism	-	India
(d)	Capitalistic Economy	-	Co-existence of Public and Private

**[Ans. (d) Capitalistic Economy - Co-existence of Public and Private]**

**(vi) Assertion and Reason.**

**1. Assertion (A) :** The fundamental economic activities are production and consumption.

**Reason (R) :** The ultimate aim of these activities is to achieve growth.

- (a) Both 'A' and 'R' are true and R is the correct explanation to A
- (b) Both 'A' and 'R' are true but R is not the correct explanation to A
- (c) A is true but R is false
- (d) A is false but R is true

**[Ans. (a) Both 'A' and 'R' are true and R is the correct explanation to A]**

**2. Assertion (A) :** Profit is the driving force behind capitalistic economy.

**Reason (R) :** Price Mechanism is the heart of any capitalistic economy.

- (a) Both 'A' and 'R' are true and R is the correct explanation to A
- (b) Both 'A' and 'R' are true but R is not the correct explanation to A
- (c) A is true but R is false
- (d) A is false but R is true

**[Ans. (a) Both 'A' and 'R' are true and R is the correct explanation to A]**

**3. Assertion (A) :** In a Socialistic economy all resources are owned and operated by the government.

**Reason (R) :** Public welfare is the main motive behind socialistic economy.

- (a) Both 'A' and 'R' are true and R is the correct explanation to A
- (b) Both 'A' and 'R' are true but R is not the correct explanation to A
- (c) A is true but R is false
- (d) A is false but R is true

**[Ans. (a) Both 'A' and 'R' are true and R is the correct explanation to A]**

**4. Assertion (A) :** In a mixed economic system both private and public co-exist.

**Reason (R) :** Mixed economy tends to eliminate the evils of both capitalism and socialism.

## Introduction to Macro Economics



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- (a) Both 'A' and 'R' are true and R is the correct explanation to A
- (b) Both 'A' and 'R' are true but R is not the correct explanation to A
- (c) A is true but R is false
- (d) A is false but R is true

[Ans. (a) Both 'A' and 'R' are true and R is the correct explanation to A]

5. **Assertion (A) :** The circular flow of income is a model of an economy showing connections between different sectors of an economy.

**Reason (R) :** The circular flow analysis is the basis of national accounts and Macro economics.

- (a) Both 'A' and 'R' are true and R is the correct explanation to A
- (b) Both 'A' and 'R' are true but R is not the correct explanation to A
- (c) A is true but R is false
- (d) A is false but R is true

[Ans. (a) Both 'A' and 'R' are true and R is the correct explanation to A]

(vii) **Pick the Odd one Out.**

1. The subject matters covered Macro economics are \_\_\_\_\_

- (a) Investment and Saving
- (b) Inflation Business Cycle
- (c) International Trade
- (d) Individual Demand and Supply

[Ans. (d) Individual Demand and Supply]

2. **General Economics Systems :**

- (a) Indian economy
- (b) Capitalist economy
- (c) Socialist economy
- (d) Mixed economy

[Ans. (a) Indian economy]

3. **Features of Capitalistic Economy :**

- (a) Freedom of choice and enterprise
- (b) Profit motive
- (c) Collective welfare
- (d) Price Mechanism

[Ans. (c) Collective welfare]

4. **Demerits of Socialism**

- (a) Read Tapism and Bureaucracy
- (b) Reduction in inequalities
- (c) Absence of incentives
- (d) Limited freedom of choice

[Ans. (b) Reduction in inequalities]

**PART - B**

**ANSWER THE FOLLOWING QUESTIONS IN ONE OR TWO SENTENCES 2 MARKS**

1. Write down the three types of economic systems.

- Ans.** (i) Capitalistic Economy (Capitalism)  
 (ii) Socialistic Economy (Socialism)  
 (iii) Mixed Economy (Mixedism)

2. What is Globalism?

**Ans. Globalism :** An economic system where the economic activities of a nation are inter connected and inter dependent on each other nation.

3. What are the demerits of socialism?

- Ans.** (i) Concentration of wealth and income  
 (ii) Wastage of Resources  
 (iii) Class struggle  
 (iv) Business Cycle  
 (v) Production of Non essential goods

4. What do you mean by Socialism?

- Ans.** (i) Socialism refers to a system of total planning.  
 (ii) Public ownership and state control on economic activities.

5. What is Mixed Economy?

- Ans.** (i) In economic system both private and public sectors co-exist.  
 (ii) It work together towards economic development.

6. What are the merits of Mixed Economy?

- Ans.** (i) Rapid Economic Growth  
 (ii) Balanced Economic Growth  
 (iii) Economic Equality  
 (iv) Proper Utilization of Resources  
 (v) Special Advantages to the Society

**7. Give examples for Mixed Economic countries.**

- Ans.** (i) India  
(ii) England  
(iii) France and  
(iv) Brazil are the examples of mixed economy

**8. Give the countries which have communism.**

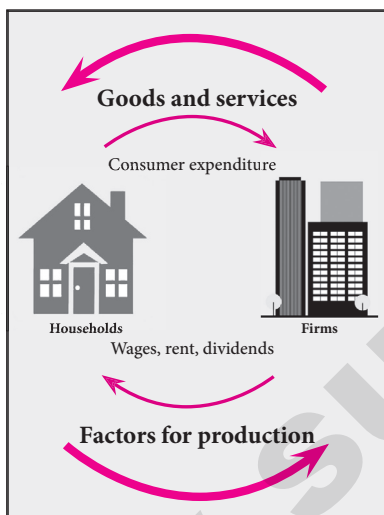
- Ans.** (i) North Korea  
(ii) China  
(iii) Venezuela

**9. Write down the countries that have capitalistic economy.**

- Ans.** (i) The USA  
(ii) West Germany  
(iii) Australia and  
(iv) Japan

**10. Draw the diagram for Circular flow of income in a Two-sector economy.**

**Ans.**



**11. Write any three merits of capitalism.**

- Ans.** (i) Efficient use of Resources  
(ii) Automatic working  
(iii) Higher Rates of capital formation  
(iv) Development of new technology

**12. Who is the controll authority of socialistic economy?**

- Ans.** (i) Central planning authority is the controlling authority in a socialistic economy.  
(ii) All the decisions are under taken by the central planning authority.  
(iii) It means all factors of production are nationalized and managed by public authority.

**13. Write the equation for Four-sector economy.**

**Ans.**  $Y = C + I + G + (X - M)$

C - Consumption Expenditure (Households)

I - Investment Expenditure (Firms)

G - Government Expenditure (Government)

(X-M) - Net Exports (External Sector)

**14. What are the different models of circular flow of income?**

**Ans.** There are three models of circular flow of income. They are,

- (i) Two sector model  
(ii) Three sector model  
(iii) Four sector model

**15. What are the movements of Business Cycle?**

**Ans.** The movements of business cycles are,

- (i) Boom  
(ii) Recession  
(iii) Depression and  
(iv) Recovery

**16. What is Business Cycle?**

**Ans.** All economics face the problem of business fluctuations.

**17. What is Economic Policies?**

**Ans.** Economic policies are necessary to solve the basic problems to overcome the obstracles and to achieve growth.

**18. What is Globalisation?**

**Ans.** Globalisation is nothing but connect the nations together through international trade and aiming at global development.

**19. What is Price Mechanism?**

- Ans.** (i) Price Mechanism is the heart of any capitalistic economy.  
(ii) All the economic activities are regulated through price mechanism.

**20. Write a note on Central Planning?**

- Ans.** (i) Planning is an integral part of a socialist economy.  
(ii) In socialist economy all decisions are undertaken by the Central Planning Authority.

## Introduction to Macro Economics



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## PART - C

ANSWER THE FOLLOWING QUESTIONS IN ONE PARAGRAPH **3 MARKS**

## 1. Outline major demerits of capitalism.

- Ans. (i)** Concentration of wealth and income  
**(ii)** Wastage of Resources  
**(iii)** Class struggle  
**(iv)** Business cycle  
**(v)** Production of non essential goods.

## 2. Write any two demerits of capitalism.

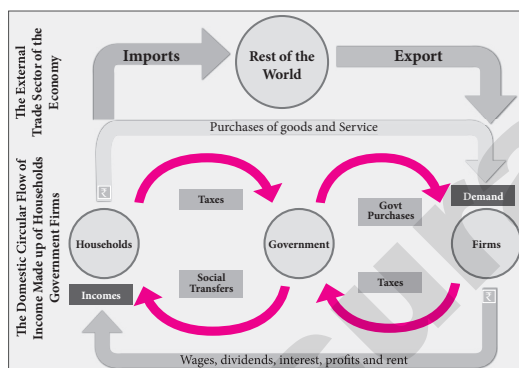
**Ans. (i) Class Struggle :**

Capitalism leads to class struggle as it divides the society into capitalists and workers.

**(ii) Business Cycle :**

Free Market System leads to frequent violent economic fluctuations and crisis.

## 3. Draw the circular flow of income in a three sector economy.

**Ans.**

## 4. Explain any two merits of socialism.

**Ans. (i) Reduction in inequalities :**

No one is allowed to own and use private property to exploit others.

**(ii) Absence of class conflicts :**

As inequalities are minimum, there is no conflict between rich and poor class. Society functions in a harmonious manner.

## 5. What are the demerits of mixed economy?

- Ans. (i) Lack of Coordination :** The greatest drawback of mixedism is lack of coordination between public sector and private sector. As both work with divergent motives, it creates many coordination related problems.

- (ii) Competitive Attitude :** It is expected that both government and private should work with a complementary spirit towards the welfare of the society, but in reality they are competitive in their activities.

- (iii) Inefficiency :** Most of the public sector enterprises remain inefficient due to lethargic bureaucracy, red tapism and lack of motivation.

- (iv) Fear of Nationalization :** In a mixed economy, the fear of nationalization discourages the private entrepreneurs in their business operations and innovative initiatives.

- (v) Widening Inequality :** Ownership of resources, laws of inheritance and profit motive of people widens the gap between rich and poor.

## 6. What are the limitation of Macro Economics.

**Ans.** Macro economics suffers from certain limitation. They are

- (i)** There is a danger of excessive generalisation of the economy as a whole.  
**(ii)** It assumes homogeneity among the individual units.  
**(iii)** There is a fallacy of composition. What is good of an individual need not be good for nation and viceversa and, what is good for a country is not good for another country and at another time.

## 7. Explain any three features of Capitalistic Economy.

**Ans. (i) Private Ownership of Property and Law of Inheritance :**

The basic feature of capitalism is that all resources namely, land, capital, machines, mines etc. are owned by private individuals. The owner has the right to own, keep, sell or use these resources according to his will. The property can be transferred to heirs after death.

**(ii) Freedom of Choice and Enterprise :**

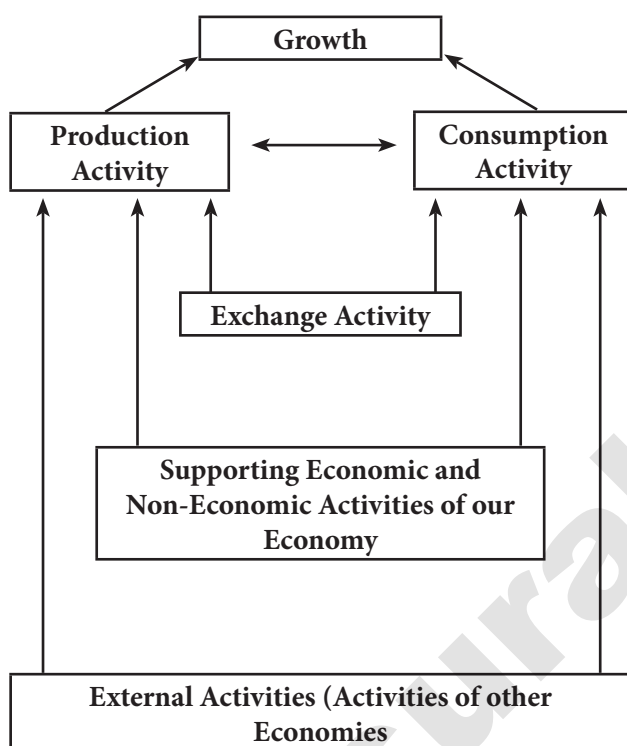
Each individual is free to carry out any occupation or trade at any place and produce any commodity. Similarly, consumers are free to buy any commodity as per their choice.

**(iii) Free Competition :**

There is free competition in both product and factor market. The government or any authority cannot prevent firms from buying or selling in the market. There is competition between buyers and sellers.

**8. Bring out the functions of an economy with the help of flow chart.**

**Ans.** Functioning of an Economy based on Activities

**9. Describe the three models of circular flow of income.**

**Ans. Two Sector Model :**

It is for a simple economy with households and firms

**Three Sector Model :**

It is for a mixed and closed economy with households, firms and government.

**Four Sector Model :**

It is for an open economy with households, firms, government and rest of the world.

**10. Indicate the demerits of Mixed Economy.**

**Ans. Lack of Co-ordination :**

The greatest drawback of Mixedism is lack of co-ordination between public sector and private sector.

**Inefficiency :**

Most of the public sector enterprises remain inefficient due to lethargic bureaucracy, red tapism and lack of motivation.

**Fear of Nationalization :**

In mixed economy, the fear of nationalization discourages the private entrepreneurs in their business operations.

**PART - D****ANSWER THE FOLLOWING QUESTIONS IN ONE PAGE 5 MARKS****1. Explain the four sector circular flow model.**

**Ans. (1)** Circular flow of income in a four sector economy.

(2) In a four sector economy, in addition to household, firms and government, a fourth sector namely, external sector is included.

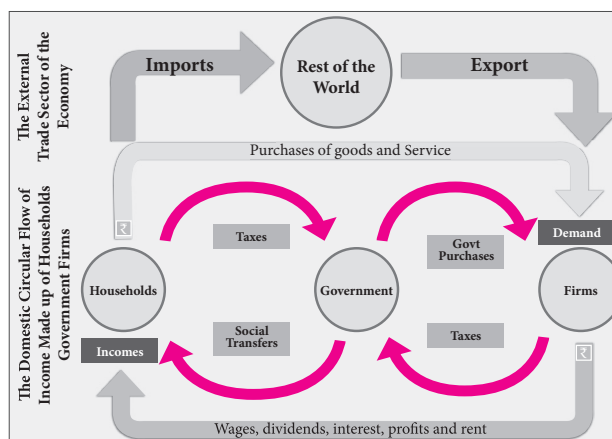
(3) In real life, only four-sector economy is exists.

(4) This model is composed of four sectors namely.

- (i) Households
- (ii) Firms
- (iii) Government
- (iv) External

(5) The external sector comprises exports and imports.

(6) It is illustrated in the flow chart.



(7) In four sector economy, expenditure for the entire economy include domestic expenditure.

(C + I + G) and net exports (X-M)

## Introduction to Macro Economics



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- (8) Therefore four sector model expressed as

$$Y = C + I + G + (X - M)$$

**2. Explain the merits of socialism.**

**Ans. Merits of Socialism :**

**1. Reduction in Inequalities :**

No one is allowed to own and use private property to exploit others.

**2. Rational Allocation of Resources :**

The central planning authority allocates the resources in a planned manner. Wastages are minimised and investments are made in a pre planned manner.

**3. Absence of Class Conflicts :**

As inequalities are minimum, there is no conflict between rich and poor class. Society functions in a harmonious manner.

**4. End of Trade Cycles :**

Planning authority takes control over production and distribution of goods and services. Therefore, economic fluctuations can be avoided.

**5. Promotes Social Welfare :**

Absence of exploitation, reduction in economic inequalities, avoidance of trade cycles and increase in productive efficiency help to promote social welfare.

**3. Explain the Demerits of capitalism.**

**Ans. Demerits of Capitalism**

**1. Concentration of Wealth and Income :**

Capitalism causes concentration of wealth and income in a few hands and thereby increases inequalities of income.

- 2. Wastage of Resources :** Large amount of resources are wasted on competitive advertising and duplication of products.

- 3. Class Struggle :** Capitalism leads to class struggle as it divides the society into capitalists and workers.

- 4. Business Cycle :** Free market system leads to frequent violent economic fluctuations and crises.

- 5. Production of non essential goods :** Even the harmful goods are produced if there is possibility to make profit.

**4. Explain the merits of Mixed Economy.**

**Ans. (a) Rapid Economic Growth :**

- (i) It promotes rapid economic growth.

