Important Questions Class 12 Macro Economics Chapter 2 National Income Accounting

Short Answers

1-2 marks

Q1. Microeconomics is different from macroeconomics because:

1. **a) Microeconomics deals with individual behaviour.**
2. **b) Microeconomics deals with prices only.**
3. **c) Microeconomics deals with economic behaviour.**
4. **d) Microeconomics deals with the government's decisions.**

Ans. a) Microeconomics deals with individual behaviour.

Q2. Which of the below-mentioned words is an example of macroeconomics?

1. **a) Inflation**
2. **b) Price determination**
3. **c) Consumer's equilibrium**
4. **d) Producer's equilibrium**

Ans. a) Inflation

Q3. Choose from among the given options, the meaning of non-market activities.

1. **a) Non-marketable**
2. **b) Production**
3. **c) Economic**
4. **d) Involuntary**

Ans. a) Non-marketable

Q4. State which of the given below data is an example of transfer payments.

1. **a) Old age pension**
2. **b) Retirement pension**
3. **c) Employers' contribution for social security**
4. **d) Free meals in the company canteen**

Ans. a) Old age pension

Q5. Money flow is the flow of

1. **a) Services only**
2. **b) Goods only**
3. **c) Goods and services only**
4. **d) Factor payments.**

Ans. d) Factor payments

Q6. Explain the National Disposable Income.

Ans. The type of income that can be used for spending purposes or disposition to the whole economy is referred to as National Disposable Income. It is the maximum amount of goods and services at the disposal of the domestic economy including the net current transfers from abroad, covering items such as AIDS, etc.

National Disposable Income = Net National Product (NNP) + Net current transfers from abroad (NDI)

Q7. What is real GNP?

Ans. As per economics, the Gross National Product (GNP) calculated at constant prices, or by a base year price is called real GNP.

Q8. What is meant by double counting? How can this be prevented?

Ans: The process of evaluating the value of goods several times at every production stage is known as double counting.

The methods used to prevent it from occurring are:

1. a) The value-added technique can be used while estimating national income.
2. b) Estimating national income depending on the worth of the final commodity.

Q9. State the difference between personal and private income.

Ans: The difference between personal and private income are as follows:

Personal Income	Private Income

1. The sum of all the earned and transferred revenues from different sources of income, both inside and outside the country, is considered to be the personal income of an individual. .	1. Factor and transfer income obtained from various private sources, including inside and outside the country, is considered to be private income.
2. Personal income (PI) ≡ NI – Undistributed profits – Net interest payments made by households – Corporate tax + Transfer payments to the households from the government and firms.	2. Private Income = Factor income from net domestic product accruing to the private sector + National debt interest + Net factor income from abroad + Current transfers from government + Other net transfers from the rest of the world

Short Answer and Questions

3-4 Marks

Q1. What are the precautionary measures to be taken while computing national income by product method, especially the value-added method?

Ans: The measures are as follows:

1. a) Avoid the doubt counting approach of production. Rather, rely on the value added by every production unit.
2. b) Include the output produced for self-consumption.
3. c) The cost of intermediary consumption should not be included.
4. d) The sale and acquisition of used products should not be taken into account.
5. e) The value of services provided shall always be included in sales.

Q2. State the main steps in computing national income through the production method.

Ans: The important steps needed to be considered while computing the national income using the product approach are:

1. The manufacturing units should be segregated into industrial sectors like primary, secondary, and tertiary.
2. Compute the net value added to the factor cost.
3. Compute the output value after adding sales and stock changes.
4. Compute the gross value added by deducting intermediate consumption from the output value.
5. Deduct depreciation and net indirect tax from gross value added at market price to measure the NDPFC.

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6. Eventually, add net factor income from outside the country to the NDPFC to measure the NNPFC, which is national income again.

Long Answers

5 – 6 marks

Q1. Evaluate the National Income and Private Income from the given data and calculate:

The National Income

The Private Income

S.No	Contents	Rs. (in crores)
1	Net current transfers from the rest of the world	10
2	Private final consumption expenditure	600
3	National debt interest	15
4	Net exports	(-)20
5	Current government transfers	5
6	Net domestic product at factor cost accruing to the government.	25
7	Government final consumption expenditure	30
8	Net indirect tax	05
9	Net domestic capital formation	40
10	Net indirect tax	10

Ans: a) National Income (NNPFC) = (Private final consumption expenditure + Government final consumption expenditure + Net domestic capital formation + Net exports + Net factor income from abroad- Net indirect tax)

= 600 + 100 + 70 + (-20) + 10 – 30

= 780 – 50

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= 730 crores

b) Private Income = NNPFC – Net domestic product at factor cost accruing to the govt +

Transfer payments + National debt interest

= 730 – 25 + (10 + 5) + 15

= 760 – 25

= 735 crores

Q2. Calculate NNP at market price by

Production method, and

Income method.

