Q.1) Which of the following best explains why a car purchased by a household is considered a **consumption good** while the same car purchased by a delivery service (e.g., Zomato) is classified as a **capital good**?

[a] The car purchased by household is not sold further, making it a consumption good, but the car used by Zomato can be sold ahead, making it a capital good.

[b] The classification of goods as consumption or capital depends on whether the item is durable or non-durable.

[c] The classification depends on the buyer's intention: for a household, it satisfies immediate wants, whereas for a business, it is used to generate income.

[d] The car is to be considered as capital good in both the cases.

Car – final consumption
Car – Business use

Consumption
- Durable
- Non-Durable

Capital Good
- Durable
- Non Durable

Answer: C) The classification depends on the buyer's intention: for a household, it satisfies immediate wants, whereas for a business, it is used to generate income.

Explanation: The classification between consumption and capital goods depends on the intended use of the good. For a household, the car serves to meet personal consumption needs, whereas for a business like Zomato, the car is used as a tool for delivering goods and generating income.

Q.2) Which of the following scenarios would most likely result in a **current transfer** being classified under national income?

[a] A government provides a scholarship to a student for their education.

[b] A country receives compensation for war damages from another country.

[c] A government donates money to an international charity after a natural disaster.

[d] A government grants capital for a new infrastructure project.

① Current Transfer vs. Capital Transfer

Current Transfer ↓ Tax, Donation, scholarship, allowances,

Capital Transfer ↓ Grants, Tax on capital/wealth.

② Treatment in GDP or National Income?

↓

Answer: A) A government provides a scholarship to a student for their education.

Explanation: Current transfers are made out of the current income of the payer and added to the current income of the recipient. A scholarship is a typical example of a transfer made from the government's current income, and it is received to meet immediate consumption needs.

Q.3) How does the distinction between **stock** and **flow** variables impact the measurement of national income?

[a] Stock variables are easier to measure because they only require periodic surveys, while flow variables require continuous monitoring.

[b] Stock variables represent a quantity accumulated over time, while flow variables can be measured at a given point in time.

[c] Flow variables represent a quantity accumulated over time, while stock variables can be measured at a given point in time.

[d] Stock variables are measured in terms of value added, while flow variables measure goods and services consumed in a specific period.

Flow ↓	Stock ↓	GDP – ↓
• Income per month	• Cash in the bank	• Change in GDP / second – Flow
• Income & expenditure	• wealth of a person	• GDP / person / day – Flow
• people losing their jobs	• No. of unemp. people	• Total GDP at the end of the year – Stock.
• investment happening	• capital in economy	
• Budget deficit	• Govt. Debt	

Answer: C) Flow variables represent a quantity accumulated over time, while stock variables can be measured at a given point in time.

Explanation: Stock variables are measured at a specific point in time (e.g., the amount of cash you have), while flow variables are measured over a period of time (e.g., income, which accumulates over months or years).

Q.4) Why is the concept of **economic territory** important in the calculation of national income, particularly when differentiating between **residents** and **non-residents**?

[a] It allows for a distinction between citizens and non-citizens, which is irrelevant for national income measurement.

[b] It ensures that only transactions occurring within a country's political boundaries are included in national income calculations.

[c] It determines which goods and services should be included in the national income based on the location of production.

[d] It excludes non-residents' activities from contributing to national income, regardless of where the goods are produced.

GDP vs. GNP

$\downarrow$ Territory

$\downarrow$ Residents

Answer: D) It excludes non-residents’ activities from contributing to national income, regardless of where the goods are produced.

Explanation: Economic territory refers to the geographic area where national income activities are measured, including production by residents both domestically and internationally. This ensures that income is accurately measured, taking into account residents' activities globally.

Value Added Method

Q.5) Why is the **Product Method (Output Method)** used to calculate Gross Domestic Product (GDP) considered effective for measuring national income at the production level?

[a] It focuses only on final goods and services, which simplifies data collection.

[b] It avoids double counting by subtracting the intermediate consumption, ensuring an accurate measure of total value added.

[c] It calculates national income by considering all goods, regardless of their stage in the production process.

[d] It is primarily based on consumer expenditure, which is easier to measure compared to production.

Value Added Method / Product Method / Output Method

	Sale Price	Intermediate Consumption
1) Farmer – Production & sale of wheat –	Rs 1000	0
2) Manufacturer – Making Bread –	Rs 2000	Rs 1000
3) Retailer – selling to consumer –	Rs 2200	Rs 2000
4) Total	5200	3000

GVA @ MP = Sales + Change in Stock − Intermediate Consumption

Change in Stock = (Closing Stock − Opening Stock)

Answer: B - It avoids double counting by subtracting the intermediate consumption, ensuring an accurate measure of total value added.

Explanation: The Product Method calculates GDP by measuring the value added at each production stage and subtracting the value of intermediate goods. This ensures that only the final value of goods and services is counted, preventing double counting.

Q.6) How does the concept of **Change in Stock** contribute to the calculation of GDP under the Product Method?

