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ECONOMICS

12

புதிய வினாத்தாள் வடிவமைப்பில்
தயாரிக்கப்பட்ட சிறப்பு நூல்

Loyola

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தயாரிப்பு

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Author's Note

Dear policy makers and the architects.

I thank the almighty to introduce this EC Economics 12th Std guide to the students of Economics who are tomorrow's policy makers and the teachers who are the architects shaping the future of every student with utmost care.

This EC Guide is prepared in such a manner to guide the students to secure full marks in the Exam.

Each and every answer is prepared to guide both the Slow learners and the Toppers.

Enough number of additional questions to test the understanding of the subject from the text book are included.

Try to answer diagrammatic questions and problems during Examination.

Practice the diagrams, Tables, headings, Sub-headings and Problems during leisure.

I pray the divine to bless the students to secure good marks in the Exam and reach great heights in your career.

K. Vidhya
P.G. Assistant



CONTENTS

No.	Lessons	Page No
1.	Introduction to Macro Economics	1
2.	National Income	20
3.	Theories of Employment and Income	40
4.	Consumption and Investment Functions	57
5.	Monetary Economics	76
6.	Banking	96
7.	International Economics	117
8.	International Economic Organisations	139
9.	Fiscal Economics	157
10.	Environmental Economics	181
11.	Economics of Development and planning	200
12.	Introduction to Statistical Methods and Econometrics	218

**Unit
1****Introduction to Macro
Economics****Part - I - Book Back Questions****PART - A****Multiple Choice questions**

1. **The branches of the subject Economics is**
a) Wealth and welfare b) Production and consumption
c) Demand and supply d) Micro and macro
2. **Who coined the word 'macro'?**
a) Adam Smith b) J M Keynes
c) Ragnar Frisch d) Karl Marx
3. **Who is regarded as Father of Modern Macro Economics?**
a) Adam smith b) J M Keynes c) Ragnar Frisch d) Karl Marx
4. **Identify the other name for macro Economics.**
a) Price Theory b) Income Theory c) Market Theory d) Micro Theory
5. **Macro economics is a study of _____.**
a) individuals b) firms c) a nation d) aggregates
6. **Indicate the contribution of J M Keynes to economics**
a) Wealth of nations b) General Theory
c) Capital d) Public Finance
7. **A steady increase in general price level is termed as _____.**
a) Wholesale price index b) Business Cycle
c) Inflation d) National Income

Loyola**EC I2th Economics****8. Identify the necessity of Economic policies.**

- a) to solve the basic problem b) to overcome the obstacles
- c) to achieve growth 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

10. An economy consists of

- a) Consumption sector b) Production sector
- c) Government sector d) All the above

11. Identify the economic system where only private ownership of production exists.

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

12. Economic system representing equality in distribution is

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

13. Who is referred as `Father of capitalism`?

- a) Adam smith b) Karl Marx c) Thackeray d) J M keynes

14. The country following Capitalism is _____.

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

15. Identity The Father of socialism

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

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

17. Quantity of a commodity accumulated at a point of time is termed as _____.

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

18. Identity the flow variable

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

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

a) Two sector Model b) Three sector Model
c) Four sector Model d) All the above

1	2	3	4	5	6	7	8	9	10
d	c	b	b	d	b	c	d	c	d
11	12	13	14	15	16	17	18	19	20
a	d	a	b	b	d	b	c	a	c

Two Mark Questions

- 1) Macros in Greek means 'large'. Macro Economics is a study of the economy as a whole
- 2) It deals with aggregates such as national income, employment and output.

Inflation refers to steady increase in general price level

An Economy is referred to any system or area where economic activities are carried out.

"An Economy is a cooperation of producers and workers to make goods and services that satisfy the wants of the consumers" - J.R.Hicks

Developed, underdeveloped, undeveloped and developing economies.

Capitalism is an economic system where the role of the government is minimum and market determines the economic activities.

26. Define 'Economic Model'.

A Model is a simplified representation of real situation. An Economic model is an explanation of how the economy or part of the economy, works.

27. 'Circular Flow Income' - Define .

The circular flow of income is a model of an economy showing connections between different sectors of an economy.

PART - C**Answers the following questions in about a paragraph.****28. State the importance of Macro Economics.**

- i) To solve the basic problems prevailing in an economy by understanding the economy as a whole.
- ii) To evolve precautionary measures to avoid economic crises.
- iii) It provides opportunities to use scientific investigation to understand the reality
- iv) To compare and analyse the economic indicators.

29. Describe the different types of economic systems.**1. Capitalism :**

It is an economic system where the role of the government is minimum and market determines the economic activities.

2. Socialism :

It is a system in which major industries are owned and controlled by the government.

3. Mixedism :

In a mixed economy both private and public sectors co - exist.

30. Outline the major merits of Capitalism.

- 1) Automatic working
- 2) Efficient use of Resources
- 3) Incentives for Hard work
- 4) Economic progress
- 5) Consumers Sovereignty
- 6) Higher rates of capital formation
- 7) Development of New Technology.

Loyola**EC 12th Economics****31. Indicate the demerits of socialism.**

- 1) Red Tapism and Bureaucracy
- 2) Absence of Incentive
- 3) Limited Freedom of choice
- 4) Concentration of power.