S.No	Contents	Rs. (in crores)
1	Intermediate consumption Primary sector Secondary sector Tertiary sector	 500 400 300
2	Value of output of Primary sector Secondary sector Tertiary sector	 1000 900 700
3	Rent	10
4	Emoluments of employers	400
5	Mixed income	650
6	Operating surplus	300
7	Net factor income from abroad	-20

8	**Interest**	**05**
9	**Consumptive of fixed capital**	**40**
10	**Net indirect tax**	**10**

Ans. 1. By Production Method:

Value added at MP = Value of output – Intermediate consumption

= (1000 + 900 + 700) – (500 + 400 + 300)

= 2600 – 1200

Hence GDPMP = 1400 crores

NNPMP = GDPMP – (Consumptive of fixed capital + Net factor income from abroad)

= 1400 – 40 – (-20)

NNPMP is equal to 1380 crores

2. By Income Method:

NNPMP = Emoluments of employers + Mixed income + Operating surplus + Net indirect tax + Net factor income from abroad

= 400 + 650 + 300 + 10 + (-20)

NNPMP = 1350 + 10 – 20

= 1340 crores

National Income Class 12 Important Questions

Class 12 Chapter 2 National Income is one of the important chapters of Macroeconomics. This chapter highlights the difference between national income and domestic income, its computation, and its various methods such as the product method, the income method, the expenditure method, etc. These questions were framed by analysing past years papers' and the revised **CBSE Syllabus.** Therefore, these notes cover both theoretical and practical aspects of Chapter 2 of Class 12 Macroeconomics. Students can refer to this set of questions prepared by Extramarks to save time while preparing for the board exams. They will find it easier to revise the important questions and regularly practise the practical problems and important questions of National Income Class 12 to become familiar with and gain an understanding of the chapter's main concepts.

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Q1-(a) Differentiate between nominal national income and real national income.

(b) ?Real national income is a better indicator of economic growth and welfare?. Comment on the statement.

Ans. (b) Real national income is a better indicator of economic growth and welfare as it rises only when there is a rise in level of output in the economy. It means people will have more and services to consume and rise in standard of living.While nominal national income may increase due to rise in output or rise in the level of prices or both. A rise in nominal GDP due to rise in prices does not reflect the true status of economic growth in the country.

Q2–From the following data, calculate: (a) Value of output; (b) Intermediate Consumption; (c) Gross value added at factor cost.

Opt–(a) Value of output = (iii) + (iv) + (v) = 100 + 50 + 30 = ?

Ans–(a) Value of output = (iii) + (iv) + (v) = 100 + 50 + 30 = 180

crores Intermediate consumption = (vi) + (vii) = 50 + 20 = 70 crores GVA_{MP} = Value of output Intermediate consumption = 180 70 = 110 crores GVA_{FC} = GVAMP NIT = 110 40 = 70 crores

Q3-Define domestic product. How is gross domestic product different from gross national product?

Opt–Domestic product means the value of all goods and services produced by the producers within the domestic territory during the accounting year. Domestic product may have two concepts: Gross Domestic product and net domestic product.Gross Domestic product is a concept related to income earned by country's citizens within an economy?s domestic territory.

Ans–Domestic product means the value of all goods and services produced by the producers within the domestic territory during the accounting year. Domestic product may have two concepts: Gross Domestic product and net domestic product.Gross Domestic product is a concept related to income earned by country's citizens within an economy?s domestic territory.Gross national product is a concept related to income earned by normal residents of an economy. All the goods and services produced in a country by its residents whether inside or outside the country will form the gross national product.GNP = GDP+ Net Factor income from abroadThus, the difference between is net factor income from abroad.

Nominal national income	

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Nominal national income	**Real national income**
1. Nominal National income is the value of output produced in current year valued at the current year prices.	1. Nominal National income is the value of output produced in current year valued at the base year prices.
2. It can rises due to rise in prices as well as rise in quantity.	2. It can only rises due to rise in the level of output as prices remain constant.
3. Nominal national income = Current year output X Current year prices	3. Real national income = Current year output X Base year prices
Particulars	?(in crores)
(i) Sales to household	50
(ii) Sales to government	20
(iii) Domestic sales	100
(iv) Export	50
(v) Change in stock	30
(vi) Purchase of raw material from domestic market	50
(vii) Imports	20
(viii) NIT	40
(ix) Depreciation	50

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