- (ii) Thus both public requirements and private needs are taken care of.

**(b) Balanced Economic Growth :**

- (i) Mixedism promotes balanced growth of the economy.

- (ii) It promotes balanced growth between agriculture and industry.

**(c) Proper utilization of Resources :**

- (i) The government can ensure proper utilization of resources.

- (ii) The government controls must of the important activities directly.

**(d) Economic Equality :**

- (i) The government uses progressive rates of taxation.

- (ii) Income tax to bring about economic equality.



CHAPTER

2

NATIONAL INCOME

CHAPTER SNAPSHOT

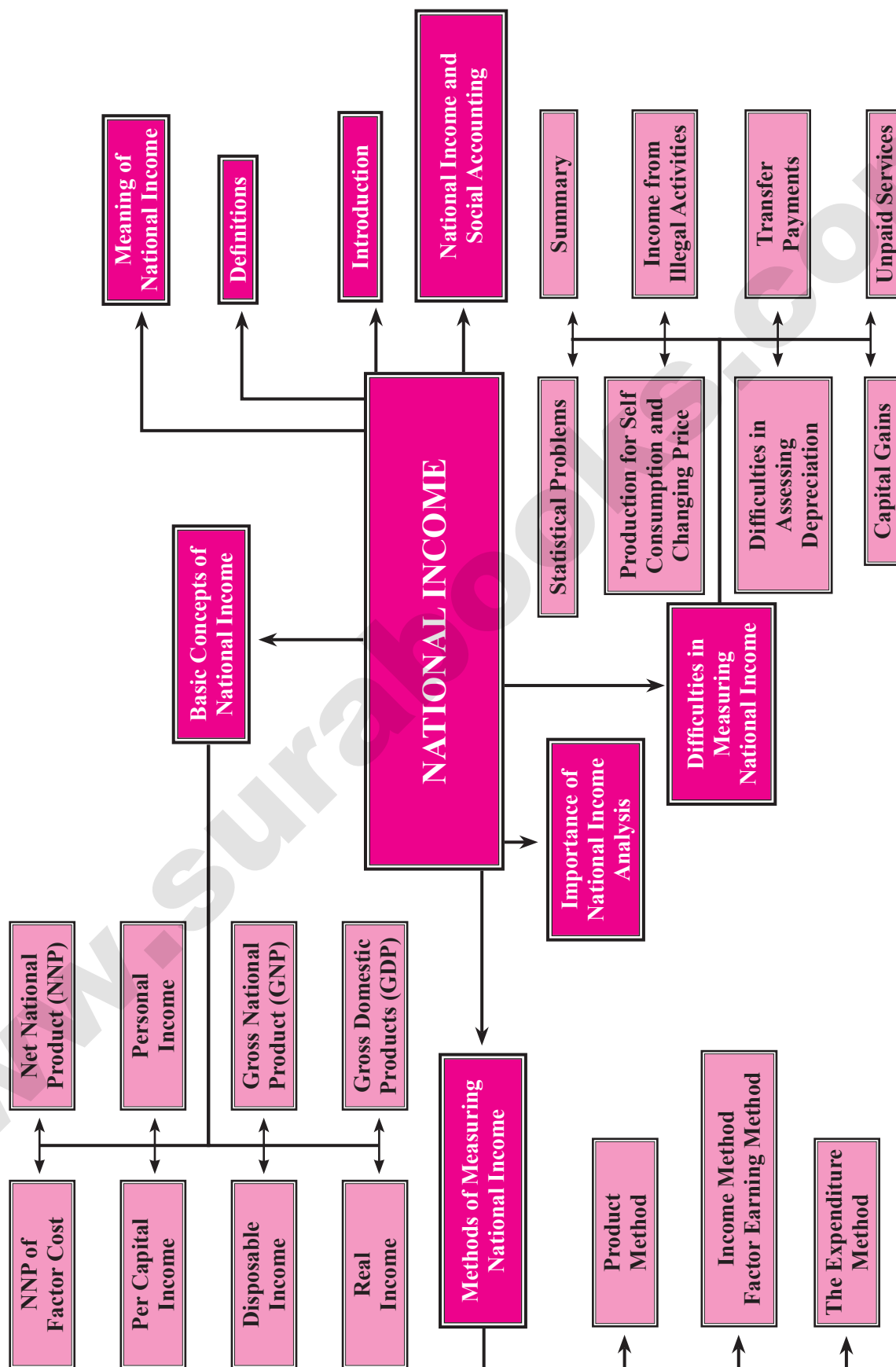
- |       |                                       |       |  |
|-------|---------------------------------------|-------|--|
| 2.1   | Introduction                          | 2.5.3 | The Expenditure Method (outlay method)               |
| 2.2   | Meaning of National Income            | 2.6   | Importance of National Income Analysis               |
| 2.3   | Definitions                           | 2.7   | Difficulties in Measuring National Income            |
| 2.4   | Basic Concepts of National Income     | 2.7.1 | Transfer payments                                    |
| 2.4.1 | Gross Domestic Product (GDP)          | 2.7.2 | Difficulties in assessing depreciation allowance     |
| 2.4.2 | Gross National Product (GNP)          | 2.7.3 | Unpaid services                                      |
| 2.4.3 | Net National Product (NNP)            | 2.7.4 | Income from illegal activities                       |
| 2.4.4 | NNP at Factor Cost                    | 2.7.5 | Production for self - consumption and changing price |
| 2.4.5 | Personal Income                       | 2.7.6 | Capital Gains  |
| 2.4.6 | Disposable Income                     | 2.7.7 | Statistical problems                                 |
| 2.4.7 | Per capita Income                     | 2.8   | National Income and Social Accounting                |
| 2.4.8 | Real Income                           |       |  |
| 2.5   | Methods of Measuring National Income  |       |  |
| 2.5.1 | Product Method                        |       |  |
| 2.5.2 | Income Method (Factor Earning Method) |       |  |

## National Income



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# Concept Map



## Important Terms

<b>GNP</b>	: Total money value of final goods and services produced in a country during a particular year (one year) including depreciation and net exports.
<b>NNP</b>	: Total money value of final goods and services produced in a country during a particular year excluding depreciation including net exports.
<b>NNP at factor cost</b>	: The total of income payment made to factors of production.
<b>Personal Income</b>	: Total income received by the individuals of a country before payment of direct taxes.
<b>Disposable Income</b>	: It is the sum of the consumption and saving of individuals after the payment of income tax.
<b>Per capital Income</b>	: Annual average income of a person.
<b>Social Accounts</b>	: The accounts of national income considering the social cost generated by economic activities.
<b>Unpaid Services</b>	: Rendering useful services like preparation of meals, washing, learning bringing up children, services to their friends and relatives without payment.
<b>Capital Sector</b>	: It includes saving and investment activities.
<b>Transfer Payments</b>	: Government makes payments in the form of pensions unemployment allowance, subsidies, etc.
<b>Real Income</b>	: Nominal income is national income expressed in term of a general price level of a particular year in the other words, real income.
<b>Outlay Method</b>	: The total expenditure incurred by the society in a particular year is called total expenditure of a society.
<b>Factor Cost</b>	: There are number of inputs that are included into a production process when producing goods and services. These inputs are commonly known as factor of production.
<b>Market Price (MP)</b>	: The market price is the price that consumer will pay for the product when they purchase from the seller.
<b>Capital Gains</b>	: Capital gains are the difference between a higher selling price and a lower purchase price.
<b>Social Accounting</b>	: "Social accounting is the process of measuring and reporting to stakeholders the social and environmental effects of an organisation's actions".

## Definitions

<b>National Income by Alfred Marshall</b>	: Alfred Marshal defined National Income as "The labour and capital of country acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterial including services of all kinds. This is the true net annual income or revenue of the country or national dividend".
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## National Income

## Sura's - XII Std - Economics

- National Income by Samuelson** : According to Samuelson "The concept of national Income is an indispensable preparation for tackling the great issues of unemployment, inflation and growth".
- GDP Deflator** : The GDP deflator, also known as the implicit price deflator, measures the impact of inflation on the gross domestic product during a specified period, usually a year.
- Per Capita Income** : The average income of a person of a country in a particular year is called Per Capita Income. Per capita Income is obtained by dividing nation income by population.
- National Income by Simon Kuznets** : "The net output of the commodities and services flowing during the year from the country's productive system into the hands of the ultimate consumers or into net addition to the country's stock of capital goods".  
- Simon Kuznets.

## Formulae

### 1. Gross Domestic product (GDP)

GDP by expenditure method at market prices  

$$= C + I + G + (X - M)$$

### 2. Net Domestic Product (NDP)

Net Domestic Product = GDP – Depreciation

### 3. GNP at market prices = GDP at market prices + Net factor income from abroad.

### 4. NNP = GNP – Depreciation allowance.

### 5. NNP at factor cost = NNP at market prices – Indirect taxes + subsidies.

### 6. Personal Income = National income – (Social security contribution and undistributed corporate profits) + Transfer payment.

### 7. Disposable Income = Personal income – Direct tax. As the entire disposable income is not spent on consumption, Disposal income = consumption + saving.

### 8. Per capita Income

Per capita Income =  $\frac{\text{National income}}{\text{Population}}$

### 9. Real Income

National Income at constant price  

$$= \text{National income at current price} \div \frac{P_1}{P_0}$$

### 10. GDP deflator

GDP deflator =  $\frac{\text{National GDP}}{\text{Real GDP}} \times 100$

### 11. Method of measuring National Income

Output = Income = Expenditure.

### 12. Income method

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

### 13. The expenditure method

$$GNP = C + I + G + (X - M)$$



## MODEL QUESTIONS

## PART - A

## MULTIPLE CHOICE QUESTIONS 1 MARK

1. Net National product at factor cost is also known as

- (a) National Income
- (b) Domestic Income
- (c) Per capita Income
- (d) Salary.

[Ans. (a) National Income]

2. Primary sector is \_\_\_\_\_.

- (a) Industry
- (b) Trade
- (c) Agriculture
- (d) Construction.

[Ans. (c) Agriculture]

3. National income is measured by using \_\_\_\_\_ methods.

- (a) Two
- (b) Three
- (c) Five
- (d) Four

[Ans. (b) Three]

4. Income method is measured by summing up of all forms of \_\_\_\_\_.

- (a) Revenue
- (b) Taxes
- (c) expenditure
- (d) Income

[Ans. (d) Income]

5. Which is the largest figure?

- (a) Disposable income
- (b) Personal Income
- (c) NNP
- (d) GNP

[Ans. (d) GNP]

6. Expenditure method is used to estimate national income in \_\_\_\_\_.

- (a) Construction sector
- (b) Agricultural Sector
- (c) Service sector
- (d) Banking sector

[Ans. (a) Construction sector]

7. Tertiary sector is also called as \_\_\_\_\_ sector

- (a) Service
- (b) Income
- (c) Industrial
- (d) Production

[Ans. (a) Service]

8. National income is a measure of the \_\_\_\_\_ performance of an economy.

- (a) Industrial
- (b) Agricultural
- (c) Economic
- (d) Consumption

[Ans. (c) Economic]

9. Per capita income is obtained by dividing the National income by \_\_\_\_\_.

- (a) Production
- (b) Population of a country
- (c) Expenditure
- (d) GNP

[Ans. (b) Population of a country]

10. GNP = \_\_\_\_\_ + Net factor income from abroad.

- (a) NNP
- (b) NDP
- (c) GDP
- (d) Personal income

[Ans. (c) GDP]

11. NNP stands for \_\_\_\_\_.

- (a) Net National Product
- (b) National Net product
- (c) National Net Provident
- (d) Net National Provident

[Ans. (a) Net National Product]

12. \_\_\_\_\_ is deducted from gross value to get the net value.

- (a) Income
- (b) Depreciation
- (c) Expenditure
- (d) Value of final goods

[Ans. (b) Depreciation]

13. The financial year in India is \_\_\_\_\_.

- (a) April 1 to March 31
- (b) March 1 to April 30
- (c) March 1 to March 16
- (d) January 1 to December 31

[Ans. (a) April 1 to March 31]

14. When net factor income from abroad is deducted from NNP, the net value is \_\_\_\_\_.

- (a) Gross National Product
- (b) Disposable Income
- (c) Net Domestic Product
- (d) Personal Income

[Ans. (c) Net Domestic Product]

## National Income



## Sura's - XII Std - Economics

15. The value of NNP at production point is called \_\_\_\_\_.

- (a) NNP at factor cost
- (b) NNP at market cost
- (c) GNP at factor cost
- (d) Per capita income

[Ans. (a) NNP at factor cost]

16. The average income of the country is \_\_\_\_\_.

- (a) Personal Income
- (b) Per capita income
- (c) Inflation Rate
- (d) Disposal Income

[Ans. (b) Per capita income]

17. The value of national income adjusted for inflation is called \_\_\_\_\_.

- (a) Inflation Rate
- (b) Disposal Income
- (c) GNP
- (d) Real national income

[Ans. (d) Real national income]

18. Which is a flow concept ?

- (a) Number of shirts
- (b) Total wealth
- (c) Monthly income
- (d) Money supply

[Ans. (c) Monthly income]

19. PQLI is the indicator of \_\_\_\_\_.

- (a) Economic growth
- (b) Economic welfare
- (c) Economic progress
- (d) Economic development

[Ans. (b) Economic welfare]

20. The largest proportion of national income comes from \_\_\_\_\_.

- (a) Private sector
- (b) Local sector
- (c) Public sector

(d) None of the above [Ans. (a) Private sector]

## PART - B

ANSWER THE FOLLOWING QUESTIONS IN ONE OR TWO SENTENCES **2 MARKS**

21. Define National Income.

**Ans.** "The labour and capital of a country acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterial including services of all kinds. This is the true net annual income or revenue of the country or national dividend".

22. Write the formula for calculating GNP.

**Ans.** GNP at market prices = GDP at market prices + Net factor income from Abroad.

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

C - Consumption Expenditure

I - Investment Expenditure

G - Government Expenditure

X-M - Difference between value exports and imports of goods.

R-P - Net factor income from abroad

23. What is the difference between NNP and NDP?

**Ans.** Net Domestic Produce (NDP) is the value of net output of the economy during the year.

$$\text{Net Domestic product} = \text{GDP} - \text{Depreciation}$$

Net National Product (NNP) refers to the value of the net output of the economy during the year.

$$\text{NNP} = \text{GNP} - \text{depreciation allowance}$$

24. Trace the relationship between GNP and NNP.

**Ans.** Gross National Product (GNP) is the total measure of the flow of final goods and services at market value resulting from current production in a country during a year, including net income from abroad.

Net National Product (NNP) refers to the value of the net output of the economy during the year. NNP is obtained by deducting the value of depreciation.

$$\text{NNP} = \text{GNP} - \text{depreciation allowance}$$

25. What do you mean by the term 'Personal Income'?

**Ans. (i)** Personal income is the total income received by the individuals of a country from all sources before payment of direct taxes in a year.

(ii) Personal income is never equal to the national income, because the former includes the transfer payments whereas they are not included in national income.

26. Define GDP deflator.

**Ans.** GDP deflator is an index of price changes of goods and services included in GDP.

$$\text{GDP deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

**27. Why is self consumption difficult in measuring national income?**

**Ans.** Self consumption is difficult in measuring national income because it is not clear that the produce which is not sold in the market can be included in the national income or not.

**PART - C**

**ANSWER THE FOLLOWING QUESTIONS IN ONE PARAGRAPH**

**3 MARKS**

**28. Write a short note on per capita income.**

- Ans. (i)** The average income of a person of a country in a particular year is called per capita income.  
**(ii)** Per capita income is obtained by dividing national income by population.

$$\text{Per capita income} = \frac{\text{National income}}{\text{Population}}$$

**29. Differentiate between personal and disposable income.**

S. No.	Personal Income	Disposable Income
1.	Personal income is the total income received by the individuals of a country from all sources before payment of direct taxes in a year.	Disposable Income is also known as Disposable personal income. It is the individuals income after the payment of income tax.
2.	Personal income is never equal to the national income, because the former includes the transfer payments whereas they are not included in national income.	This is the amount available for households for consumptions.
3.	Personal Income = National income – social security contribution and undistributed corporate profits) + Transfer payments.	Disposable Income = Personal Income – Direct tax. As the entire disposable income is not spent of consumption. Disposable income = Consumption + Saving

**30. Explain briefly NNP at factor cost.**

- Ans. (i)** NNP refers to the market value of output.  
**(ii)** NNP at factor cost is the total of income payment made to factors of production.  
**(iii)** The money value of NNP at market price, we deduct the amount of indirect taxes and add subsidies to arrive at the net national income at factor cost.

$$\text{NNP at factor cost} = \text{NNP at Market prices} - \text{Indirect taxes} + \text{subsidies.}$$

**31. Give short note on Expenditure method.**

- Ans. (i)** The total expenditure incurred by the society in the particular year is added together.  
**(ii)** To calculate the expenditure of the society, it includes personal consumption expenditure, net domestic investment, government expenditure on consumption as well as capital goods and net exports.

