National Income Accounting

Standard difficulty · 20 questions · 40 marks · Time: 37 minutes

Name: _____ Date: _____ Score: ____ / 40

Write full answers in Sections B and C. Answers are on the last page — try every question first!

Section A — Choose the correct answer — 8 × 1 = 8 marks

1. Goods bought by consumers for final use are:
   (a) raw materials **(b)** inventories only
   (c) intermediate goods **(d)** final goods

2. What kind of good is a car bought by a household?
   (a) consumer durable **(b)** public good
   (c) transfer payment **(d)** capital good

3. A farmer grows wheat (using no bought inputs) and sells it to a miller for ₹120. The miller sells the flour to a baker for ₹150, and the baker sells bread to households for ₹200. What does this add to GDP?
   (a) ₹80 **(b)** ₹150 **(c)** ₹470 **(d)** ₹200

4. Suppose an economy has consumption ₹7,600 crore, investment ₹820 crore, government purchases ₹2,880 crore, exports ₹1,750 crore and imports ₹1,300 crore. What is GDP?
   (a) ₹11,750 crore **(b)** ₹11,300 crore **(c)** ₹10,850 crore **(d)** ₹14,350 crore

5. Suppose GDP at market prices is ₹12,120 crore, net factor income from abroad is ₹20 crore, depreciation is ₹680 crore and net indirect taxes are ₹850 crore. What is national income (NNP at factor cost)?
   (a) ₹11,290 crore **(b)** ₹11,460 crore **(c)** ₹10,590 crore **(d)** ₹10,610 crore

6. Suppose nominal GDP is ₹864 crore and real GDP (at base-year prices) is ₹720 crore. What is the GDP deflator, in percentage terms?
   (a) 130 **(b)** 120 **(c)** 80 **(d)** 20

7. Which of these is a flow?
   (a) money supply on 31 March **(b)** savings in a bank account
   (c) inventories at the end of the year **(d)** monthly salary

8. Suppose that in a year the factor incomes earned within a country are wages ₹2,860 crore, rent ₹690 crore, interest ₹640 crore and profits ₹730 crore. What is the domestic factor income (NDP at factor cost)?
   (a) ₹4,920 crore **(b)** ₹3,590 crore **(c)** ₹4,190 crore **(d)** ₹5,020 crore

Section B — Short answer — 8 × 2 = 16 marks

9. Why is only the value of final goods counted in GDP?

10. Stock or flow? (a) capital (b) national income

11. Explain each term: (a) externalities (b) transfer payments

12. A cotton farmer sells cotton for ₹170 to a spinner, who sells yarn for ₹360 to a weaver, who sells cloth to households for ₹470. Find the value added at each stage and the contribution to GDP.

13. A firm starts the year with 150 units in stock, produces 910 units and sells 970. What is the change in its inventory, and its stock at the end of the year?

14. Suppose real GDP rises from ₹3,650 crore to ₹3,723 crore. What is the growth rate of real GDP?

15. A family's basket is 20 notebooks and 10 litres of milk. In the base year these cost ₹55 and ₹43 each; now every price is 10% higher. Find the cost of the basket in both years and the CPI.

16. Suppose GDP at market prices is ₹19,690 crore, net factor income from abroad ₹190 crore, depreciation ₹740 crore and net indirect taxes ₹800 crore. Find GNP at market prices, NNP at market prices and national income.

Section C — Longer answers — 4 × 4 = 16 marks

17. Explain the circular flow of income in a simple economy.

18. Match each with its meaning: (a) net factor income from abroad (b) transfer payments (c) depreciation. Choose from: factor income earned abroad minus paid to abroad; payments made without any goods or services in return; wear and tear of capital in use.

19. Suppose in a year: consumption ₹8,610 crore, investment ₹2,840 crore, government purchases ₹2,450 crore, exports ₹1,780 crore, imports ₹1,720 crore, depreciation ₹450 crore, net indirect taxes ₹470 crore and net factor income from abroad −₹40 crore. (a) Find GDP at market prices by the expenditure method. (b) Find NNP at factor cost. (c) Why are imports subtracted?

20. Suppose an economy produces only one good. In the base year it makes 240 units at ₹20; this year 288 units at ₹22. (a) Find nominal GDP in both years. (b) Find real GDP this year at base-year prices. (c) Find the GDP deflator this year.

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Answer key

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Q	Answer	Working
1	**(d) final goods**	—
2	**(a) consumer durable**	—
3	**(d) ₹200**	value added: 120 + 30 + 50 = 200
4	**(a) ₹11,750 crore**	7,600 + 820 + 2,880 + 1,750 − 1,300
5	**(d) ₹10,610 crore**	12,120 + 20 − 680 − 850
6	**(b) 120**	864 ÷ 720 × 100
7	**(d) monthly salary**	—
8	**(a) ₹4,920 crore**	2,860 + 690 + 640 + 730
9	**Counting intermediate goods too would count their value more than once (double counting).**	—
10	**(a) stock (b) flow**	—
11	**(a) effects on others that are not paid for (b) payments made without any goods or services in return**	—
12	**₹170, ₹190, ₹110; GDP rises by ₹470**	360 − 170; 470 − 360; 170 + 190 + 110
13	**change −60 units; closing stock 90 units**	910 − 970; 150 − 60
14	**2%**	(3,723 − 3,650) ÷ 3,650 × 100
15	**₹1,530 and ₹1,683; CPI = 110**	20 × 55 + 10 × 43; 1,683 ÷ 1,530 × 100
16	**GNP ₹19,880 crore, NNP ₹19,140 crore, NI ₹18,340 crore**	GNP = GDP + NFIA; NNP = GNP − dep; NI = NNP − net indirect taxes
17	**Households supply factors to firms and receive factor payments; they spend this income on firms' goods, so money flows round and income equals expenditure equals output.**	—
18	**(a) factor income earned abroad minus paid to abroad (b) payments made without any goods or services in return (c) wear and tear of capital in use**	—
19	**(a) ₹13,960 crore (b) ₹13,000 crore (c) Imports are part of spending but are produced abroad, not in the country.**	8,610 + 2,840 + 2,450 + 1,780 − 1,720; 13,960 − 40 − 450 − 470
20	**(a) ₹4,800 and ₹6,336 (b) ₹5,760 (c) 110 (prices are 10% higher)**	240 × 20; 288 × 22; 288 × 20; 6,336 ÷ 5,760 × 100