[a] It measures the impact of imports and exports on the domestic economy.

[b] It accounts for fluctuations in the quantity of raw materials used in production.

[c] It reflects the difference between the opening and closing stock of goods, helping measure the production output for the current year.

[d] It adds the value of unsold goods from the previous year to the national income.

Answer: [c] It reflects the difference between the opening and closing stock of goods, helping measure the production output for the current year.

Explanation: The Change in Stock is calculated as the difference between the closing stock and the opening stock. This adjustment helps account for the portion of production that was not sold within the year, ensuring that the full output is captured in GDP calculations.

Q.7) What is the primary reason for subtracting **Intermediate Consumption** from the total sales when calculating GDP using the Product Method?

[a] To avoid overstating the contribution of raw materials in the production process.

[b] To account for the depreciation of capital goods used in the production process.

[c] To eliminate the value of goods used in production that have already been included in other stages of the production chain.

[d] To adjust for changes in the stock of goods between production and sales.

Answer: C- To eliminate the value of goods used in production that have already been included in other stages of the production chain.

Explanation: Intermediate consumption refers to the goods and services used up in the production of final goods. Subtracting it prevents double counting, as these goods' value is already captured in the final goods' price.

Q.8) In the Product Method, which of the following is the most accurate way to measure **Gross Value Added at Market Price (GVA)**?

[a] Total sales revenue from all production units in the economy minus the value of exports and imports.

[b] Sales value of goods and services produced, adjusted for changes in stocks and intermediate consumption.

[c] Total income earned by businesses and individuals in the economy, adjusted for taxes and subsidies.

[d] Gross profits earned by production units before deducting depreciation.

Answer: B - Sales value of goods and services produced, adjusted for changes in stocks and intermediate consumption.

Explanation: Gross Value Added at Market Price is calculated by summing the sales value of goods and services produced in the economy and then adjusting for changes in stocks (unsold goods) and subtracting intermediate consumption to avoid double counting.

Q.9) Why is the **Income Method** of calculating GDP considered a reflection of the **circular flow of income** in an economy, particularly in relation to the income earned by factor owners?

[a] It measures the total value of output produced within the economy, excluding factors of production that are owned by non-residents.

[b] It captures income earned from all financial transactions, including the buying and selling of assets, ensuring all income flows are accounted for.

[c] It counts only the income earned by factor owners from production activities, reflecting the income generated by the use of land, labor, capital, and entrepreneurship.

[d] It is the most accurate method because it includes both direct and indirect taxes, thereby covering all economic activities in the national income.

Answer: C- It counts only the income earned by factor owners from production activities, reflecting the income generated by the use of land, labor, capital, and entrepreneurship.

Explanation: The Income Method focuses on the income earned by factor owners—land, labor, capital, and entrepreneurship—who contribute to production. This income is the result of the value generated in the circular flow of income. The method captures the payments made to these factors, such as wages, rent, interest, and profits, but excludes transfer payments (e.g., gifts or remittances) and income from financial asset transactions, as these do not involve production.

Q.10) How does **Private Income** differ from **Domestic Income Accruing to the Private Sector**, and why is this distinction important in national income accounting?

[a] Private Income includes only factor income from domestic production, while Domestic Income Accruing to the Private Sector includes both factor income and transfer income.

[b] Private Income includes factor income and transfer income, while Domestic Income Accruing to the Private Sector excludes transfer income but only includes factor income generated within the country.

[c] Private Income is a broader concept that includes all national income, while Domestic Income Accruing to the Private Sector is specific to private sector income from government services.

[d] Private Income is solely the income earned by private companies, while Domestic Income Accruing to the Private Sector is the total income of households and private companies combined.

⟹ Private Income –

" Households + private companies "

↓

Consumption & savings +
Net factor Income from abroad +
Transfer Payments from Govt. to Private

Formula:

Domestic Income of Pvt. Sector (NDP@FC – Govt. Income)
+ National Debt Interest
+ Current Transfers from Govt.
+ Current Transfer from world
+ Net Factor Income from Abroad

Answer: B- Private Income includes factor income and transfer income, while Domestic Income Accruing to the Private Sector excludes transfer income but only includes factor income generated within the country.

Explanation: The key difference is that Private Income accounts for both factor income (from domestic and abroad) and transfer income (like government payments), while Domestic Income Accruing to the Private Sector excludes transfer payments and only includes income derived from domestic production. This distinction is crucial for accurately calculating the economic resources available for consumption and savings in the private sector, ensuring that transfer payments are appropriately accounted for in national income statistics.

Private Income = domestic income of private sector + national debt interest + current transfers from government + current transfer from the world + NFIA

Domestic income accruing to private sector = NDP(FC) - income of govt departments - savings of govt non-department enterprises

Q.11) How does the concept of Personal Disposable Income (PDI) provide insights into household purchasing power, and which of the following statements is most accurate about its calculation?

[a] PDI represents the total income earned by households from all sources, excluding income received from government benefits.