32. Enumerate the features of mixed economy.

- 1) Ownership of property and means of production
- 2) Coexistence of public and private sectors.
- 3) Solution to Economic problems.
- 4) Freedom and control.

33. Distinguish between Capitalism and Globalism.

	Capitalism	Globalism
1.	It is a free market economy where the role of the government is minimum.	It is a ideology of globalisation that connects nations together through international trade.
2.	The system is for national development	It aims at global development.
3.	It is also called as command economy.	It is also termed as 'Extended capitalism'.

34. Briefly explain the two sector circular flow model.

- There are only two sector namely households and firms. Here, Production and sales are equal and there will be a circular flow of income and goods.
- Real flow indicates the factor services flow from household sector to the business sector.
- Monetary flow indicates the good and services flow from business sector to the household.

The basic identity are

$$Y = C + I$$

PART - D

Answer the following questions in one page.

35. Discuss the scope of Macro Economics.

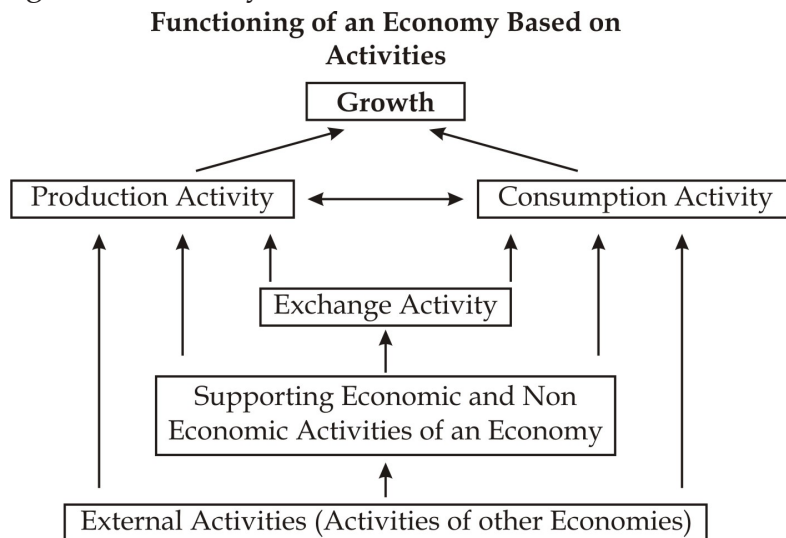
The study of macro economics has wide scope and it covers the following, major areas.

- (i) **National Income** : Measurement of national income and its composition by sectors are the basic aspects of macro economic analysis. It provide a long term understanding of the growth process of an economy.
- (ii) **Inflation** : It refers to steady increase in general price level. To estimate the general price level various price index numbers like wholesale price Index, consumer price Index etc are needed.
- (iii) **Business cycle** : All economies face the problem of business fluctuations and business cycle. It can be carefully studied based on aggregate economic variables.
- iv) **Poverty and unemployment** : The economic paradox of poverty and unemployment in resource - rich nations can be corrected by initiating macro economic measures.
- v) **Economic growth** : The factors determining growth and development of an economy can be understood only through macro analysis.
- vi) **Economic policies** : Macro Economics is significant for evolving suitable economic policies.

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

An economy is referred to any system or area where economic activities are carried out.

Functioning of an Economy Based on Activities



- i) In an economy, the fundamental economic activities are production and consumption .

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- ii) The 'exchange activity' supports the production and consumption activities. These activities are influenced by several economic and non-economic activities.
- iii) The major economic activities include transportation, banking, advertising, planning, government policy and others.
- iii) The major economic activities are environment, health, education, entertainment, governance, regulations etc.,
- v) The external activities from other economies such as import, international relations, emigration, immigration, foreign investment, foreign exchange earnings etc., also influence the entire functioning of the economy.

37. Compare the features of capitalism and socialism.

S.No	Features	Capitalism	Socialism
1.	Ownership of means of production	Private ownership	Public ownership
2.	Economic motive	Profit	Social welfare
3.	Solution of central problems	Free market system	Central planning system
4.	Government Role	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 feature among capitalism, socialism and Mixedism

S.No	Features	Capitalism	Socialism	Mixedism
1.	Ownership of means of production	Private ownership	Public ownership	Private and public ownership

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2.	Economic motive	Profit	Social welfare	Social welfare and profit motive
3.	Solution of central problems	Free market system	Central Planning system	Central planning 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 Enterprise
7.	Economic freedom	Complete freedom	Lack of freedom	Limited freedom
8.	Major Problem	Inequality	Inefficiency	Inequality and Inefficiency.

Part - II - Additional Questions**I. Choose the best Answer.****1. Inflation refers to**

- a) Decrease in price level and increase in money value.
- b) Increase in price level and decrease in money value.
- c) Increase in price level and increase in money value.
- d) None of the above.

Ans : b) Increase in price level and decrease in money value.

2. The term 'Globalism' was coined by _____ .

- a) A.J. Brown
- b) Manfred D Steger
- c) J. R. Hicks
- d) J.M. Keynes

Ans : b) Manfred D Steger

3. _____ is the driving force behind capitalism.