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

- C = Private consumption expenditure.  
 I = Private investment expenditure.  
 G = Government expenditure.  
 X – M = Net exports.

**32. What is the solution to the problem of double counting in the estimation of national income?**

- Ans. (i)** Double counting is to be avoided under value added method.  
**(ii)** Any commodity which is either raw material or intermediate good for the final production should not be included.  
**(iii)** For example, value of cotton enters value of yarn as cost, and value of yarn in cloth and that of cloth in garments. At every stage value added only should be calculated.

**National Income****Sura's - XII Std - Economics**

**33. Write briefly about national income and welfare.**

- Ans. (i)** National income is considered as an indicator of the economic well-being of a country.
- (ii)** The economic progress of country is measured in terms of their GDP per capita and their annual growth rate.
- (iii)** A country with a higher per capita income is supposed to enjoy greater economic welfare with a higher standard of living.

**34. List out the uses of national income.**

**Ans. Uses of National Income :**

- (i)** The National Income of a country describes the economic performance or production performance of a country.
- (ii)** Economists, planners, Government, business man and international agencies (IMF, World Bank etc.) use national income data and analysis them for various purposes.
- (iii)** National income data help in measuring changes in the standard of living over time and also enable us to compare standard of living of different countries.
- (iv)** Level of development of a country is also measured by using national income figures.

**PART - D**

**ANSWER THE FOLLOWING QUESTIONS IN ONE PAGE**

**5 MARKS**

**35. Explain the importance of national income.**

**Ans. Importance of National Income :**

- (i)** The national income is considered as accounts of the economy, which are known as social accounts.
- (ii)** To know the relative importance of the various sector of the economy and the contribution towards national income.
- (iii)** To formulate the national policies such as monetary policy, fiscal policy and other policies.
- (iv)** The proper measures can be adopted to bring the economy to the right path.
- (v)** To formulate planning and evaluate plan progress. It is essential that the data pertaining to a country's gross income.

- (vi)** To build economic models both in short and long-run.
- (vii)** To make international comparison, inter regional comparison and inter-temporal comparison for the growth of the economy.
- (viii)** To know a country's per capita income which reflects the economic welfare of the country.
- (ix)** To know the distribution of income for the various factors of productions.
- To arrive at many macro economic variables namely, Tax - GDP ratio, Current Account Deficit - GDP ratio, Fiscal Deficit GDP ratio, Debt - GDP ratio etc.

**36. Discuss the various methods of estimating the national income of a country.**

**Ans.** There are three methods of measuring national Income. They are,

- (i)** Production (or) Value added method.
- (ii)** Income method (or) Factor earning method.
- (iii)** Expenditure method.
- (i) Production Method :**
- (1)** Product method measures the output of the country.
- (2)** It is also called inventory method.
- (3)** In this method, the gross value of output from different sectors like agriculture, industry and commerce etc. is obtained for the entire economy during a year.
- (4)** The value obtained is actually the GNP at market prices.
- (5)** Care must be taken to avoid double counting.
- (6)** The value of the final product is derived by summation of all the values added in the productive process.
- (7)** To avoid double counting, either the value of the final output should be taken into the estimate of GNP.
- (8)** Double counting is to be avoided under value added method.
- (9)** Any commodity which is either raw material or intermediate good for the final production should not be included.

**(ii) Income Method : (Factor Earning Method)**

- (1) This method approaches national income from the distribution side.
- (2) In this method national income is calculated by adding up all the incomes generated in the course of producing national product.
- (3) Factor incomes are grouped under labour income, capital income and mixed income.
- (4) National Income is calculated as domestic factors income plus net factor incomes from abroad.

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

w - wages, r - rent, i - interest,  
 $\pi$  - profit, R - exports and  
 P - imports.

**(iii) The Expenditure Method : (Outlay method)**

- (1) Under this method, the total expenditure incurred by the society in a particular year is added together.
- (2) 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.

$$GNP = C + I + G + (X - M)$$

C - Private consumption expenditure

I - Private Investment Expenditure

G - Government Expenditure

X - M - Net Exports

**37. What are the difficulties involved in the measurement of national income?****Ans. Difficulties in measuring National Income :**

In India, a special conceptual problem is posed by the existence of a large, unorganised and non-monetised subsistence sector where the barter system still prevails for transacting goods and services.

- (i) Transfer payments
- (ii) Difficulties in assessing depreciation allowance
- (iii) Unpaid services
- (iv) Income from illegal activities
- (v) Production for self-consumption and changing price
- (vi) Capital gain
- (vii) Statistical problems

**(i) Transfer payments :**

Government makes payments in the form of pensions, unemployment allowance, subsidies etc. These are government expenditure not included in the national income.

**(ii) Difficulties in assessing depreciation allowance :**

- (1) The deduction of depreciation allowances, accidental damages, repair and replacement charges from the national income.
- (2) It requires high degree of judgement to assess the depreciation allowance and other charges.

**(iii) Unpaid services :**

- (1) A housewife renders a number of useful services like preparation of meals, serving, tailoring, cleaning, washing etc., She is not paid for them and her service are not directly included in national income.
- (2) Such services performed by paid servants are included in the national income.
- (3) Housewife's services (domestic work) cannot be measured in monetary terms.

**(iv) Income from illegal activities :**

- (1) Income earned through illegal activities like gambling, smuggling, illicit extraction of liquor etc., is not included in national income.
- (2) Such incomes have value and satisfy the wants of the people, so it is considered as productive income.

## National Income



## Sura's - XII Std - Economics

**(v) Production for self-consumption and charging price :**

- (1) Farmers keep a large portion of food and other goods produced on the farm for self consumption.
- (2) The produce which is not sold in the market can be included in national income or not.

**(vi) Capital gains :**

- (1) The gain is the difference between a higher selling price and the lower purchasing price.
- (2) Capital gains are excluded from the national income.

**(vii) Statistical problems :**

The following are some of the statistical problems.

- (1) In animal husbandry, there are no authentic production data available.
- (2) Different languages, customs etc., also create problems in computing estimates.
- (3) People in India are indifferent to the official inquiries.

(4) Most of the statistical staff are untrained and inefficient.

(5) National income estimates in our country are not accurate and adequate.

(6) National income is over estimated or under estimated by atleast 10%.

**38. Discuss the importance of social accounting in economic analysis.**

**Ans. (i)** National Income is also being measured by the social accounting method.

**(ii)** Under this method, the transaction among various sectors such as firms, households, government etc., are recorded and their inter relationship traced.

(1) The social accounting framework is useful for economists as well as policy makers.

(2) It represents the major economic flows and statistical relationship among various sectors of the economic system.

(3) It becomes possible to forecast the trends of economy more accurately.

## ADDITIONAL QUESTIONS AND ANSWERS

### PART - A

#### MULTIPLE CHOICE QUESTIONS 1 MARK

**(i) Choose the Correct Option.****1. GNP stands for**

- (a) Net National Product
- (b) Gross Net Product
- (c) Gross Net Provident
- (d) Gross National Product

**[Ans. (d) Gross National Product]**

**2. GDP stands for**

- (a) Gross Domestic Product
- (b) Gross Direct Product
- (c) Gross Domestic Provident
- (d) Gross Derived Product

**[Ans. (a) Gross Domestic Product]**

**3. Formula for calculating NNP at factor cost.**

(a)  $\frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$

(b) NNP at Market Prices – Indirect taxes + Subsidies.

(c) GNP – Depreciation allowance

(d) Output = Income = Expenditure

**[Ans. (b) NNP at Market Prices – Indirect taxes + Subsidies.]**

**4. Value of output =**

(a) Sales + Change in stock

(b) Sales – Change in stock

(c) Sales ÷ Change in stock

(d) Sales × Change in stock

**[Ans. (a) Sales + Change in stock]**

- 5. Percapita Income =**  
 (a) National Income – Population  
 (b) National Income + Population  
 (c) National Income ÷ Population  
 (d) National Income × Population  
**[Ans. (c) National Income ÷ Population]**
- 6. A country which has no economic relations with other countries is termed as**  
 (a) Open economy  
 (b) Closed economy  
 (c) Planned economy  
 (d) Command economy  
**[Ans. (b) Closed economy]**
- 7. National Income provides a comprehensive measure of \_\_\_\_\_ activities of a nation.**  
 (a) Economic activity  
 (b) Production activity  
 (c) Consumption activity  
 (d) Industrial activity  
**[Ans. (a) Economic activity]**
- 8. Nobel laureate Simon Kuznets introduced the first concept of \_\_\_\_\_.**  
 (a) Percapita Income (b) National Income  
 (c) Domestic Income (d) Personal Income  
**[Ans. (b) National Income]**
- 9. GDP calculated at market price is known as \_\_\_\_\_.**  
 (a) GDP at factor price  
 (b) NDP at factor price  
 (c) GNP at factor price  
 (d) GDP at Market price  
**[Ans. (d) GDP at Market price]**
- 10. GDP by expenditure at \_\_\_\_\_ price.**  
 (a) Factor price (b) Market price  
 (c) Real price (d) All the above  
**[Ans. (b) Market price]**
- 11. Net Domestic = GDP – \_\_\_\_\_.**  
 (a) NNP (b) NDP  
 (c) GNP (d) Depreciation  
**[Ans. (d) Depreciation]**
- 12. GNP is the total measure of the flow of \_\_\_\_\_ and services.**  
 (a) Semi goods  
 (b) Semi finished good  
 (c) Final goods  
 (d) None of these  
**[Ans. (c) Final goods]**
- 13. GNP includes \_\_\_\_\_ types of final goods and services.**  
 (a) Two (b) Four  
 (c) Five (d) Three  
**[Ans. (c) Five]**
- 14. Goods and services produced in a year to satisfy immediate wants is known as \_\_\_\_\_.**  
 (a) Production (b) Consumption  
 (c) Distribution (d) Exchange  
**[Ans. (b) Consumption]**
- 15. Inventories of finished and unfinished goods are called \_\_\_\_\_.**  
 (a) Net Investment (b) Investment  
 (c) Gross Investment (d) Both 'a' and 'b'  
**[Ans. (c) Gross Investment]**
- 16. The difference between value of exports and imports of goods and services is known as \_\_\_\_\_.**  
 (a) X–M (b) G+I  
 (c) X × M (d) All the above  
**[Ans. (a) X–M]**
- 17. GNP at Market prices = GDP at Market Price + \_\_\_\_\_.**  
 (a) Net Market Income  
 (b) Net Factor Income from abroad  
 (c) Both 'a' and 'b'  
 (d) Personal Income  
**[Ans. (b) Net Factor Income from abroad]**
- 18. NNP = \_\_\_\_\_ – Depreciation.**  
 (a) GNP (b) GDP  
 (c) NDP (d) All of these  
**[Ans. (a) GNP]**
- 19. NNP at factor cost = NNP at Market Price – \_\_\_\_\_ + Subsidies.**  
 (a) Direct taxes (b) Canons of taxes  
 (c) Indirect taxes (d) None of these  
**[Ans. (c) Indirect taxes]**

## National Income



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- 20.** \_\_\_\_\_ income is never equal to the national income.  
 (a) Disposal Income (b) Per capita Income  
 (c) Personal Income (d) GDP Deflator  
**[Ans. (c) Personal Income]**
- 21.** \_\_\_\_\_ Income is the buying power of nominal income.  
 (a) Gross Income (b) Real Income  
 (c) Per capita Income (d) National Income  
**[Ans. (b) Real Income]**
- 22.** National Income expressed in terms of money at \_\_\_\_\_ prices.  
 (a) Constant Price (b) Market Price  
 (c) Current Price (d) All the above  
**[Ans. (c) Current Price]**
- 23.** Output = Income = \_\_\_\_\_.  
 (a) Price (b) Expenditure  
 (c) Income (d) None of these  
**[Ans. (b) Expenditure]**
- 24.** Output = \_\_\_\_\_ = Expenditure.  
 (a) Output (b) Expenditure  
 (c) Price (d) Income  
**[Ans. (d) Income]**
- 25.** \_\_\_\_\_ reflects the economic welfare of the country.  
 (a) Personal Income (b) Per capita Income  
 (c) Disposal Income (d) All of these  
**[Ans. (b) Per capita Income]**
- 26.** Income earned through illegal activities are \_\_\_\_\_.  
 (a) gambling and smuggling  
 (b) illicit extraction of liquor  
 (c) gambling  
 (d) All of these  
**[Ans. (d) All of these]**
- 27.** \_\_\_\_\_ are excluded from national income.  
 (a) Capital Gains  
 (b) Social Accounting  
 (c) Statistical Problems  
 (d) None of these **[Ans. (a) Capital Gains]**
- 28.** Great care is required to calculate \_\_\_\_\_.  
 (a) Capital Gains  
 (b) Social Accounting  
 (c) Double Counting  
 (d) Statistical Problems  
**[Ans. (c) Double Counting]**
- 29.** \_\_\_\_\_ Framework is useful for economists as well as policy makers.  
 (a) Social Accounting  
 (b) Statistics  
 (c) Capital Gains  
 (d) None of these **[Ans. (a) Social Accounting]**
- 30.** Under social accounting method the economy is divided into \_\_\_\_\_ sectors.  
 (a) four (b) two  
 (c) several (d) three  
**[Ans. (c) several]**
- 31.** \_\_\_\_\_ provides the social goods like public health and education etc.  
 (a) Private (b) Government  
 (c) Unorganised sector (d) None of these  
**[Ans. (b) Government]**
- 32.** The growth of an economy is indicated by an \_\_\_\_\_.  
 (a) Increase in general prices  
 (b) Increase in national income  
 (c) Increase in savings  
 (d) Increase in investment  
**(Ans : (b) Increase in national income)**
- 33.** The per capita income of an economy can be calculated by \_\_\_\_\_.  
 (a) Dividing GDP by population  
 (b) Dividing GNP by population  
 (c) Multiplying GNP by population  
 (d) Dividing GNP by number of people employed  
**(Ans : (b) Dividing GNP by population)**
- 34.** The total money value of final goods and services produced in the country excluding depreciation is called \_\_\_\_\_.  
 (a) NDP (b) GDP  
 (c) NNP (d) GNP  
**(Ans : (a) NDP)**



**35.** The difference between NNP and NDP is \_\_\_\_\_.

- (a) Depreciation
- (b) Current transfers from rest of the world
- (c) Indirect tax
- (d) Net factor income from abroad

(Ans : (d) Net factor income from abroad)

**36.** National income as commonly understood by every one refers to \_\_\_\_\_.

- (a) GNP
- (b) NNP
- (c) GDP
- (d) NDP

(Ans : (b) NNP)

**37.** National income per person is used as an indicator of \_\_\_\_\_.

- (a) standard of living of people
- (b) poverty of the people
- (c) the richness of people
- (d) growth of industrialisation

(Ans : (a) Standard of living of people)

**38.** National income was called 'national dividend' by \_\_\_\_\_.

- (a) Irving Fisher
- (b) Alfred Marshall
- (c) Samuelson
- (d) J.M. Keynes

(Ans : (b) Alfred Marshall)

**39.** \_\_\_\_\_ is a measure of the total value of the goods and services produced in an economy for a year.

- (a) GNP
- (b) GDP
- (c) National income
- (d) Per capita income

(Ans : (c) National income)

**40.** GDP = \_\_\_\_\_.

- (a) GNP + Depreciation
- (b) GNP – Net income earned from abroad
- (c) GNP – Depreciation
- (d) NNP – Depreciation

(Ans : (b) GNP – Net income earned from abroad)

**41.** \_\_\_\_\_ is the total value of output produced and income received in a year by domestic residence of a country.

- (a) GDP
- (b) NNP
- (c) NDP
- (d) GNP

(Ans : (d) GNP)

**42.** The income method of calculating national income includes the income of the \_\_\_\_\_.

- (a) farmers only
- (b) businessmen only
- (c) service sector only
- (d) factors of production

(Ans : (d) factors of production)

**43.** \_\_\_\_\_ employ factors of production to produce the goods and services.

- (a) Consumer
- (b) Business sectors
- (c) House holds
- (d) Farmers

(Ans : (b) Business sectors)

**44.** \_\_\_\_\_ is not the correct indicator for the living standards of the people.

- (a) Per capita income
- (b) National income
- (c) Both
- (d) None of the above

(Ans : (c) Both)

**45.** According to the year 2001, Indian per capita income is \_\_\_\_\_ dollar.

- (a) 520
- (b) 460
- (c) 240
- (d) 900

(Ans : (b) 460)

**46.** In \_\_\_\_\_ method, the measures of GDP are calculated for adding total value of output produced by all activities during a year.

- (a) Expenditure
- (b) Income
- (c) Product
- (d) All the above

(Ans : (c) Product)

**47.** In \_\_\_\_\_ method, the measures of GDP are calculated by adding all the expenditures made in the economy.

- (a) Income
- (b) Expenditure
- (c) Product
- (d) All the above

(Ans : (b) Expenditure)

**48.** GDP indicates productive capacity for an \_\_\_\_\_.

- (a) economy
- (b) employment
- (c) income
- (d) population

(Ans : (a) economy)

## National Income

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**49. Transfer earnings is referred to \_\_\_\_\_.**

- (a) Pension payments to retired persons
- (b) Income paid as rent to landlord
- (c) An interest payments to a capitalist
- (d) Medical payments made to an employee of a company

**[Ans: (a) Pension payments to retired persons]**

**50. The value of net national product will be more than the value of net domestic product, if \_\_\_\_\_.**

- (a) imports exceed exports
- (b) exports exceed imports
- (c) exports equal imports
- (d) none of the above

**[Ans: (b) exports exceed imports]**

**51. Parallel economy refers to \_\_\_\_\_.**

- (a) agricultural economy
- (b) industries
- (c) banking activities
- (d) black money in circulation

**[Ans: (d) black money in circulation]**

**52. \_\_\_\_\_ is measured by using three method.**

- (a) National Income
- (b) Domestic Income
- (c) Per capita Income
- (d) Personal Income

**[Ans. (a) National Income]**

**53. Secondary sector is \_\_\_\_\_.**

- (a) Industry
- (b) Trade
- (c) Agriculture
- (d) Manufacture

**[Ans. (a) Industry]**

**54. Tertiary sector is \_\_\_\_\_.**

- (a) Industry
- (b) Banking
- (c) Agriculture
- (d) Import and Export

**[Ans. (b) Banking]**

**55. GDP = \_\_\_\_\_.**

- (a) GDP at Market Price + Net factor income from abroad
- (b)  $GDP = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$
- (c)  $GDP = GNP + \text{Net factor income from abroad}$
- (d) All the above

**[Ans. (c) GDP = GNP + Net factor income from abroad]**

**56. Disposable income = \_\_\_\_\_.**

- (a)  $GDP \text{ deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$
- (b) GNP - Depreciation allowance
- (c) GDP - Depreciation
- (d) Gross National Product

**[Ans. (d) Gross National Product]**

**(ii) Match the following and choose the correct answer by using codes given below.**

1. (A)	GDP by expenditure method at market prices	(i)	Personal income - Direct tax
(B)	Net domestic product	(ii)	GNP - Depreciation allowance
(C)	NNP	(iii)	$C + I + G + (X - M)$
(D)	Disposable income	(iv)	GDP - Depreciation

**Codes :**

- (a) A - (i), B - (ii), C - (iv), D - (iii)
- (b) A - (iii), B - (iv), C - (ii), D - (i)
- (c) A - (iv), B - (iii), C - (ii), D - (i)
- (d) A - (ii), B - (iii), C - (iv), D - (i)

**[Ans. (b) A - (iii), B - (iv), C - (ii), D - (i)]**

2. (A)	GDP deflator	(i)	$\frac{\text{National Income}}{\text{Population}}$
(B)	Per capita income	(ii)	Double counting
(C)	National income at constant price	(iii)	$\frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$
(D)	Product method	(iv)	National Income at current price $\div P_1/P_0$

**Codes :**

- (a) A - (iv), B - (iii), C - (ii), D - (i)
- (b) A - (ii), B - (iv), C - (i), D - (iii)
- (c) A - (iii), B - (ii), C - (iv), D - (i)
- (d) A - (iii), B - (i), C - (iv), D - (ii)

**[Ans. (d) A - (iii), B - (i), C - (iv), D - (ii)]**

**3.**

(A)	Product method	(i)	Closing stock - Opening stock
(B)	Income method	(ii)	Outlay method
(C)	Expenditure method	(iii)	Factor earning method
(D)	Change in stock	(iv)	Inventory method

**Codes :**

- (a) A - (ii), B - (i), C - (iv), D - (iii)  
 (b) A - (iii), B - (iv), C - (ii), D - (i)  
 (c) A - (iv), B - (iii), C - (ii), D - (i)  
 (d) A - (i), B - (ii), C - (iii), D - (iv)

**[Ans. (c) A - (iv), B - (iii), C - (ii), D - (i)]**

**4.**

(A)	Primary sector	(i)	Industry sector
(B)	Secondary sector	(ii)	GNP
(C)	Tertiary sector	(iii)	Agriculture
(D)	Largest figure	(iv)	Service sector

**Codes :**

- (a) A - (iv), B - (iii), C - (ii), D - (i)  
 (b) A - (iii), B - (i), C - (iv), D - (ii)  
 (c) A - (ii), B - (i), C - (iv), D - (iii)  
 (d) A - (iii), B - (iv), C - (i), D - (ii)

**[Ans. (b) A - (iii), B - (i), C - (iv), D - (ii)]**

**5.**

(A)	GNP	(i)	3 Types
(B)	Methods of Measuring National Income	(ii)	5 Types
(C)	Basic concepts	(iii)	Transfer payments
(D)	Difficulties in calculating national income	(iv)	GND, GDP, NNP & NDP

**Codes :**

- (a) A - (iv), B - (iii), C - (ii), D - (i)  
 (b) A - (iii), B - (iv), C - (i), D - (ii)  
 (c) A - (ii), B - (i), C - (iv), D - (iii)  
 (d) A - (iii), B - (ii), C - (iv), D - (i)

**[Ans. (b) A - (iii), B - (iv), C - (i), D - (ii)]**

**6.**

(A)	The financial year in India	(i)	Industrial
(B)	Tertiary Sector	(ii)	April 1 to March 31
(C)	NNP	(iii)	Service
(D)	Secondary Sector	(iv)	Net National Product

**Codes :**

- (a) A - (iv), B - (iii), C - (ii), D - (i)  
 (b) A - (ii), B - (iii), C - (iv), D - (i)  
 (c) A - (iv), B - (i), C - (iii), D - (ii)  
 (d) A - (iii), B - (ii), C - (iv), D - (i)

**[Ans. (b) A - (ii), B - (iii), C - (iv), D - (i)]**

**7.**

(A)	GNP	(i)	Agriculture
(B)	PQLI	(ii)	Income Method
(C)	Primary Sector	(iii)	Economic Welfare
(D)	Distribution side	(iv)	Gross National Product

**Codes :**

- (a) A - (ii), B - (iii), C - (iv), D - (i)  
 (b) A - (ii), B - (i), C - (iv), D - (iii)  
 (c) A - (iv), B - (iii), C - (i), D - (ii)  
 (d) A - (iii), B - (ii), C - (iv), D - (i)

**[Ans. (c) A - (iv), B - (iii), C - (i), D - (ii)]**

**(iii) State whether the Statements are true or false.**

- 1.** (i) **Production generates income.**  
 (ii) **Income generates expenditure.**  
 (a) Both (i) and (ii) are true  
 (b) Both (i) and (ii) are false  
 (c) (i) is true but (ii) is false  
 (d) (i) is false but (ii) is true

**[Ans. (a) Both (i) and (ii) are true]**

- 2.** (i) **National wealth is both man - made and nature's gift.**  
 (ii) **In a four sector economy, flow of income takes place between firms of and households.**

## National Income



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- (a) Both (i) and (ii) are true
- (b) Both (i) and (ii) are false
- (c) (i) is true but (ii) is false
- (d) (i) is false but (ii) is true

[Ans. (c) (i) is true but (ii) is false]

3. (i) Disposable income is the sum of the consumption and savings of an individuals after the payment of income tax.

- (ii) Per capita income is nothing but an annual average income of a person.

- (a) Both (i) and (ii) are true
- (b) Both (i) and (ii) are false
- (c) (i) is true but (ii) is false
- (d) (i) is false but (ii) is true

[Ans. (a) Both (i) and (ii) are true]

4. (i) The concept of national income was first introduced by Simon Kuznets.

- (ii) National income means the total value of all final goods and services produced.

- (a) Both (i) and (ii) are true
- (b) Both (i) and (ii) are false
- (c) (i) is true but (ii) is false
- (d) (i) is false but (ii) is true

[Ans. (a) Both (i) and (ii) are true]

5. Methods of measuring National Income

- (i) Product Method

- (ii) Revenue Method

- (a) Both (i) and (ii) are true
- (b) Both (i) and (ii) are false
- (c) (i) is true but (ii) is false
- (d) (i) is false but (ii) is true

[Ans. (c) (i) is true but (ii) is false]

6. Difficulties in measuring National Income.

- (i) Production for self-consumption and changing price.

- (ii) Statistical Problem

- (a) Both (i) and (ii) are true
- (b) Both (i) and (ii) are false
- (c) (i) is true but (ii) is false
- (d) (i) is false but (ii) is true

[Ans. (a) Both (i) and (ii) are true]

7. (i) In the calculation of national income output and value methods are the same
- (ii) National income is calculated according to output, income and expenditure methods are different.

- (a) Both (i) and (ii) are true
- (b) Both (i) and (ii) are false
- (c) (i) is true but (ii) is false
- (d) (i) is false but (ii) is true

[Ans. (c) (i) is true but (ii) is false]

- (iv) Which is the following is correctly matched.

1. (a)	Methods of measuring national income	-	Three Methods
(b)	Expenditure Method	-	Output Method
(c)	Income Method	-	Value Method
(d)	Product Method	-	Factor Earning Method

[Ans. (a) Methods of measuring national income - Three Methods]

2. (a)	Inputs	=	Factors of production
(b)	MP	=	FC - Indirect Taxes + Subsidies
(c)	FC	=	MP - Direct Taxes + Subsidies
(d)	GNP	=	C - I - G - (X - M)

[Ans. (a) Inputs = Factors of production]

- (v) Which is the following is Not correctly matched.

1. (a)	Net Domestic Product	=	GNP - Depreciation
(b)	Gross Domestic Product	=	C + I + G + (X - M)
(c)	Percapital Income	=	$\frac{\text{GDP}}{\text{Total Population}}$
(d)	GDP deflator	=	$\frac{\text{GDP}}{\text{Real GDP}}$

[Ans. (d) GDP deflator =  $\frac{\text{GDP}}{\text{Real GDP}}$ ]



2.	(a)	Disposal Income	=	Consumption – Saving
	(b)	Output	=	Income = Expenditure
	(c)	NNP	=	GNP – Depreciation allowance
	(d)	NNP at factor cost	=	NNP at marked price – Indirect taxes + Subsidies.

[Ans. (a) Disposal Income = Consumption – Saving]

### (vi) Assertion and Reason.

1. **Assertion (A) :** The expenditure method is also called as outlay method.

**Reason (R) :** The total expenditure incurred by the society in a particular year is added together.

- (a) Both A and R are true and R is the Correct explanation of A
- (b) Both A and R are true but R is not the correct explanation of A
- (c) A is the true but R is false
- (d) A is false but R is true

[Ans. (a) Both A and R are true and R is the Correct explanation of A]

2. **Assertion (A) :** Income method approaches national income from the distribution side.

**Reason (R) :** National income is calculated by adding all the expenditure generated in the economy.

- (a) Both A and R are true and R is the Correct explanation of A
- (b) Both A and R are true but R is not the correct explanation of A
- (c) A is the true but R is false
- (d) A is false but R is true

[Ans. (c) A is the true but R is false]

3. **Assertion (A) :** Product method measures the output of an economy.

**Reason (R) :** The value of the final product is derived by the summation of all the values added in the productive process.

- (a) Both A and R are true and R is the Correct explanation of A
- (b) Both A and R are true but R is not the correct explanation of A
- (c) A is the true but R is false
- (d) A is false but R is true

[Ans. (a) Both A and R are true and R is the Correct explanation of A]

### (vii) Pick the Odd one Out.

1. **Concepts of National Income**

- (a) Gross National Product
- (b) Gross Domestic Product
- (c) Net National Product
- (d) Output = Income = Expenditure

[Ans. (d) Output = Income = Expenditure]

2. **Methods of measuring National Income**

- (a) Product Method
- (b) Consumption Method
- (c) Income Method
- (d) Expenditure Method

[Ans. (b) Consumption Method]

3. **Per Capita Income**

- (a) The total income of a country
- (b) The average income of a person
- (c) National Income / Population
- (d) GDP / Population

[Ans. (a) The total income of a country]

4. **Labour Income**

- (a) Wages
- (b) Divident
- (c) Salaries
- (d) Fringe benefits

[Ans. (b) Divident]

5. **Capital Income**

- (a) Interest
- (b) Profit
- (c) Fringe benefit
- (d) Divident

[Ans. (c) Fringe benefit]

## PART - B

### ANSWER THE FOLLOWING QUESTIONS IN ONE OR TWO SENTENCES **2 MARKS**

1. Write the formula for calculating NDP.

**Ans.** Net Domestic Product = GDP – Depreciation.

## National Income



## Sura's - XII Std - Economics

**2. Write the formula for calculating per capita income.**

**Ans.** Per capita income =  $\frac{\text{National Income}}{\text{Population}}$

**3. What are the methods of measuring National Income?**

- Ans.** (i) Production or Value added method.  
 (ii) Income method or Factor Earning method.  
 (iii) Expenditure Method or outlay method.

**4. What do you mean by Real Income?**

- Ans.** (i) Nominal income is expressed in terms of a general price level of a particular year. In other words, real income is the buying power of nominal income.  
 (ii) The real income is derived as follows.

$$\text{National Income at constant price} = \frac{\text{National Income at current price}}{P_1/P_0}$$

**5. What do you mean by National Income?**

- Ans.** National Income means the total money value of all final goods and services produced in a country during a particular period of time.

**6. What is GDP? Write the formula.**

- Ans.** GDP is the total market value of final goods and services produced within the country during a year.

$$\text{GDP by expenditure methods at market prices} = C + I + G + (X - M)$$

**7. Write the formula for Personal Income.**

- Ans.** Personal Income = National Income – (Social Security contribution and undistributed corporate profit) + Transfer Payments.

**8. What do you mean by Disposable Income?**

- Ans.** Disposable Income is an individuals income after the payment of income tax. This is the amount available for households for consumption.

**9. Write a short note on Capital Gains.**

- Ans.** Capital gains arise when a capital asset such as a house, other property, stocks or shares, etc. is sold at higher price than was paid for it at the time of purchase. Capital gains are excluded from national income.

**10. How the economy is divided based on Social Accounting?**

- Ans.** (i) Firms  
 (ii) House holds  
 (iii) Government  
 (iv) Rest of the world  
 (v) Capital Sector

**11. What are the basic concepts for measuring national income?**

- Ans.** (i) Gross National Product (GNP)  
 (ii) Gross Domestic Product (GDP)  
 (iii) Net National Product (NNP)  
 (iv) Net Domestic Product (NDP)

**12. What is National Income?**

- Ans.** National Income is a measure of the total value of the goods and services (Output) produced by an economy over a period of time (normally a year).

**13. What is Gross National Product?**

- Ans.** (i) Gross National Product (GNP) is the total value of output (goods and services) produced and income received in a year by domestic residents of a country.  
 (ii) It includes profits earned from capital invested from abroad.