- a) Social welfare
- b) Equality
- c) Profit motive
- d) Private ownership

Ans : c) Profit motive

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4. _____ countries are the examples of Mixedism.
 a) India, Russia, England, France
 b) England, China, Russia, Brazil
 c) India, China, England, France
 d) India, England, France, Brazil **Ans : d) India, England, France, Brazil**
5. **Poverty and unemployment can be minimized by**
 a) Proper allocation of resource and initiating corrective measures.
 b) Increasing the Role of Government.
 c) Increasing production and Investment.
 d) All the above.
Ans : a) Proper allocation of resource and initiating corrective measures.
6. _____ helps to make meaningful comparison and analysis of economic indicators.
 a) Micro Economics b) Command Economy
 c) Fiscal Economics d) Macro Economics
Ans : d) Macro Economics
7. **There are _____ major types of economic systems.**
 a) 4 b) 5 c) 3 d) 2 **Ans : c) 3**
8. **Circular flow of income representing the major economic systems are of _____ types.**
 a) 4 b) 3 c) 5 d) 2 **Ans : b) 3**
9. **The commonly used economic models are _____**
 a) The supply - demand models. b) Circular flow models
 c) Smith models d) All the above
Ans : d) All the above
10. **In a four - sector economy**
 a) $Y = C + I + G + (X / M)$ b) $Y = C + I + G + (X - M)$
 c) $Y = C + I + G + (X + M)$ d) $Y = C + I + G + (X \times M)$ **Ans : b**

II. Match the following :

- | | | |
|-------------|---|--------------------|
| 1. A) Micro | - | 1) J.M.Keynes |
| B) Macro | - | 2) Micro Economics |

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- C) National Income - 3) Ragnar Frish
 D) Individual Income - 4) Macro Economics

Ans : A B C D

- a) 1 2 3 4
 b) 3 1 4 2
 c) 4 3 2 1
 d) 1 4 3 2

Ans : b) 3 1 4 2

2. A) Macro Economics - 1) National Accounts
 B) Micro Economics - 2) Depression
 C) Business cycle - 3) Income theory
 D) Circular flow of Income - 4) Price theory

Ans : A B C D

- a) 2 1 3 4
 b) 1 2 4 3
 c) 3 2 4 1
 d) 3 4 2 1

Ans : d) 3 4 2 1

3. A) Capitalism - 1. North Korea
 B) Socialism - 2. United States
 C) Communism - 3. India
 D) Mixedism - 4. China

Ans : A B C D

- a) 2 4 1 3
 b) 1 2 3 4
 c) 3 4 2 1
 d) 2 3 4 1

Ans : a) 2 4 1 3

III. Choose the correct pair :

1. a) Father of Macro Economics - Adam Smith
 b) Father of Socialism - J.M. Keynes
 c) Extended capitalism - Manfred D. Steger
 d) Father of capitalism - Karl Marx

Ans : c) Extended capitalism - Manfred D. Steger

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- 2) a) Capitalist Economy - Foreign Exchange
 b) Socialist Economy - Market Economy
 c) Stock variable - Command Economy
 d) Flow variable - Consumption

Ans : d) Flow variable - Consumption

- 3) a) Y - Government
 b) C - Consumption
 c) I - Income
 d) G - Investment

Ans : b) C - Consumption

IV. Choose the Incorrect pair :

- 4) a) Two sector Economy - $Y = C + G$
 b) Three sector Economy - $Y = C + I + G$
 c) Four sector Economy - $Y = C + I + G + (X-M)$
 d) Socialist Economy - Planned Economy

Ans : a) Two sector Economy - $Y = C + G$

- 5) a) Capitalist Economy - USA, West Germany
 b) Socialist Economy - Australia, Japan
 c) Mixed Economy - France, Brazil
 d) Globalism - International trade

Ans : b) Socialist Economy - Australia, Japan

- 6) a) Red tapism and corruption - Laissez faire Economy
 b) Bureaucratic Expansion - Socialism
 c) Profit motive - Capitalism
 d) Customs and tradition - Traditional Economy

Ans : a) Red tapism and corruption - Laissez faire Economy

V. Choose the correct statement

- 1.) a) J.M.Keynes was awarded first Nobel prize in Economics.
 b) Ragnar Frisch wrote the General Theory of Employment, Interest and Money
 c) Micro Economics studies the economy as a whole.

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- d) Macro Economics covers National income, inflation, business cycles, poverty and Inequality.

Ans : d) Macro Economics covers National income, inflation, business cycles, poverty and Inequality.

- 2) a) "An Economy is a cooperation of producers and workers to make goods and services that satisfy the wants of the consumers" - A.J. Brown.
 b) "A system by which people earn their living" - J.R. Hicks
 c) Inflation refers to steady increase in general price level.
 d) The means of production in a capitalistic economy are owned by Government.

Ans : c) Inflation refers to steady increase in general price level.

VI. Choose the incorrect statement

- 1) a) Socialism aims at equality on the distribution of income and wealth for all.
 b) In a capitalist economy resources are owned by individuals and the government.
 c) Stock refers to a quantity of a commodity measured at a point of time.
 d) Flow variables are measured over a period of time.

Ans : b) In a capitalist economy resources are owned by individuals and the government.

- 2) a) The circular flow of income is a model of a economy showing connections between different economies of the world.
 b) Two sector model is for a simple economy with households and firms.
 c) Three sector model is for a mixed and closed economy.
 d) Four sector model is for an open economy.

Ans : a) The circular flow of income is a model of a economy showing connections between different economies of the world.