**14. What is Gross Domestic Product?**

- Ans.** (i) Gross Domestic Product (GDP) is the total value of output (goods and services) produced by the factors of production located within the country's boundary in a year.  
 (ii) The factors of production may be owned by anyone-citizens or foreigners.

$$\text{GDP} = \text{GNP} - \text{Net income earned from abroad}$$

**15. What is Net Domestic Product?**

- Ans.** Net Domestic Product (NDP) is also arrived from GDP by making adjustment with regard to depreciation

$$\text{GDP} - \text{Depreciation} = \text{NDP}$$

**16. What is the real national income?**

- Ans.** As the national income at 'constant price' is computed based on the real worth of the purchasing power of income it is called as 'real national income'

**17. What is Simple circular flow?**

**Ans.** Simple circular flow model is explained without the other components of national income namely savings or investment(I), public expenditure by government(G) and expenditure on net exports(X-M).

**18. What is Current prices?**

- Ans. (i)** 'Current Prices' is the ongoing market prices to compute the value of output.
- (ii)** The Current Price may always be higher than real value.

**PART - C****ANSWER THE FOLLOWING QUESTIONS IN ONE PARAGRAPH****3 MARKS****1. What are the difficulties in measuring National Income?**

- Ans. (i)** Transfer payments
- (ii)** Difficulties in assessing depreciation allowance.
- (iii)** Unpaid Services
- (iv)** Income from illegal activities.
- (v)** Production for self consumption and changing price.
- (vi)** Capital Gains
- (vii)** Statistical problems

**2. Write down the some of the statistical problems?**

- Ans. (i)** Accurate and reliable data are not adequate as farm output in the subsistence sector is not completely informed.
- (ii)** In animal husbandry there are no authentic production data available.
- (iii)** Different languages, customs, etc., also create problems in computing estimates.
- (iv)** People in India are indifferent to the official inquiries. They are in most cases non-cooperative also.
- (v)** Most of the statistical staff are untrained and inefficient.
- (vi)** Therefore, national income estimates in our country are not very accurate or adequate.

**3. What is Depreciation?**

- Ans. (i)** The Depreciation cost (or) capital consumption refers to all those expenditure undertaken by the producers to replace the worn out parts of the capital goods like Machinery, tools, equipments and buildings used up in the production of goods and services.
- (ii)** These expenditure should be excluded from the Gross output.

**4. What is Per capita income?**

- Ans. (i)** Per Capita income (or) output per person is an indicator to show the living standards of people in a country.
- (ii)** If real PCI increases.
- (iii)** It is considered to be an improvement in the overall living standard of people.
- (iv)** PCI is arrived at by dividing the GDP by the size of population.
- (v)** It is also arrived by making some adjustment with GDP

**(vi)**

$$PCI = \frac{GDP}{\text{Total number of people in a country}}$$

**or**

$$PCI = \frac{\text{National Income}}{\text{Total Population}}$$

**5. What is Output method? What is its major challenge?**

- Ans. (i)** In the output or product method, the measures of GDP are calculated by adding the total value of the output (of goods and services) produced by all activities during any time period, such as a year.
- (ii)** The major challenge of this method is the problem of double counting.

**6. What are the National Income identities?**

**Ans.** The followings are some of the National Income Identities:

$$NNP = GNP - \text{Depreciation}$$

$$NNI = NNP - \text{Indirect taxes}$$

## National Income



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PI	=	NNI – Retained earnings, corporate taxes and interest on public debt
PDI	=	PI – Personal taxes
Where,		
GNP	=	Gross National Product
NNP	=	Net National Product
NNI	=	Net National Income
PI	=	Personal Income
PDI	=	Personal Disposable Income

### PART - D

#### ANSWER THE FOLLOWING QUESTIONS IN ONE PAGE

**5 MARKS**

#### 1. Discuss the method measuring the National Income by Income Method.

- Ans. (i)** Income method approaches National Income from the distribution side.
- (ii)** National income is calculated by adding up all the incomes generated in the course of producing national product.
- (iii)** Factor incomes are grouped under labour income, capital income and mixed income.
- (iv)** 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
$\pi$	=	profits
R	=	Exports
P	=	Imports

- (v)** This method is adopted for estimating the contributions of the remaining sector, viz.
- (vi)** Data on income from abroad (the rest of) the world sector or foreign sector are obtained from the account of the balance of payment of the country.

#### Items not to be included :

- (1)** Transfer payments are not to be included in estimation of national income.
- (2)** The receipts from the sale of second hand goods should not be treated as part of national income.

#### Items to be included :

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

#### 2. Discuss the methods of measuring the National Income by Product Method.

##### Ans. Product Method :

- (i)** Product method measures the output of the country. It is also called inventory method.
- (ii)** It is obtained for the entire economy during a year.
- (iii)** The value obtained is actually the GNP at market prices.
- (iv)** Care must be taken to avoid double counting.
- (v)** The value of the final product is derived by the summation of all the values added in the productive process.
- (vi)** To avoid double counting either the value of the final output should be taken in to the estimate of GNP.
- (vii)** In India the gross value of the farm output is obtained as follows.
  - (1)** The output of each crop is measured by multiplying the area shown by the average yield per hectare.
  - (2)** The total output of each commodity is valued at market prices.
  - (3)** The net value of the agriculture output is measured by making deductions for the cost of seed, manures and fertilisers etc.,



- (4) Net value of the output in these sectors is derived by making deductions for cost of materials used in the process of production and depreciation allowances etc., from gross value of output.
- (5) For example, value of cotton enters value of yarn as cost and value of yarn in cloth and that of cloth in garments at every stage value added only should be calculated.

**3. Discuss the limitations of National Income as an index of economic welfare.**

**Ans. (i)** The economic welfare depends upon the composition of a goods and services provided.

- (ii) Higher GDP with greater environmental hazards such as air, water and soil pollution will be little economic welfare.
- (iii) The production of war goods will show the increase in national output but not welfare.
- (iv) An increase in per capita income may be due to employment of women and children or forcing workers to work for long hours. But it will not promote economic welfare.
- (v) Therefore the physical quality of life index (PQLI) is considered a better indicator of economic welfare.



CHAPTER

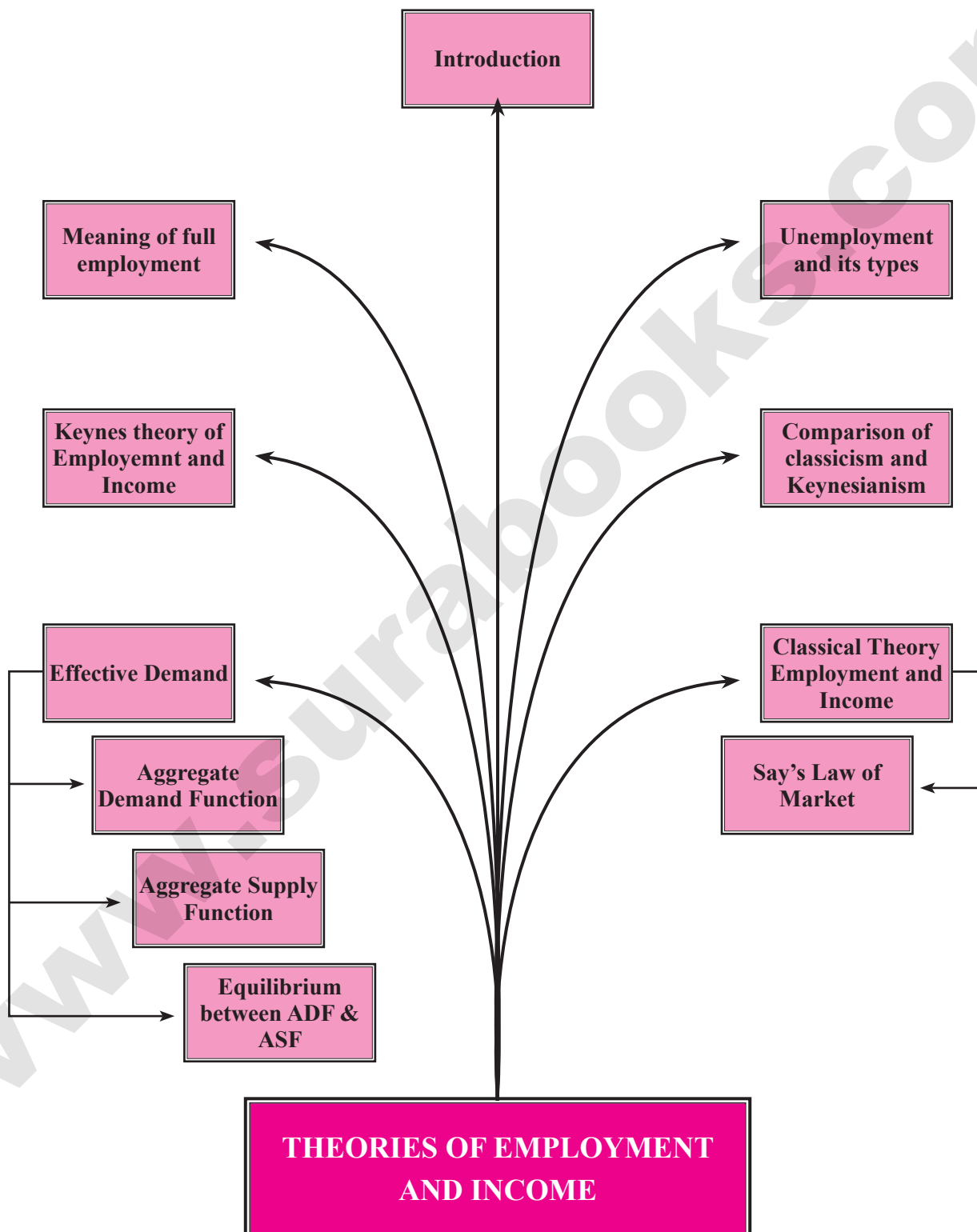
3

# THEORIES OF EMPLOYMENT AND INCOME

## CHAPTER SNAPSHOT

- |       |   |       |   |
|-------|---|-------|---|
| 3.1   | Introduction                            | 3.6   | Effective Demand                          |
| 3.2   | Meaning of full Employment              | 3.6.1 | Aggregate Demand Function                 |
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| 3.4   | Classical Theory of Employment          | 3.6.3 | Equilibrium between ADF and ASF           |
| 3.4.1 | Say's Law of Market                     | 3.7   | Comparison of Classicism and Keynesianism |
| 3.5   | Keynes' Theory of Employment and Income |       |   |

# Concept Map



## Important Terms

<b>Full employment</b>	: Full employment means persons who are willing to work and able to work must have employment or a job.
<b>Seasonal unemployment</b>	: Unemployment that occurs during certain seasons is called seasonal unemployment.
<b>Frictional unemployment</b>	: Frictional unemployment arises due to imbalance between supply of labour and demand for labour.
<b>Technical unemployment</b>	: Modern technology being capital intensive requires less labourers and contributes to technological unemployment.
<b>Structural unemployment</b>	: Structural unemployment is due to drastic change in the structure of the society. For eg. rise in demand for mobile phones has adversely affected the demand for cameras, tape recorders etc.
<b>Disguised unemployment?</b>	: Disguised unemployment occurs when more people are doing work than what is actually required.
<b>Effective Demand</b>	: Effective demand denotes money actually spent by the people on products of industry.
<b>Aggregate Demand Function (ADF)</b>	: The aggregate demand is the amount of money which entrepreneurs expect to get by selling the output produced by the number of labourers employed.
<b>Aggregate Supply Function</b>	: Aggregate supply function is an increasing function of the level of employment.
<b>Frictional unemployment</b>	: Frictional unemployment arises due to imbalance between supply of labour and demand for labour.
<b>Disguised unemployment</b>	: Disguised unemployment occurs when more people are doing work than what is actually required.
<b>Unemployment</b>	: When there are people, who are willing to work and able to work but cannot find suitable jobs.
<b>Under employment</b>	: Resources are not fully utilized.
<b>Effective demand</b>	: The amount of money which entrepreneurs expect to get by the output product.
<b>Aggregate demand</b>	: The amount that households, firms, the governments and the foreign purchasers would like to spend on domestic output.
<b>Aggregate Supply</b>	: The value of total output of goods and services produced in an economy in a year.
<b>Marginal propensity to consume.</b>	: The additional consumption due to an additional unit of income.
<b>Marginal Efficiency of Capital</b>	: The expected rate of return over costs of a new capital goods.
<b>Money supply</b>	: The total stock of money circulating in an economy.

## Definitions

<b>Keynes theory of employment</b>	: “Effective demand signifies the money spent on consumption of goods and services and on investment. The total expenditure is equal to the national income which is equivalent to the national output.
<b>Full employment</b>	: Full employment refers to a situation in which every able bodied person who is willing to work at the prevailing wage rate is employed.
<b>Definition of Unemployment</b>	: According to Wonnacott. P and Wannacott. R “Unemployed people suffer the demoralization, frustration and loss of self respect that come from enforced idleness”.
<b>Definition of full employment by Lerner</b>	: Lerner defines full employment as “That the level of employment at which any further increase in spending would result in an inflationary spiral of wages and prices”.
<b>Classical theory of employment</b>	: 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 an economy as a whole, therefore total production equals total income”.
<b>Theory of Employment and Income</b>	: According to Keynes, the factors of production such as capital goods, supply of labour, technology and efficiency of labour remain unchanged while determining the level of employment.
<b>Effective Demand by Keynes</b>	: According to Keynes “Effective demand signifies the money spent on consumption of goods and services and on investment. The total expenditure is equal to the national income, which is equivalent to the national output”.

## Formulae

S. NO.	TO CALCULATE	FORMULA
1.	Effective Demand	$ED = Y = C + I = \text{Output} = \text{Employment}$
2.	Aggregate Demand	$AD = C + I + G + (X - M)$
3.	Aggregate Supply	$\text{Aggregate Supply} = C + S + T + RF = \text{Aggregate income generated in the economy}$

## Theories of Employment and Income



## Sura's - XII Std - Economics

## MODEL QUESTIONS

## PART - A

## MULTIPLE CHOICE QUESTIONS 1 MARK

1. Every able bodied person who is willing to work at the prevailing wage rate is employed called as \_\_\_\_\_.

(a) Full employment  
(b) Under employment  
(c) Unemployment  
(d) Employment opportunity

[Ans. (a) Full employment]

2. Structural unemployment is a feature in a \_\_\_\_\_.

(a) Static society (b) Socialist society  
(c) Dynamic society (d) Mixed economy

[Ans. (c) Dynamic society]

3. In disguised unemployment, the marginal productivity of labour is \_\_\_\_\_.

(a) Zero (b) One  
(c) Two (d) Positive

[Ans. (a) Zero]

4. The main contention of the Classical Economic Theory is \_\_\_\_\_.

(a) Under employment  
(b) Economy is always in the state of equilibrium  
(c) Demand creates its supply  
(d) Imperfect competition

[Ans. (b) Economy is always in the state of equilibrium]

5. J.B. Say is a \_\_\_\_\_.

(a) Neo Classical Economist  
(b) Classical Economist  
(c) Modern Economist  
(d) New Economist

[Ans. (b) Classical Economist]

6. According to Keynes, which type of unemployment prevails in capitalist economy?

(a) Full employment  
(b) Voluntary unemployment  
(c) Involuntary unemployment  
(d) Under employment

[Ans. (d) Under employment]

7. The core of the classical theory of employment is \_\_\_\_\_.

(a) Law of Diminishing Return  
(b) Law of Demand  
(c) Law of Markets  
(d) Law of Consumption

[Ans. (c) Law of Markets]

8. Keynes attributes unemployment to \_\_\_\_\_.

(a) A lack of effective supply  
(b) A lack of effective demand  
(c) A lack of both  
(d) None of the above

[Ans. (b) A lack of effective demand]

9. \_\_\_\_\_ Flexibility brings equality between saving and investment.

(a) Demand (b) Supply  
(c) Capital (d) Interest

[Ans. (d) Interest]

10. \_\_\_\_\_ theory is a turning point in the development of modern economic theory.

(a) Keynes' (b) Say's  
(c) Classical (d) Employment

[Ans. (a) Keynes']

11. The basic concept used in Keynes Theory of Employment and Income is \_\_\_\_\_.

(a) Aggregate demand  
(b) Aggregate supply  
(c) Effective demand  
(d) Marginal Propensity Consume

[Ans. (c) Effective demand]

12. The component of aggregate demand is \_\_\_\_\_.

(a) Personal demand  
(b) Government expenditure  
(c) Only export  
(d) Only import

[Ans. (b) Government expenditure]

13. Aggregate supply is equal to \_\_\_\_\_.

(a)  $C + I + G$   
(b)  $C + S + G + (x - m)$   
(c)  $C + S + T + (x - m)$

(d)  $C + S + T + R_f$  [Ans. (d)  $C + S + T + R_f$ ]

**14. Keynes theory pursues to replace laissez faire by \_\_\_\_\_.**

- (a) No government intervention
- (b) Maximum intervention
- (c) State intervention in certain situation
- (d) Private sector intervention

**[Ans. (c) State intervention in certain situation]**

**15. In Keynes theory of employment and income, \_\_\_\_\_ is the basic cause of economic depression.**

- (a) Less production
- (b) More demand
- (c) Inelastic supply
- (d) Less aggregate demand in relation to productive capacity.

**[Ans. (d) Less aggregate demand in relation to productive capacity.]**

**16. Classical theory advocates \_\_\_\_\_.**

- (a) Balanced budget
- (b) Unbalanced budget
- (c) Surplus budget
- (d) Deficit budget

**[Ans. (a) Balanced budget]**

**17. Keynes theory emphasized on \_\_\_\_\_ equilibrium.**

- (a) Very short run
- (b) Short run
- (c) Very long run
- (d) Long run

**[Ans. (b) Short run]**

**18. According to classical theory, rate of interest is a reward for \_\_\_\_\_.**

- (a) Investment
- (b) Demand
- (c) Capital
- (d) Saving

**[Ans. (d) Saving]**

**19. In Keynes theory , the demand for and supply of money are determined by \_\_\_\_\_.**

- (a) Rate of interest
- (b) Effective demand
- (c) Aggregate demand
- (d) Aggregate supply

**[Ans. (a) Rate of interest]**

**20. Say's law stressed the operation of \_\_\_\_\_ in the economy.**

- (a) Induced price mechanism
- (b) Automatic price mechanism
- (c) Induced demand
- (d) Induced investment

**[Ans. (b) Automatic price mechanism]**

## PART - B

**ANSWER THE FOLLOWING QUESTIONS IN ONE OR TWO SENTENCES**

**2 MARKS**

**21. Define full employment.**

**Ans.** Full employment means that persons who are willing to work and able to work must have employment or a job.

**22. What is the main feature of rural unemployment?**

**Ans.** The major feature of rural unemployment is the existence of unemployment in the form of disguised unemployment and seasonal unemployment.

**23. Give short note on frictional unemployment.**

**Ans. (i)** Frictional unemployment arises due to imbalance between supply of labour and demand for labour.

**(ii)** The persons who lose jobs and in search of jobs are also included under frictional unemployment.

**24. Give reasons for labour retrenchment at present situation.**

**Ans. (i)** Employers must classify what the reason is for the possible retrenchment during the consultation process.

**(ii)** Israelstam explains that employers have to consult with labour unions as the representatives of employers in cases where there is unionisation.

**25. List out the assumptions of Say's law.**

**Ans. (i)** No single buyer or seller of commodity or an input can effect price.

**(ii)** There will be a perfect competition in labour and product market.

**(iii)** Money acts only as a medium of exchange.

**(iv)** Long-run analysis.

**26. What is effective demand?**

**Ans. (i)** Effective demand denotes money actually spend by the people on products of Industry.

**(ii)** The money which entrepreneurs receive is paid in the form of rent, wages, interest and profit.

## Theories of Employment and Income



## Sura's - XII Std - Economics

**27. What are the components of aggregate supply?**

**Ans.** The components of aggregate supply are

- (i) Aggregate (desired) consumption expenditure (C).
- (ii) Aggregate (desired) savings (S).
- (iii) Net tax payments (T).
- (iv) Personal desired transfer payments to the foreigners (RF).

**PART - C**
**ANSWER THE FOLLOWING QUESTIONS IN ONE PARAGRAPH**
**3 MARKS****28. Explain the following in short**

- (i) Seasonal unemployment
- (ii) Frictional unemployment
- (iii) Educated unemployment

**Ans. (i) Seasonal unemployment :**

- (1) This type of unemployment occurs during certain seasons of the year.
- (2) In agriculture and agro based industries like sugar production activities are carried out only in some seasons.

**(ii) Frictional unemployment (Temporary unemployment) :**

- (1) Frictional unemployment arises due to imbalance between supply of labour and demand for labour.
- (2) The persons who lose jobs and in search of jobs are also included under frictional unemployment

**(iii) Educated unemployment :**

- (1) Sometimes educated people are under employment or unemployed when qualification does not match the job.
- (2) Faulty education system, Lack of Employable skills, mass student turnout etc., jobs are highly responsible for educated unemployment in India.

**29. According to classical theory of employment, how wage reduction solve the problem of unemployment diagrammatically explain.**

**Ans. (i)** During the days of the great depression Prof. A.C. Pigou supplied the most logical part of unemployment.

- (ii) According to Pigou, under free competition the tendency of the economic system is automatically provide full employment in the labour market.
- (iii) Unemployment results from rigidity in the wage structure and state interference in the market economy.
- (iv) According to Prof. Pigou if all government interferences are removed and forces of competition are allowed to work freely, the market induced changes of wage rates will lead to full employment.
- (v) Prof. Pigou illustrated the following equation.

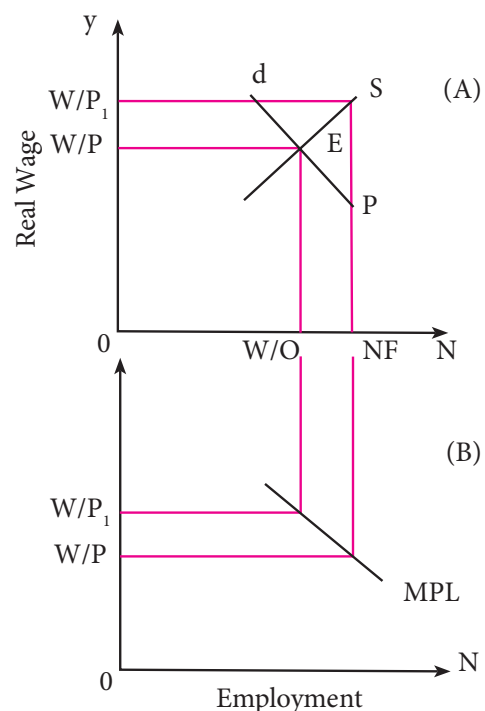
$$N = q \cdot Y/W$$

N = No. of workers, Q = Fraction of income earned as wages and salaries.

Y = Full employment level of national income.

W = Wage rate

- (vi) If Y is given, N can be increased only by reduction in W.
- (vii) This can be explained with following figure.

**Reduced wage rate increases employment**


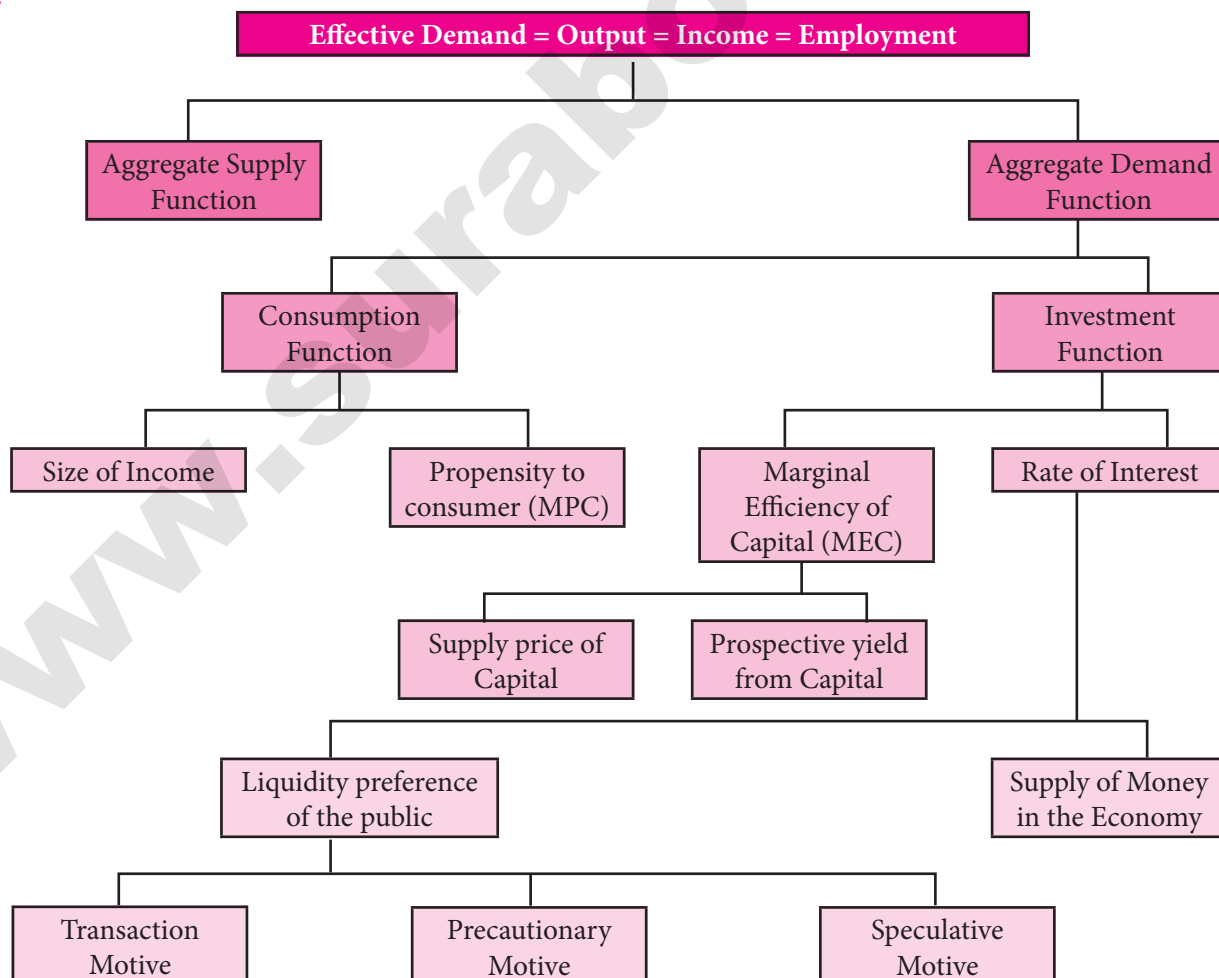
- (viii) S - is the supply curve of labour.
- (ix) D - is the demand curve of labour.
- (x) The intersection of two curves shows full employment at E.
- (xi) If the wage is reduced to the level of  $W/P$  then unemployment disappears and attain full employment.
- (xii) This is shown in panel (B).
- (xiii)  $MP_1$  is the Marginal product of labour curve which slopes downward as more labour is employed.
- (xiv) The full employment level is reached when the wage rate falls from  $W/P_1$  to  $W/P$  level.
- (xv) There is a cut in the money wage, the real wage is also reduced to the same extent which reduces unemployment and ultimately brings full employment.

**30. Write short note on the implications of Say's law.**

- Ans. (i)** There is no possibility for over production or unemployment.
- (ii)** If there exist unutilized resources in the economy it is profitable to employ them upto the point of full employment.
- (iii)** As automatic price mechanism operates in the economy, there is no need for government intervention.
- (iv)** Interest flexibility brings about equality between saving and investment.
- (v)** Money performs only the medium of exchange function in the economy, as people will not hold idle money.

**31. Explain Keynes' theory in the form of flow chart.**

**Ans.**



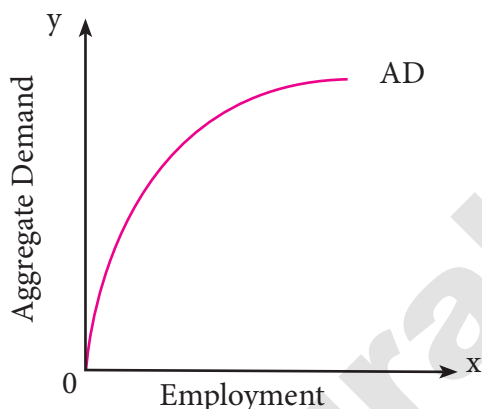
## Theories of Employment and Income

## Sura's - XII Std - Economics

**32. What do you mean by aggregate demand? Mention its components.**

- Ans. (i)** In the Keynesian model, output is determined mainly by aggregate demand.
- (ii)** The aggregate demand is the amount of money which entrepreneurs expect to get by selling the output produced by the number of labourers employed.
- (iii)** Aggregate demand has the following four components.
- (1)** Consumption Demand
  - (2)** Investment Demand
  - (3)** Government Expenditure and
  - (4)** Net Export (export - import)

$$AD = C + I + G + (X - M)$$



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

- Ans. (i)** Aggregate supply function is an increasing function of the level of employment.
- (ii)** Aggregate supply refers to the value of total output of goods and services produced in an economy in a year.

**The components of aggregate supply are :**

- (i)** Aggregate desired consumption expenditure (C)
- (ii)** Aggregate (desired) private savings (S)
- (iii)** Net tax payments (T)
- (iv)** Personal (desired) transfer payments to the foreigners (Rf)

$$\text{Aggregate Supply} = C + S + T + RF = \text{Aggregate income generated in the economy}$$



**Diagram Explanation :**

- (i)** Z curve is linear where money wages remains fixed; Z curve is non-linear since wage rate increases with employment.
- (ii)** When full employment level of NF is reached it is impossible to increase output by employing more men.
- (iii)** The slope of the aggregate supply curve depends on the relation between the employment and productivity.
- (iv)** Thus aggregate supply is an important factor in determining the level of economic activity.

**34. Write any five differences between Classism and Keynesianism.**

**Ans.**

S. No.	Keynesianism	Classicism
1.	Saving is a vice	Saving is a social virtue
2.	Short-run equilibrium	Long-run equilibrium
3.	Macro approach to national problems	Micro foundation to Macro problems
4.	Capitalism has inherent contradictions	Capitalism is well and good
5.	Rate of interest is a flow	Rate of interest is a stock

**PART - D****ANSWER THE FOLLOWING QUESTIONS IN ONE PAGE****5 MARKS****35. Describe the types of unemployment.****Ans.** Types of Unemployment are,

- (i) Cyclical Unemployment
- (ii) Seasonal Unemployment
- (iii) Frictional Unemployment
- (iv) Educated Unemployment
- (v) Technical Unemployment
- (vi) Structural Unemployment
- (vii) Disguised Unemployment

**(i) Cyclical Unemployment :**

- (1) This unemployment exists during the downturn phase of Trade cycle in the economy.
- (2) It is caused by deficiency of effective demand.

**(ii) Seasonal Unemployment :**

- (1) This type of unemployment occurs during certain seasons of the year.
- (2) In agriculture and agro based industries like sugar, production activities are carried out only in some seasons.

**(iii) Frictional Unemployment :**

- (1) Frictional unemployment arises due to imbalance between supply of labour and demand for labour.
- (2) The persons who lose jobs and in search of jobs are also included under frictional unemployment.

**(iv) Educated Unemployment :**

- (1) Sometimes educated people are under employed or unemployed when qualification does not match the job.
- (2) Faulty education system, Lack of employable skills, mass student turnout etc., are highly responsible for educated unemployment in India.

**(v) Technical Unemployment :**

- (1) Modern technology being capital intensive requires less labourers and contributes to technological unemployment.

- (2) Labour saving devices are responsible for technological unemployment.

**(vi) Structural Unemployment :**

- (1) Structural unemployment is due to drastic change in the structure of the society.
- (2) For example rise in demand for mobile phone has adversely affected the demand for cameras, tape recorders etc.

**(vii) Disguised unemployment :**

Disguised unemployment occurs when more people are working than what is actually required.

**36. Critically explain Say's law of market.**

**Ans.** 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.

**Criticisms of say's law :**

The following are the criticisms against say's law.