VII. Choose the Odd Man Out

- 1) **Four - Sector Economy comprises of**
 a) Households b) Firms c) Government d. Internal sector

Ans : d) Internal sector

- 2) a) Traditional Economy b) Socialism
 c) Globalism d) capitalism **Ans : c) Globalism**

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- 3) a) Boom
c) Recession
- b) Extension
d) Depression

Ans : b) Extension**VIII. Analyse the Reason**

- 1) **Assertion (A) :** Profit is the driving force behind all economic activities in capitalism.

Reason (R) : The golden rule for a producer under capitalism is to maximise profit.

- 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 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) :** In a socialistic economy all the resources are owned and operated by the Government.

Reason (R) : Public welfare is the main motive behind all economic activities.

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

Ans : b) Both A and R are true, R is the correct explanation of A.

- 3) **Assertion (A) :** A model is a simplified representation of real situation.

Reason (R) : Economists use models to describe economic activities, their relationships and their behaviour.

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

Ans : b) Both A and R are true R is not the correct explanation of (A)**IX. Answer the following questions in one or two sentences :**

1. Name the divisions of Economics.

1. Micro Economics
2. Macro Economics

Loyola**EC 12th Economics****2. Define National Income**

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

3. What is Unemployment?

Unemployment is a situation when there are people, who are willing to work and able to work but cannot find suitable jobs.

4. What is Globalism?

Globalism is the new market ideology of globalisation that connects nations together through international trade and aiming at global development.

5. What is Mixedism?

Mixedism is an ideology that mixes or combines the principles of Capitalism and socialism.

6. What is an Economy?

An Economy is “ A system by which people earn their living” - A.J.Brown.

7. Name the fundamental economic activities.

1. Production 2. Consumption

8. What is an Economic System?

Economic system refers to the manner in which individual and institutions are connected together to carry out economic activities in a particular area.

9. What is Red Tapism?

In socialism, 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.

10. What is meant by circular flow of Income?

The circular flow of income is a model of an economy showing connections between different sectors of an economy.

X. 3 Mark Questions**1. Mention the limitations of Macro Economics.**

- 1) There is a danger of excessive generalization of the economy as a whole.
- 2) It assumes homogeneity among the individual units.
- 3) There is a fallacy of composition.

-
- 4) Many non-economic factors determine economic activities but are not considered in Macro Economics.
-

2) What are the demerits of Capitalism?

- 1) Capitalism increases inequalities of income.
 - 2) Large amount of resources are wasted on competitive advertising and duplication of products.
 - 3) Capitalism leads to class struggle as it divides the society into capitalists and workers.
 - 4) Free market system leads to frequent violent economic fluctuations and crises.
 - 5) Even the harmful goods are produced if there is possibility to make profit.
-

3) State the merits of Socialism?

- 1) There is a reduction in Inequalities and exploitation.
 - 2) The central planning authority allocates the resources in a planned manner. So wastages are minimized.
 - 3) As inequalities are minimum there is no conflict between rich and poor class.
 - 4) Planning authority takes control over production and distribution. Therefore economic fluctuations can be avoided.
 - 5) It promotes social welfare. There is absence of exploitation, reduction in economic inequalities.
-

4) Explain the features of mixed Economy.

- 1) The means of production and properties are owned by both private and public.
- 2) In mixed economies, both private and public sectors coexist. Private industries work for profit whereas public sector had a view to maximize social welfare.
- 3) The central planning authority prepares the economic plans. National plans are drawn up by the Government and both public and private abide.
- 4) The basic problems of the economy are solved through the price mechanism as well as state intervention.
- 5) The overall control on the economic activities rests with the government.

5. What is circular flow of income?

- 1) The circular flow of income is a model of an economy showing connections between different sectors of an economy.
- 2) It shows flows of income, goods and services and factors of production between economic agents such as firms, households, government and nations.
- 3) The circular flow analysis is the basis of national accounts and macroeconomics.

XI. 5 Mark Questions :**1) Explain the merits and demerits of capitalism.****Merits of capitalism :****1) Automatic working :**

Without any government intervention, the economy works automatically.

2) Efficient use of Resources :

All resources are put into optimum use.

3) Incentives for Hard work :

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

4) Consumer Sovereignty :

All production activities are aimed at satisfying the consumers.

5) Development of New Technology :

As profit is aimed at, producers invest on New technology and produce quality goods.

6) Economic progress :

Production and productivity levels are very high in capitalistic economies.

7) Higher rates of capital Formation :

Increase in saving and Investment leads to higher rates of capital formation.

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) Wastages 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.

2) Explain the merits and demerits of Mixed economy.**Merits of Mixed Economy:****1) Rapid Economic Growth:**

It promotes rapid economic growth. Thus, both public requirements and private needs are taken care of.

2) Balanced Economic Growth:

It promotes balanced growth between agriculture and industry, consumer goods and capital goods, rural and urban etc.

3) Proper utilization of Resources:

The government can ensure proper utilization of resources. The government controls most of the important activities directly and the private sector indirectly.

4) Economic Equality:

The government uses progressive rates of taxation for levying income tax to bring about economic equality.

5) Special Advantages to the society:

The government safeguards the interest of the weaker sections by legislating on minimum wages and rationing, establishing fair price shops and formulating social welfare measures.