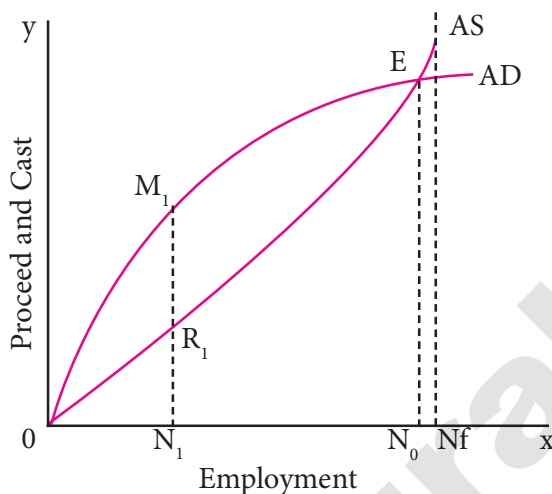
- (i) According to Keynes, supply does not create its demand. It is not applicable where demand does not increase as much as production increases.
- (ii) Automatic adjustment process will not remove unemployment.
- (iii) Money is not neutral. Individuals hold money for unforeseen contingencies while businessmen keep cash reserve for future activities.
- (iv) Say's law is based on the proposition that supply creates its own demand and there is no over production.
- (v) Keynes regards full employment as a special case because there is under employment in capitalist economies.
- (vi) The need for state intervention arises in the case of general over production and mass unemployment.

## Theories of Employment and Income

## Sura's - XII Std - Economics

**37. Narrate the equilibrium between ADF and ASF with diagram.**

- Ans. (i)** Under the Keynes theory of employment, a simple two sector economy consisting of the households sector and the business sector is taken to understand the equilibrium between ADF and ASF.
- (ii)** All the decisions concerning consumption expenditure are taken by the individual households, while the business firms take decisions concerning investment.
- (iii)** It is also assumed that consumption function is linear and planned investment is autonomous.



There are two approaches to determination of the equilibrium level of income in Keynesian theory these are :

1. Aggregate demand - Aggregate supply approach
2. Saving - Investment approach

**Diagram explanation :**

- (i)** In the figure, the aggregate demand and aggregate supply reach equilibrium at point - E.
- (ii)** The employment level is  $N_0$  at that point.
- (iii)** At  $ON_1$  employment, the aggregate supply is  $N_1 R_1$
- (iv)** They are able to produce  $M_1 N_1$
- (v)** The expected level of profit is  $M_1 R_1$
- (vi)** To attain this level of profit, entrepreneurs will employ more labourers.
- (vii)** The tendency to employ more labour will stop once they reach point E.
- (viii)** At all levels of employment beyond  $ON_0$ , the aggregate demand curve is below the aggregate supply curve indicating loss to the producers.
- (ix)** Thus the concept of effective demand becomes significant in explaining the under employment equilibrium.

**38. Explain the differences between Classical theory and Keynes theory.**

**Ans.**

S. No.	Keynesianism	Classicism
1.	Short-run equilibrium	Long-run equilibrium
2.	Saving is a vice	Saving is a social virtue
3.	The function of money is a medium of exchange on the one side and a store of value on the other side.	The function of money is to act as a medium of exchange.
4.	Macro approach to national problems	Micro foundation to Macro problems
5.	State intervention is advocated	Champions of Laissez fair policy.
6.	Applicable to all situations. Full employment and less than full employment.	Applicable only to the full employment situation.
7.	Capitalism has inherent contradictions	Capitalism is well and good
8.	Budgeting should be adjusted to the requirements of economy.	Balanced budget.



9.	The equality between saving and investment is advanced through changes in income.	The equality between saving and investment is achieved through changes of rate of interest.
10.	Rate of interest is determined by the demand for and supply of money.	Rate of interest is determined by saving and investment.
11.	Rate of interest is a flow	Rate of interest is a stock.
12.	Demand creates its own supply.	Supply creates its own demand.
13.	Rate of interest is a reward for parting with liquidity.	Rate of interest is a reward for savings.

## ADDITIONAL QUESTIONS AND ANSWERS

### PART - A

#### MULTIPLE CHOICE QUESTIONS 1 MARK

##### (i) Choose the Correct Option.

1. Every able bodied person who is willing to work at the prevailing wage rate but not employed is called \_\_\_\_\_

(a) Full employment  
(b) Under employment  
(c) Unemployment  
(d) Employment opportunity

[Ans. (c) Unemployment]

2. Interest flexibility brings equality between \_\_\_\_\_.

(a) Income and consumption  
(b) Saving and investment  
(c) Demand and supply  
(d) Labour and capital

[Ans. (b) Saving and investment]

3. 'Full employment as the absence of involuntary unemployment' was said by \_\_\_\_\_.

(a) J.B. Say (b) Ricardo  
(c) J.M. Keynes (d) Adamsmith

[Ans. (c) J.M. Keynes]

4. Full employment as "that level of employment at which any further increase in spending would resort in an inflationary spiral of wages and prices" who quote this above concept.

(a) J.M. Keynes (b) Lerner  
(c) J.B. Say (d) All the above

[Ans. (b) Lerner]

5. Rate of interest is a stock

(a) Socialism (b) Keynesianism  
(c) Classicism (d) All the above

[Ans. (c) Classicism]

6. 'Demand creates its own supply' - who said this.

(a) Socialism (b) Keynesianism  
(c) Classicism (d) Both 'b' and 'c'

[Ans. (b) Keynesianism]

7. 'Rate of interest is a reward for parting with liquidity' - Its belongs to which theory.

(a) Keynesianism (b) Socialism  
(c) Both 'a' and 'b' (d) Classicism

[Ans. (a) Keynesianism]

8. Every economy in the world aims at attaining the level of \_\_\_\_\_.

(a) Full employment  
(b) Unemployment  
(c) Seasonal unemployment  
(d) Educated unemployment

[Ans. (a) Full employment]

9. A person receives his income from \_\_\_\_\_.

(a) production  
(b) purchase  
(c) sales  
(d) None of the above

[Ans. (a) production]

10. Total production equals to \_\_\_\_\_.

(a) total income (b) gross income  
(c) net income (d) total sales

[Ans. (a) total income]

## Theories of Employment and Income



## Sura's - XII Std - Economics

- 11.** Keynes theory of employment and income is the principle of \_\_\_\_\_.  
 (a) long run (b) short run  
 (c) capital (d) production  
**[Ans. (b) short run]**
- 12.** Keynes theory of employment and income is the principle of \_\_\_\_\_.  
 (a) Reflective demand  
 (b) Market demand  
 (c) Effective demand  
 (d) Individual demand  
**[Ans. (c) Effective demand]**
- 13.** \_\_\_\_\_ was one of the most influential economists of the 20th Century.  
 (a) J.B. Say  
 (b) Marshall  
 (c) John Maynard Keynes  
 (d) Adamsmith  
**[Ans. (c) John Maynard Keynes]**
- 14.** Effective demand equals to \_\_\_\_\_.  
 (a) National income (b) Gross income  
 (c) Total income (d) Net income  
**[Ans. (a) National income]**
- 15.** \_\_\_\_\_ is only a medium of exchange.  
 (a) Money (b) Goods  
 (c) Labour (d) Service  
**[Ans. (a) Money]**
- 16.** \_\_\_\_\_ is homogeneous  
 (a) Goods (b) Product  
 (c) Labour (d) Money  
**[Ans. (c) Labour]**
- 17.** Wages and prices are \_\_\_\_\_.  
 (a) flexible (b) related  
 (c) homogeneous (d) none of the above  
**[Ans. (a) flexible]**
- 18.** Capital stock and technological knowledge are given in the \_\_\_\_\_.  
 (a) medium run (b) long run  
 (c) short run (d) none of the above  
**[Ans. (c) short run]**
- 19.** Say's law of market is the core of the \_\_\_\_\_ theory of employment.  
 (a) classical (b) economical  
 (c) environmental (d) proportional  
**[Ans. (a) classical]**
- 20.** Supply creates its own \_\_\_\_\_.  
 (a) demand (b) production  
 (c) money (d) sales  
**[Ans. (a) demand]**
- 21.** \_\_\_\_\_ price is the total amount of money.  
 (a) Aggregate supply  
 (b) Aggregate demand  
 (c) Aggregate income  
 (d) Aggregate price  
**[Ans. (a) Aggregate supply]**
- 22.** The entrepreneur would be encouraged to employ \_\_\_\_\_.  
 (a) more labour (b) more income  
 (c) more product (d) more capital  
**[Ans. (a) more labour]**
- 23.** \_\_\_\_\_ has inherent contradictions.  
 (a) Socialism (b) Traditional  
 (c) Capitalism (d) Economy  
**[Ans. (c) Capitalism]**
- 24.** Based on Keynesianism \_\_\_\_\_ is vice.  
 (a) Saving (b) Production  
 (c) Consumption (d) None of these  
**[Ans. (a) Saving]**
- 25.** \_\_\_\_\_ returns takes place as more workers are employed.  
 (a) Law of diminishing marginal  
 (b) Law of equi demand  
 (c) Law of demand  
 (d) None of the above  
**[Ans. (a) Law of diminishing marginal]**
- 26.** \_\_\_\_\_ are classical economist.  
 (a) Adamsmith  
 (b) J.B. Say  
 (c) J.M. Keynes and Marshall  
 (d) Both 'a' and 'b'  
**[Ans. (d) Both 'a' and 'b']**
- 27.** \_\_\_\_\_ attributes unemployment to a lack of effective demand.  
 (a) J.M. Keynes (b) J.B. Say  
 (c) Wonnacott (d) Marshall  
**[Ans. (a) J.M. Keynes]**

**28.** J.B. Say is a \_\_\_\_\_ economist.

- (a) French (b) British  
(c) Dutch (d) Indian

[Ans. (a) French]

**29.** J.M. Keynes is one of the greatest and most influential economist in \_\_\_\_\_ century.

- (a) 17<sup>th</sup> (b) 18<sup>th</sup> (c) 19<sup>th</sup> (d) 20<sup>th</sup>

[Ans. (d) 20<sup>th</sup>]

**30.** Keynesian theory is based on \_\_\_\_\_ equilibrium.

- (a) Very short - run equilibrium  
(b) Short run - equilibrium  
(c) Long run - equilibrium  
(d) Very long run - equilibrium

[Ans. (b) Short run - equilibrium]

**31.** Classicism theory is based on \_\_\_\_\_ equilibrium.

- (a) Very short run (b) Short run  
(c) Long run (d) very long run

[Ans. (c) Long run]

**32.** \_\_\_\_\_ refers to persuasion.

- (a) Growth rate (b) Minimization  
(c) Optimization (d) Moral Suasion

[Ans. (d) Moral Suasion]

**33.** \_\_\_\_\_ started functioning from 1st July 1963.

- (a) ARDC (b) IMF (c) RBI (d) SBI

[Ans. (a) ARDC]

**34.** \_\_\_\_\_ was set up in July 1982.

- (a) ARDC (b) NABARD  
(c) ICICI (d) Indian Bank

[Ans. (b) NABARD]

**35.** J.M. Keynes was born in \_\_\_\_\_.

- (a) 1885 (b) 1884  
(c) 1883 (d) 1882

[Ans. (c) 1883]

**36.** Keynes book, "The General Theory of Employment, interest and Money" published in \_\_\_\_\_.

- (a) 1932 (b) 1930  
(c) 1933 (d) 1936

[Ans. (d) 1936]

**(ii) Match the following and choose the correct answer by using codes given below.**

**1.**

(A)	Full employment	(i)	Types of Unemployment
(B)	Supply creates its own demand	(ii)	Lerner
(C)	An enquiry into the nature and causes of wealth of nation	(iii)	J.B. Say
(D)	Educated Unemployment	(iv)	Adam smith

**Codes :**

- (a) A - (ii), B - (iii), C - (iv), D - (i)  
(b) A - (iv), B - (iii), C - (ii), D - (i)  
(c) A - (ii), B - (i), C - (iv), D - (iii)  
(d) A - (iii), B - (i), C - (iv), D - (ii)

[Ans. (a) A - (ii), B - (iii), C - (iv), D - (i)]

**2.**

(A)	Cyclical Unemployment	(i)	Occur drastic change in the structure of the society.
(B)	Seasonal Unemployment	(ii)	Occur qualification does not match the job.
(C)	Educated Unemployment	(iii)	Caused by deficiency of effective demand
(D)	Structural Unemployment	(iv)	During certain seasons of the year.

**Codes :**

- (a) A - (iii), B - (iv), C - (ii), D - (i)  
(b) A - (i), B - (ii), C - (iii), D - (iv)  
(c) A - (ii), B - (iii), C - (iv), D - (i)  
(d) A - (iv), B - (iii), C - (ii), D - (i)

[Ans. (a) A - (iii), B - (iv), C - (ii), D - (i)]

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**3.**

(A)	AD	(i)	Aggregate Supply Function
(B)	Aggregate Supply	(ii)	$C + I + G + (X - M)$
(C)	ED	(iii)	$C + S + T + RF =$ Aggregate income generated in the economy
(D)	ASF	(iv)	$Y = C + I = \text{Output} = \text{Employment}$

**Codes :**

- (a) A - (iii), B - (iv), C - (ii), D - (i)  
 (b) A - (i), B - (ii), C - (iii), D - (iv)  
 (c) A - (iv), B - (iii), C - (ii), D - (i)  
 (d) A - (ii), B - (iii), C - (iv), D - (i)

[Ans. (c) A - (iv), B - (iii), C - (ii), D - (i)]

**4.**

(A)	Keynes' book	(i)	ADF
(B)	Rate of interest	(ii)	'The general theory of employment interest and money'
(C)	Aggregate demand function	(iii)	Cambridge
(D)	John Maynard Keynes	(iv)	Reward for parting with liquidity.

**Codes :**

- (a) A - (i), B - (ii), C - (iii), D - (iv)  
 (b) A - (ii), B - (iv), C - (i), D - (iii)  
 (c) A - (iii), B - (iv), C - (ii), D - (i)  
 (d) A - (iv), B - (iii), C - (ii), D - (i)

[Ans. (b) A - (ii), B - (iv), C - (i), D - (iii)]

**5.**

(A)	Liquidity preference	(i)	ASF
(B)	Aggregate supply function	(ii)	Day today expenditure
(C)	MEC	(iii)	Keynes
(D)	Transaction motive	(iv)	Rate of interest

**Codes :**

- (a) A - (iii), B - (i), C - (iv), D - (ii)  
 (b) A - (ii), B - (iii), C - (iv), D - (i)  
 (c) A - (iv), B - (iii), C - (ii), D - (i)  
 (d) A - (iii), B - (i), C - (ii), D - (iv)

[Ans. (a) A - (iii), B - (i), C - (iv), D - (ii)]

**(iii) State whether the Statements are true or false.**

- 1.** (i) Say's law of market was the basis for assuming the situation of full employment.  
 (ii) There will be imperfect competition in the labour and product market.  
 (a) Both (i) and (ii) are true  
 (b) Both (i) and (ii) are false  
 (c) (i) is true but (ii) is false  
 (d) (i) is false but (ii) is true

[Ans. (c) (i) is true but (ii) is false]

- 2.** (i) There are two approaches to determination of equilibrium.  
 (ii) (a) Demand and Supply approach  
 (b) Saving and Investment approach  
 (a) Both (i) and (ii) are true  
 (b) Both (i) and (ii) are false  
 (c) (i) is true but (ii) is false  
 (d) (i) is false but (ii) is true

[Ans. (a) Both (i) and (ii) are true]

- 3.** (i) The aggregate demand and aggregate supply reach equilibrium at point E.  
 (ii) "Supply creates its own demand".  
 (a) Both (i) and (ii) are true  
 (b) Both (i) and (ii) are false  
 (c) (i) is true but (ii) is false  
 (d) (i) is false but (ii) is true

[Ans. (a) Both (i) and (ii) are true]

- 4.** (i) According to Say, "when goods are produced by firms in the economy, they pay reward to the factors of the production."  
 (ii) There was no single theory which could be labeled as Classical theory of employment.  
 (a) Both (i) and (ii) are true  
 (b) (i) is true but (ii) is false  
 (c) Both (i) and (ii) are false  
 (d) (i) is false but (ii) is true

[Ans. (b) (i) is true but (ii) is false]

5. (i) Generally, full employment refers to the labour force of a country.  
 (ii) Wages and prices of goods were flexible.  
 (a) (i) is true but (ii) is false  
 (b) Both (i) and (ii) are false  
 (c) (i) is false but (ii) is true  
 (d) Both (i) and (ii) are true

[Ans. (d) Both (i) and (ii) are true]

6. (i) Each product produced in the economy creates demand.  
 (ii) Marginal productivity of labour is zero or less or negative.  
 (a) Both (i) and (ii) are false  
 (b) (i) is true but (ii) is false  
 (c) Both (i) and (ii) are true  
 (d) (i) is false but (ii) is true

[Ans. (c) Both (i) and (ii) are true]

7. (i) The aggregate effective demand would increase the level of employment.  
 (ii) The decline in total effective demand would lead to unemployment.  
 (a) Both (i) and (ii) are false  
 (b) (i) is true but (ii) is false  
 (c) Both (i) and (ii) are true  
 (d) (i) is false but (ii) is true

[Ans. (c) Both (i) and (ii) are true]

8. (i) The term 'price' refers to the amount of money received from the sale of output.  
 (ii) The aggregate supply refers to the required amount of labourers and materials.  
 (a) Both (i) and (ii) are false  
 (b) Both (i) and (ii) are true  
 (c) (i) is true but (ii) is false  
 (d) (i) is false but (ii) is true

[Ans. (b) Both (i) and (ii) are true]

9. (i) The aggregate supply curve can be expected to slope upwards.  
 (ii) Rate of interest is determined by saving and investment.  
 (a) Both (i) and (ii) are true  
 (b) Both (i) and (ii) are false  
 (c) (i) is true but (ii) is false  
 (d) (i) is false but (ii) is true

[Ans. (a) Both (i) and (ii) are true]

10. (i) The major feature of rural unemployment is the existence of unemployment.  
 (ii) Full employment means that persons who are willing to work and able to work must have employment or a job.  
 (a) Both (i) and (ii) are true  
 (b) (i) is false but (ii) is true  
 (c) (i) is true but (ii) is false  
 (d) Both (i) and (ii) are false

[Ans. (a) Both (i) and (ii) are true]

11. (i) Effective demand determines the level of employment in the economy.  
 (ii) The rate of interest and marginal efficiency of capital determine the investment level.  
 (a) Both (i) and (ii) are true  
 (b) Both (i) and (ii) are false  
 (c) (i) is true but (ii) is false  
 (d) (i) is false but (ii) is true

[Ans. (a) Both (i) and (ii) are true]

12. (i) As automatic price mechanism operates in the economy.  
 (ii) Money is neutral.  
 (a) Both (i) and (ii) are true  
 (b) Both (i) and (ii) are false  
 (c) (i) is true but (ii) is false  
 (d) (i) is false but (ii) is true

[Ans. (c) (i) is true but (ii) is false]

13. (i) According to Keynes, supply does not create its demand.  
 (ii) Money acts only as a medium of exchange.  
 (a) Both (i) and (ii) are true  
 (b) Both (i) and (ii) are false  
 (c) (i) is true but (ii) is false  
 (d) (i) is false but (ii) is true

[Ans. (a) Both (i) and (ii) are true]

14. (i) Income is the principle of effective demand.  
 (ii) Effective demand is not equals to national income.  
 (a) Both (i) and (ii) are true  
 (b) Both (i) and (ii) are false  
 (c) (i) is true but (ii) is false  
 (d) (i) is false but (ii) is true

[Ans. (c) (i) is true but (ii) is false]

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(iv) Which is the following is correctly matched.

1.

(a)	Keynes	-	Theory of employment and Income
(b)	Employment	-	Cyclical
(c)	Development Country	-	India
(d)	Unemployment	-	Not able to work

[Ans. (a) Keynes' - Theory of employment and Income]

2.

(a)	Cyclical unemployment	-	Widespread unemployment
(b)	Say's law	-	Unemployment
(c)	Keynes theory	-	Law of market
(d)	ADF	-	Aggregate Supply Function

[Ans. (a) Cyclical unemployment - Widespread unemployment]

3.

(a)	$ED = Y =$	-	$C + I = \text{Output} = \text{Employment}$
(b)	Equilibrium	-	Labour
(c)	Micro approach	-	National problem
(d)	Keynesianism	-	Balanced budget

[Ans. (a)  $ED = Y = C + I = \text{Output} = \text{Employment}$ ]

4.

(a)	Capitalist economy	-	Free market economy
(b)	Equilibrium level	-	Need full employment
(c)	Effective demand	-	Aggregate demand
(d)	J.S. Mill	-	Enquiry into the nature and causes of wealth of nation.

[Ans. (a) Capitalist economy - Free market economy]

5.

(a)	Supply creates	-	Demand
(b)	Classical theory	-	Unemployment
(c)	Qualification	-	Frictional
(d)	Technical unemployment	-	Lack of necessary skills

[Ans. (a) Supply creates - Demand]

6.

(a)	Disguised unemployment	-	A kind of employment
(b)	ASF	-	Aggregate Demand Function
(c)	Classicism	-	State intervention
(d)	Type of unemployment	-	Seasonal unemployment

[Ans. (d) Type of unemployment - Seasonal unemployment]

(v) Which is the following is Not correctly matched.

1.

(a)	Self interest	-	Economic decisions
(b)	John Maynard Keynes	-	Influential economists
(c)	Effective demand	-	Equal national income
(d)	Equilibrium point	-	Unemployment

[Ans. (d) Equilibrium point - Unemployment]

2.

(a)	Classicism	-	Balanced budget
(b)	Keynesianism	-	Short-run equilibrium
(c)	Rate of interest	-	Stock
(d)	Full employment	-	Unemployment

[Ans. (d) Full employment - Unemployment]

3.

(a)	Disguised	-	Unemployment
(b)	Frictional	-	Full employment
(c)	Seasonal	-	Unemployment
(d)	Structural	-	Unemployment

[Ans. (b) Frictional - Full employment]

4.

(a)	Full employment	-	Labour force
(b)	Developing countries	-	Structural unemployment
(c)	Classical theory	-	Single theory
(d)	Aggregate supply curve	-	Inelastic

[Ans. (c) Classical theory - Single theory]



5.	(a)	Consumption	-	Co-extensive
	(b)	Annual produce	-	Annual demand
	(c)	Saving	-	Investment
	(d)	Labour	-	Medium of exchange

[Ans. (d) Labour - Medium of exchange]

(vi) **Assertion, Reason.**

1. **Assertion (A) :** Disguised unemployment occurs when more people are working than what is actually required.

**Reason (R) :** In Disguised unemployment Marginal Productivity of labour is zero or less or negative.

- (a) Both A and R are true and R is the Correct explanation of A  
 (b) Both A and R are true but R is not the correct explanation of A  
 (c) A is the true but R is false  
 (d) A is false but R is true

[Ans. (a) Both A and R are true and R is the Correct explanation of A]

2. **Assertion (A) :** "The General Theory of employment, interest and money" published in 1936.

**Reason (R) :** A highly significant work that marked a turning point in the development of modern economic theory.

- (a) Both A and R are true and R is the Correct explanation of A  
 (b) Both A and R are true but R is not the correct explanation of A  
 (c) A is the true but R is false  
 (d) A is false but R is true

[Ans. (b) Both A and R are true but R is not the correct explanation of A]

(iv) **Pick the Odd one Out.**

1. "Supply creates its own demand". - who enunciated this proposition.

- (a) J.S. Mill (b) J.M. Keynes  
 (c) David Ricardo (d) J.B. Say

[Ans. (d) J.B. Say]

2. **Keynesianism :**

- (a) State investment is advocated  
 (b) Short run equilibrium  
 (c) Saving is a vice  
 (d) Balanced budget

[Ans. (d) Balanced budget]

3. **Classicism :**

- (a) Capitalism is well and good.  
 (b) Macro approach to national problems.  
 (c) Champions of Laissez - faire policy.  
 (d) Long run equilibrium

[Ans. (b) Macro approach to national problems.]

## PART - B

### ANSWER THE FOLLOWING QUESTIONS IN ONE OR TWO SENTENCES **2 MARKS**

1. **Give short note on Cyclical unemployment?**

**Ans. Cyclical Unemployment :**

- (i) This unemployment exists during the downturn phase of trade cycle in the economy.  
 (ii) In a business cycle during the period of recession and depression, income and output fall leading to widespread unemployment.

2. **What are the four components of aggregate demand?**

- Ans. (i)** Consumption Demand  
**(ii)** Investment Demand  
**(iii)** Government Expenditure  
**(iv)** Net Export (Export - Import)

3. **Write the formula for aggregate supply?**

**Ans.** Aggregate supply = C + S + T + RF = Aggregate income generated in the economy.

4. **Write any two types of unemployment?**

- Ans. (i)** Seasonal unemployment  
**(ii)** Frictional unemployment

5. **What is Say's law of market?**

**Ans.** J.B. Say enunciated the proposition that "Supply creates its own demand". Hence there cannot be general over production or the problem of unemployment in the economy.

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**6. Write a short note about Keynes theory?**

**Ans.** Keynes theory of employment was based on the view of the short run. According to him, the factors of production such as capital goods, supply of labour, technology and efficiency of labour remain unchanged while determining the level of employment.

**7. What is unemployment?**

**Ans.** Unemployment is problem faced when there are people, who are willing to work and able to work but can't find suitable job.

**8. What are the assumptions of Say's Law of Market?**

- Ans.** (i) Ceteris paribus (constant extraneous variables).  
 (ii) Existence of Normal Conditions.  
 (iii) Existence of a Laissez-faire Capitalist Economy.

**9. What are the two factors depend on MEC?**

- Ans.** MEC depends on two factors namely  
 (i) Prospective yield of capital asset  
 (ii) Supply price of capital

**10. What are the three motives of liquidity preference?**

- Ans.** Liquidity preference is based on three motives. They are,  
 (i) Transaction motive  
 (ii) Precautionary motive  
 (iii) Speculative motive

**PART - C****ANSWER THE FOLLOWING QUESTIONS IN ONE PARAGRAPH****3 MARKS****1. Explain the classical theory about unemployment?**

- Ans.** (i) The classical theory of employment is composed of different views of classical economists on the issue of income and employment in the economy.  
 (ii) Classical economists assumed that the economy operates as the live of full employment without inflation in the long period.  
 (iii) They also assumed that wages and prices of goods were flexible and the competitive market existed in the economy.

**2. Write a short note on effective demand?**

- Ans.** (i) Effective demand denotes money actually spent by the people on products of industry.  
 (ii) The money which entrepreneurs receive is paid in the form of rent, wages, interest and profit.  
 (iii) Therefore effective demand equals national income.  
 (iv) An increase in the aggregate effective demand would increase the level of employment. A decline in total effective demand would lead to unemployment. Therefore,  
 (v) Thus the total employment of a country can be determined with the help of total demand of a country.

**3. Give the factors on which the aggregate demand depends.**

**Ans.** The aggregate demand is the amount of money which entrepreneurs expect to get by selling the output produced by the number of labourers employed. Therefore, it is the expected income or revenue from the sale of output at different levels of employment.

**Aggregate demand has the following four components :**

- (i) Consumption demand  
 (ii) Investment demand  
 (iii) Government expenditure and  
 (iv) Net Export (export – import)

**4. Write the criticism of Say's Law.**

**Ans.** The following are the criticisms against Say's law :

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

**5. What are the components of aggregate supply?**

**Ans. The components of aggregate supply are,**

- (i) Aggregate (desired) consumption expenditure (C).
- (ii) Aggregate (desired) private savings (S).
- (iii) Net tax payments (T) (Total tax payment to be received by the government minus transfer payments, subsidy and interest payments to be incurred by the government) and
- (iv) Personal (desired) transfer payments to the foreigners (Rf)(eg. Donations to international relief efforts)

### PART - D

**ANSWER THE FOLLOWING QUESTIONS IN ONE PAGE** **5 MARKS**

**1. List out all assumption of say's law of market?**

**Ans. Assumption of the Say's law of market :**

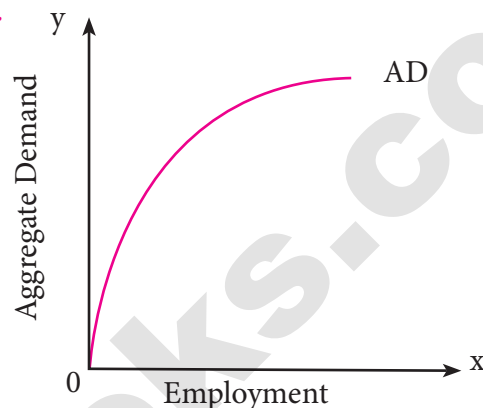
- (i) No single buyer (or) seller of commodity or an input can affect price.
- (ii) Full employment.
- (iii) People are motivated by self interest and self-interest determines economic decisions.
- (iv) The laissez fair policy is essential for an automatic and self adjusting process of full employment.
- (v) There will be a perfect competition.
- (vi) There is wage - price flexibility.
- (vii) Money acts only as a medium of exchange.
- (viii) Long run analysis.
- (ix) There is no possibility for over production or unemployment.

(x) Unutilized resources used until reaches full employment.

(xi) No Government intervention automatic Price adjustment mechanism operated.

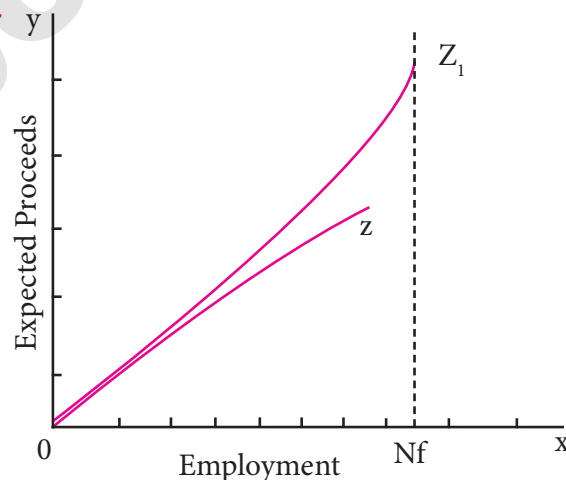
**2. Draw the diagram ADF.**

**Ans.**



**3. Draw the diagram for Aggregate supply curve diagram.**

**Ans.**



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### 4. Compare Keynesianism to Classicism.

**Ans.** Comparison of Classicism and Keynesianism

S. No.	Keynesianism	Classicism
1.	Short-run equilibrium	Long-run equilibrium
2.	Saving is a vice	Saving is a social virtue.
3.	The function of money is a medium of exchange on the one side and a store of value on the other side.	The function of money is to act as a medium of exchange
4.	Macro approach to national problems	Micro foundation to macro problems
5.	State intervention is advocated.	Champions of Laissez-fair policy
6.	Applicable to all situations – full employment and less than full employment.	Applicable only to the full employment situation.
7.	Capitalism has inherent contradictions	Capitalism is well and good.
8.	Budgeting should be adjusted to the requirements of economy.	Balanced budget
9.	The equality between saving and investment is advanced through changes in income.	The equality between saving and investment is achieved through changes of rate of interest.
10.	Rate of interest is determined by the demand for and supply of money.	Rate of interest is determined by saving and investment.
11.	Rate of interest is a flow.	Rate of interest is a stock.
12.	Demand creates its own supply.	Supply creates its own demand.
13.	Rate of interest is a reward for parting with liquidity.	Rate of interest is a reward for saving.



## CHAPTER

## 4

CONSUMPTION AND  
INVESTMENT FUNCTIONS

## CHAPTER SNAPSHOT

- |       |   |       |   |
|-------|---|-------|---|
| 4.1   | Introduction  | 4.4   | Multiplier  |
| 4.2   | Consumption Function  | 4.4.1 | Assumptions of Multiplier                         |
| 4.2.1 | Meaning of Consumption Function   | 4.4.2 | Marginal Propensity to consume and Multiplier     |
| 4.2.2 | Technical Attributes of the Consumption Function                        | 4.4.3 | Working of Multiplier                             |
| 4.2.3 | Keynes's Psychological Law of Consumption                               | 4.4.5 | Leakages of Multiplier                            |
| 4.2.4 | Determinants of Consumption Function : Subjective and objective factors | 4.4.6 | Uses of Multiplier                                |
| 4.3   | Investment Function   | 4.5   | The Accelerator Principle                         |
| 4.3.1 | Meaning of Investment   | 4.5.1 | Meaning   |
| 4.3.2 | Types of Investment   | 4.5.2 | Definitions                                       |
| 4.3.3 | Determinants of Investment Function                                     | 4.5.3 | Assumptions                                       |
| 4.3.4 | Relationship between rate of Interest and Investment                    | 4.5.4 | Operation of the Acceleration Principles          |
| 4.3.5 | Marginal Efficiency of Capital  | 4.5.5 | Limitations                                       |
| 4.3.6 | Marginal Efficiency of Investment                                       | 4.6   | Super Multiplier : ( $K$ and $\beta$ interaction) |
|       |   | 4.6.1 | Leverage Effect                                   |

## Consumption And Investment Functions

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### Concept Map