Demerits of Mixed Economy:**1) Lack of coordination:**

As private and public sector work with divergent motives, it creates many coordination related problem.

2) 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.

3) Inefficiency:

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

4) Fear of Nationalization:

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

5) Widening Inequality:

Ownership of resources, laws of inheritance and profit motive of people widens the gap between rich and poor.

3. Explain the circular flow of income.

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

Circular flow of Income in a two-sector Economy :

There are only two sectors namely, household sector and firm sector.

1) Household sector :

The household sector is the sole buyer of goods and services, and the sole supplier of factors of production.

2) Firms :

The firm sector hires the factors of production owned by the household sector. It sells the entire output to households.

In a two-sector economy, production and sales are equal and there will be a circular flow of income and goods.

Therefore, here

$$Y = C + I$$

Where Y – Income

C – Consumption

I – Investment

Circular flow of Income in a Three sector Economy :

In addition to household and firms, inclusion of the government sector makes this model a three-sector model.

Under three sector model, national income (Y) is obtained by adding consumption expenditure (C), Investment expenditure (I) and Government expenditure (G).

Therefore,

$$Y = C + I + G$$

Circular flow of Income in a Four – sector Economy :

In a Four-sector economy, in addition to household, firms and government, a fourth sector namely, external sector is included.

The external sector comprises of exports and imports.

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



National Income

PART - A

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

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9. **Per capita income is obtained by dividing the National income by_____.**
a) Production
b) Population of a country
c) Expenditure
d) GNP
10. **GNP = _____ + Net factor income from abroad.**
a) NNP
b) NDP
c) GDP
d) Personal income
11. **NNP stands for _____.**
a) Net National Product
b) National Net Product
c) National Net Provident
d) Net National Provident
12. **_____ is deducted from gross value to get the net value.**
a) Income
b) Depreciation
c) Expenditure
d) Value of final goods.
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
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
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
16. **The average income of the country is _____.**
a) Personal Income
b) Per capita Income
c) Inflation Rate
d) Disposal Income
17. **The value of national income adjusted for inflation is called _____.**
a) Inflation Rate
b) Disposal income
c) GNP
d) Real national income
18. **Which is a flow concept?**
a) Number of shirts
b) Total wealth
c) Monthly income
d) Money supply

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

a) Private sector
c) Public sector

b) Local sector
d) None of the above

1	2	3	4	5	6	7	8	9	10
a	c	b	d	d	a	a	c	b	c
11	12	13	14	15	16	17	18	19	20
a	b	a	c	a	b	d	c	b	a

Answer the following questions in one or two sentences.

"The labour and capital of a country acting on its natural resources produces 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" - Alfred Marshall.

R - P - net factor income from abroad.

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

Loyola**EC 12th Economics****24. Trace the relationship between GNP and NNP**

GNP is the total measure of the flow of final goods and services at market value during a year.

NNP is the value of the net output of the economy during the year.

$NNP = GNP - \text{depreciation}$

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

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

26. Define GDP deflator.

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

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

The problem of self consumption is whether that part of the produce which is retained for self consumption can be included in national income or not.

PART - C**Answer the following questions in one paragraph.****28. Write a short note on 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 national income by population.

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

29. Differentiate between personal and disposable income.

- 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 the individuals income after the payment of income tax. This is the amount available for households for consumption.

$$\text{Disposable income} = \text{Personal income} - \text{Direct Tax.}$$

30. Explain briefly NNP at factor cost.

NNP refers to the market value of output. whereas NNP at factor cost is the total of income payment made to factor of production.

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

31. Give short note on Expenditure method.

In Expenditure method, the total expenditure incurred by the society in a particular year is added together.

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

C - Private consumption

I - Private Investment Expenditure.

G- Government expenditure.

X-M- Net export.

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

- Double counting is to be avoided under value added method. Any commodity which is either raw material or intermediate good for the final production should not be included.
- 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.

33. Write briefly about national income and welfare.

- National income is considered as an indicator of the economic wellbeing of a country. The economic progress of countries is measured in terms of their GDP per capita and their annual growth rate.
- A country with a higher per capita income is supposed to enjoy greater economic welfare with a higher standard of living.
- But the rise in GDP need not always promote economic welfare.

34. List out the uses of national income.

- 1) To know the sectoral contribution.
- 2) To formulate the national policies.
- 3) To formulate planning and evaluate plan progress.
- 4) To build economic - models.
- 5) To make international comparison.
- 6) To know a country's per capita income for various factors of production.
- 7) To know the distribution of income for various factors of production.
- 8) To arrive at many macro economic variables.

PART - D

Answer the following questions in about a page

35. Explain the importance of national income.

National income is regarded as accounts of the economy, which are known as social accounts. It enables us.

- 1) To know the relative importance of the various sectors of the economy and their contribution towards national income.
- 2) To formulate the national policies such as monetary policy, fiscal policy and other policy.
- 3) To formulate planning and evaluate plan progress.
- 4) To build economic models both in short run and long run.
- 5) To make international comparison, inter- regional comparison and inter - temporal - comparison of growth of the economy during different periods.
- 6) To know a country's per capita income which reflects the economic welfare of the country.
- 7) To know the distribution of income for various factors of production in the country.
- 8) 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.

There are three methods that are used to measure national income.

Product Method :

- Product method measures the output of the country. It is also called inventory method. Under this method, the gross value of output from different sectors are obtained for the entire economy during a year. The value obtained is actually the GNP at market prices.
- In this method Double counting should be carefully avoided.

Income Method :

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

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

W - wages

r - rent

i - interest

 π - profit

R- P - net factor income from abroad.

The Expenditure Method :

In this method, the total expenditure incurred by the society in a particular year is added together. To calculate the expenditure of a society, it includes personal consumption expenditure (c) net domestic investment (I), government expenditure on consumption (G) as well as capital goods and net exports (X-M)

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

If the above methods are done correctly, the following equation must hold

$$\text{Output} = \text{Income} = \text{Expenditure}$$

37. What are the difficulties involved in the measurement of national income?.

In India because of various problems posed, a valuation of output is very difficult.

Transfer payments :

The government expenditure like pensions, unemployment allowance, subsidies etc are not included in the national income, Because they are paid without adding anything to the production process. Interest on national debt is also considered as transfer payment..

Difficulties in assessing depreciation allowance :

It requires high degree of judgment to assess the depreciation allowance and other charges. Deduction of these from national income is not an easy task.

Unpaid services :

The service of housewife are not included in National income whereas the similar service performed by paid servants are included. Similarly there are number of goods and services which are difficult to be assessed in money terms are not included.

Income from illegal activities :

Income earned through illegal activities are not included in national income.

Production for self consumption and changing price :

Farmers keep a large portion of their produce for self consumption. The problem is whether they can be included in national income or not.

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National income by product method is measured by the value of final goods and services at current market prices. But prices do not remain stable. To solve this constant price level is considered .

Capital Gains :

Capital gains arise when a capital asset is sold at higher price than was paid for it at the time of purchase. capital gains are excluded from national income.

Statistical problems :

Statistical data may not be perfectly reliable, when they are compiled from numerous sources. skill and efficiency of the statistical staff and cooperation of people at large are also equally important in estimating national income.

38. Discuss the important of social accounting in economic analysis :

- National income is also being measured by the social accounting method. Under this method, the transactions among various sectors such as firms, households, government etc., are recorded and their interrelationships traced.
- The social accounting framework is useful for economists as well as policy makers, Because it represents the major economic flows and statistical relationships among various sectors of the economic system. It become possible to forecast the trends of economy more accurately.
- Under this method, the economy is divided into several sectors like 1) firms 2) Households 3) Government 4) Rest of the world and 5) Capital sector..
 - 1) Firms undertake productive activities.
 - 2) Households are consuming entities and represent the factors of production.
 - 3) The Government sector refers to the economic transactions of public bodies at all levels.
 - 4) Rest of the world relates to international economic transactions of the country.
 - 5) Capital sector refers to saving and investment activities.

Part - II - Additional Questions**I. Match the following**

- | | | |
|----------------------|---|-----------------|
| 1. A) Noble laureate | - | 1. Banking |
| B) Primary sector | - | 2. Simon kuznet |
| C) Secondary sector | - | 3. Agriculture |
| D) Tertiary sector | - | 4. Industry |

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	A	B	C	D	
a.	1	2	3	4	
b.	4	3	2	1	
c.	3	2	4	1	
d.	2	3	4	1	Ans : d) 2 3 4 1

2. A) PQLI - 1. $C + I + G + (X - M)$
 B) GNP_{MP} - 2. GNP - depreciation allowance
 C) NNP - 3. Economic welfare
 D) GNP - 4. $C + I + G + (X - M) + (R - P)$

	A	B	C	D	
a.	4	3	2	1	
b.	3	4	2	1	
c.	1	2	3	4	
d.	4	2	1	3	Ans : b) 3 4 2 1

3. A) Disposable Income - 1. $\frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$
 B) Per capita Income - 2. GDP - Depreciation
 C) GDP deflator - 3. Personal income - Direct Tax
 D) NDP - 4. $\frac{\text{National Income}}{\text{Population}}$

	A	B	C	D	
a.	3	4	1	2	
b.	1	2	3	4	
c.	4	2	3	1	
d.	1	4	3	2	Ans : a) 3 4 1 2

II. Choose the correct pair

1. a. Disposable income - Consumption + saving
 b. Per capita income - $\frac{\text{National Income}}{\text{Disposable Income}}$
 c. Capital gains - Included in National Income
 d. National income - Four methods

Ans: a) Disposable income - Consumption + saving

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2. a. Expenditure method - Value method
 b. Income method - Output method
 c. Product method - Factor Earning Method
 d. Inputs - Factors of production

Ans : d) Inputs - Factors of production

3. a. Transfer payment - Purchase of shares
 b. Double counting - Value added method
 c. National income - $Y = w+r+i+(R-P)$
 d. Value of output - Cost x Quantity sold

Ans : b) Double counting - Value added method**III. Choose the incorrect pair**

1. a) Labour income - wages and salaries
 b) Capital income - profit, dividend
 c) National income - domestic factor income + gross factor income
 d) Mixed income - farming, sole proprietorship

Ans : c) National income - domestic factor income + gross factor income

2. a) w - wages
 b) π - loss
 c) r - rent
 d) i - interest

Ans : b) π - loss

3. a) C - Private consumption expenditure
 b) I - Private Investment Expenditure
 c) G - Government expenditure
 d) X-M - Net import

Ans : d) X-M - Net import**Choose the best answer****1. Personal Income is**

- a) National Income - Direct taxes
 b) National Income - Indirect taxes
 c) National Income - (Social security contribution and undistributed corporate profits) + Transfer payments

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d) National Income - Net Income from abroad

Ans : c) National Income - (Social security contribution and undistributed corporate profits) + Transfer payments

2. Real income is _____

- a) National Income at current price + P_1 / P_0
- b) National Income at current price - P_1 / P_0
- c) National Income at current price $\times P_1 / P_0$
- d) National Income at current price $\div P_1 / P_0$

Ans : d) National Income at current price $\div P_1 / P_0$

3. National income by income method is

- a) $Y = w + r + i + \pi + (R - P)$
- b) $Y = w + r + i + \pi - (R - P)$
- c) $Y = w + r + i + \pi + (R + P)$
- d) $Y = w + r + \pi - i - (R - P)$

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

4. Capital sector refers to

- a) Savings and income activities
- b) Savings and investment activities
- c) Investment and production activities
- d) All the above.

Ans : b) Savings and investment activities

5. Transfer payment are

- a) Pensions, unemployment allowance and subsidies given by Government.
- b) Pension, unemployment allowance and subsidies given by private.
- c) Pension, unemployment allowance and subsidies given by N. G. O. S.
- d) None of the above.

Ans : a) Pensions, unemployment allowance and subsidies given by Government.

6. Per capita income is

- a) National income - Population
- b) National income - Real income
- c) National income - \div Population
- d) National income - Disposable income

Ans : c) National income - \div Population

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7. Production method is also called as

- a) Factor earning method b) Inventory method
c) Expenditure method d) Outlay method

Ans : b) Inventory method

8. Which method of calculating National income is called as Factor Earning Method?

- a) Product method b) Expenditure method
c) Income method d) Inventory method

Ans : c) Income method

9. NDP is

- a) GNP – Depreciation b) GNP – Taxes
c) GDP – Depreciation d) GDP – NNP

Ans : c) GDP – Depreciation

10. Disposable Income is

- a) Personal income + Direct taxes
b) Personal income – Indirect taxes
c) Personal income + Transfer payments
d) Personal income – Direct taxes

Ans : d) Personal income – Direct taxes

V. Choose the correct statement

1.
 - a. J.M.Keynes introduced the concept of national income.
 - b. GDP is the total market value of final goods and services produced within the country during a year.
 - c. NDP is the value of net exports of the economy during the year.
 - d. Net National product refers to the value of the net imports of the economy during the year.

Ans : b) GDP is the total market value of final goods and services produced within the country during a year.

2.
 - a. Disposable Income is the amount available for households for investment.
 - b. The average income of a person of a country in a particular year is called National Income
 - c. Real income is the buying power of nominal income.

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- d. Entire disposable income is spent on consumption.

Ans : c) Real income is the buying power of nominal income.

3. a. There are three methods that are used to measure National Income.
 b. Factor incomes are grouped as labour income, capital income and national income.
 c. Double counting is avoided under Income method.
 d. Capital sector relates to international economic transactions of the country.

Ans : a) There are three methods that are used to measure National Income.

IV. Choose the incorrect statement

1. a. National income denotes the country's purchasing power.
 b. Product method measures the output of the country.
 c. Double counting is avoided under value added method.
 d. Income method is also called as inventory method.

Ans : d) Income method is also called as inventory method.

2. a. Transfer payments are to be included in estimation of national income.
 b. Expenditure on intermediate goods are to be excluded from national income.
 c. Interest on national debt is considered as transfer payments.
 d. PQLI includes standard of living, life expectancy at birth and literacy.

Ans : a) Transfer payments are to be included in estimation of national income.

3. a. The Government sector refers to the economic transactions of public bodies at all levels.
 b. Households under take productive activities.
 c. Rest of the world sector relates to international economic transaction of the country.
 d. Capital sector refers to saving and investment activities.

Ans : b) Households under take productive activities.

VII. Pick the odd one out :

1. a. Product method b. Income method
 c. Investment method d. Expenditure method

Ans : c) Investment method

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2. a. Transfer payments b. Social Accounting
c. Unpaid services d. Capital gains

Ans : a) Transfer payments

- 3.. a. Factor income b. Labour income
c. Capital income d. Mixed income

Ans : a) Factor income**VIII. Analyse the reason :**

1. **Assertion (A) :** National income estimates are not very accurate in our country.

Reason (R) : Proper valuation of output is very difficult because of the existence of large unorganised and non-monetised subsistence sector.

- 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. Both A and R are false.
d. A is true but R is false

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) : In this method, national income is calculated by adding up all the incomes generated in the course of producing national product.

- 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 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**IX. Answer the following questions (2 Marks)**

1. **Name the methods of measuring National Income.**

1. Product method
2. Income method
3. Expenditure method

Loyola**EC 12th Economics****2. Name some of the concepts used in measuring national income.**

1. Gross Domestic Product (GDP)
2. Gross National Product (GNP)
3. Net National Product (NNP)
4. Personal Income
5. Per Capita Income

3. What is Net National Product?

NNP refers to the value of the net output of the economy during the year.

NNP = GNP - Depreciation Allowance

4. What is per capita Income?

The average income of a person of a country in a particular year is called per capita Income.

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

5. What is Real Income ?

Real income is the buying power of nominal income.

$$\text{National Income at constant price} = \frac{\text{Nominal Income at Current price}}{P_1 | P_0}$$

6. What are transfer payments?

Transfer payments are payments of the Government that are paid without adding anything to the production processes.

Eg : Unemployment allowances, subsidies

7. What is Market Price ?

The Market Price is the price that consumers will pay for the product when they purchase it from the sellers.

Market Price = Factor Cost - Subsidies

8. What is meant by income from illegal activities?

Illegal activities like gambling, smuggling etc have value and satisfy the wants of the people but they are not considered as productive.

Income from these illegal activities are not included in National income.

9. What are capital gains?

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.

10. What is meant by PQLI?

The physical Quality of Life Index (PQLI) is considered a better indicator of economic welfare. It includes standard of living, life expectancy at birth and literacy.

Answer the following questions (3 Marks)**1. How is Gross National Product measured?**

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.

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

C – Consumption

I – Gross Investment

G – Government expenditure

X-M – Net export

R – P – Net factor income from abroad

2. Write a note on statistical problems that affect national income estimate in our country?

1. Accurate and reliable data are not adequate, as farm output in the subsistence sector is not completely informed. 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. They are most cases non – co operative also.
4. Most of the statistical staff are untrained and inefficient.

Therefore, national income estimates in our country are not very accurate or adequate.

3. Write a note National Income in terms of US \$?

1. The national income of a country in money terms describes the economic performance of a country.
2. When Indian national Income is expressed in terms of US \$, the former looks very low.
3. If purchasing power parity (PPP) method is adopted India looks better.

4. What is a sector? Name its divisions.

A sector is a group of individuals or institutions having common interrelated economic transactions. The economy is divided into the following sectors:

1. Firms: The organizations which employ the factors of production to produce goods and services.
2. Households: They are consuming entities and represent the factors of production.
3. The government sector: It refers to the economic transactions of public bodies at all levels, centre, state and local.
4. Rest of the world sector: It relates to international economic transactions of the country.
5. Capital sector: It refers to saving and investment activities.

5. Explain the precautionary measures taken while calculating National income in expenditure method.**1. Second hand goods:**

The expenditure made on second hand goods should not be included.

2. Purchase of shares and bonds:

Expenditures on purchase of old shares and bonds in the secondary market should not be included.

3. Transfer payments:

Expenditures towards payment incurred by the government like old age pension should not be included.

4. Expenditure on intermediate goods:

Expenditure on seeds and fertilizers by farmers, cotton and yarn by textile industries are not to be included to avoid double counting only expenditure on final products are to be included.

6. Explain the steps involved in Income method.

1. The enterprises are classified into various industrial groups.
2. Factor incomes are grouped under labour income, capital income and mixed income.
 - i) Labour Income - Wages and salaries, fringe benefits, employer's contribution to social security.
 - ii) Capital Income - Profit, interest, dividend and royalty
 - iii) Mixed Income - Farming, sole proprietorship and other professions.

3. National income is calculated as domestic factor income plus net factor income from abroad.

In short

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

W = Wages, r - rent, i = interest, Π - Profits, R = Export, P = Import

XII. Answer the following questions (5 Marks)

1. How is National income calculated under product method?

Product method measures the output of the country. It is also called inventory method. Under this method, the gross value of output from different sectors like agriculture, industry, trade and commerce etc., is obtained for the entire economy during a year.

To avoid double counting, either the value of the final output should be taken into the estimate of GNP or the sum of values added should be taken.

In India, the gross value of the farm output is obtained as follows.

1. Total production of 64 agriculture commodities is estimated. 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 aggregate value of total output of these 64 commodities is taken to measure the gross value of agricultural output.
4. The net value of the agricultural output is measured by making deductions for the cost of seed, manures and fertilizers, market charge, repairs and depreciation from the gross value.
5. Similarly, the gross values of the output of animal husbandry, forestry, fishery, mining and factory establishments are obtained by multiplying their estimates of total production with market prices.

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.

2. Explain the basic concepts of measuring National income.

The following are some of the concepts used in measuring national income.

1. Gross Domestic Product (GDP)

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

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

2. Net Domestic Product (NDP)

NDP is the value of net output of the economy during the year.

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

3. Gross National Product (GNP)

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.

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

4. Net National Product (NNP)

NNP refers to the value of the net output of the economy during the year.

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

5. Personal Income :

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

$$\text{Personal Income} = \text{National Income} - (\text{Social security contribution and undistributed corporate profits}) + \text{Transfer Payments}$$

6. Per Capita Income :

The average income of a person of a country in a particular year is called per capita Income.

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

3. Explain Gross Domestic Product by sum of Expenditure, Factor Incomes or Output.

GDP (Expenditure)	GDP (Factor Incomes)	GDP (Value of Output)
1. Consumption	Income from people in jobs and in self employment. (eg. Wages and salaries)	1. Value added from each of the main economic sectors

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2. Government Spending	Profits of private sector business	2. These sectors are ➤ Primary ➤ Secondary ➤ Manufacturing ➤ Quaternary
3. Investment Spending	3. Rent income from the ownership of land.	
4. Change in value of stocks		
5. Exports		
6. Imports		
7. = GDP (Known as aggregate demand)		