[b] PDI is the portion of income households can spend freely after deducting direct taxes and other mandatory payments to the government.

[c] PDI is equivalent to national income, as it includes both individual and corporate earnings.

[d] PDI does not account for payments like fines and penalties, as these are considered voluntary contributions.

⇒ Personal Disposable Income –

↳ Personal Income that is available at the disposal of households.

↳ PDI = Personal Income – Direct Taxes – other taxes paid to Govt.

Answer:

B- PDI is the portion of income households can spend freely after deducting direct taxes and other mandatory payments to the government.

Explanation:

Personal Disposable Income (PDI) is a subset of personal income that indicates the purchasing power of households. It is calculated by deducting direct taxes (like income tax and property tax) and other mandatory payments to the government (such as fines and penalties) from personal income.

Unlike personal income, which reflects total household earnings, PDI measures the income actually available for consumption or savings, making it a critical indicator of household financial autonomy.

Q.12) Which statement(s) is/are **not true** with regards to the key difference between micro and macroeconomics?

(1) Micro- economics studies the behavior of an individual while macroeconomics studies the behavior of the whole.

(2) Macro- economic covers production and factor pricing while microeconomics covers general price level and distribution.

(3) Micro- economics is helpful in determining the interest rates of the economy

(4) Macro- economics is helpful in maintaining stability in the general price level

Options:

[a] 2 and 3

[b] 1 and 2

[c] 1, 2 and 4

[d] 1, 2 and 3

Ans. (a)

Explanation -

Parameter	Micro Economics	Macro Economics
Meaning	This branch of economics studies the behavior of an individual consumer, firm, family.	This branch of economics studies the behavior of the whole economy at the national and international levels.
Scope	Topics covered under Micro Economics are demand, supply, product pricing, factor pricing, production, consumption etc.	Topics covered under Macro Economics are national income, general price level, distribution, employment, money etc.
Importance	It is helpful in determining prices of a product along with the prices of factors of production (land, labor, capital, entrepreneur et cetera) in an economy.	It helps in maintaining stability in the general price level and focuses on the major macro problems of the economy such as inflation, unemployment etc.

Q.13) Based on the nature of demand and supply and underlying values, economies can be divided into three major types - market, non-market, and mixed. Which of the following statement(s) is/are **not defining the type** of the economy appropriately?

[a] A pure market economy doesn't really exist

[b] Unrestricted competition lies between privately owned businesses to determine production and prices in a market economy

[c] Mixed economy allows a level of economic freedom to private players

[d] Mixed economy does not allow for governments to interfere in economic activities

Ans (d)

Explanation - A mixed economy system protects private property and allows a level of economic freedom in the use of capital, but also allows for governments to interfere in economic activities and achieve social aims. Other statements are correct.

Q.14) Which of the following statement(s) is/are not correct **regarding circular flow of income?**

[a] The real flow refers to the flow of factor services and flow of goods and services.

[b] The real flow and monetary flow move in a circular manner in an opposite direction.

[c] In a circular flow, leakages = injections determine equilibrium

[d] Savings as well as government expenditure are injections to the circular flow.

Leakages
- Savings
- Taxes
- Imports

Injections
- Govt. expenditure
- Investment
- Exports

Ans. (d)

Explanation -

Leakages: A leakage is referred to as an outflow of income from the circular flow model. Leakages are that part of the income which the household withdraw from the circular flow and is not used to purchase goods and services. This part of the income does not go to the goods market. **The three main leakages are savings, taxes and imports.**

Injections: An injection is an inflow of income to the circular flow. The volume of income increases due to an injection of income in the circular flow. The three main injections are **investment, government expenditure, exports.** In a circular flow, leakages = injections.

Q.15) Which of the following statement(s) is/are **not correct** about the various estimates of national income?

[a] Advance estimate is the first estimate of GDP/National Income released by NSO.

[b] Provisional estimate of GDP/National Income is released by NSO 2 months after the completion of the financial year.

[c] First revised estimate of GDP/National Income is released by NSO 6 months after the completion of the financial year.

[d] Third revised estimate of GDP/National Income is released by NSO 2 years and 10 months after the completion of the financial year.

Ans. (c)

Explanation -

AE → 2 months before FY ending
(FEB)

PE → 2 months after FY ending
(MAY)

First RE → 10 months after FY ending
(JAN)

SECOND RE → FEB

THIRD RE → 2 Years 10 months after FY ending

Q.16) Which of the following statement(s) is/are **incorrect** with regards to GDP of a country?

(1) Nominal GDP is the value, which is calculated using the current prices in the economy.

(2) Real GDP is the value calculated using a constant set of prices.

(3) The Potential GDP measures the lowest level of output that an economy can sustain over a period of time at a constant inflation rate.

Options:

[a] Only 1

[b] Only 1 and 3

[c] Only 3

[d] Only 1 and 2

Ans (c)

Explanation –

The Potential GDP measures/estimates the highest level of output that an economy can sustain over a period of time at a constant inflation rate.

Q.17) Which of the following items **will be included** in the estimation of the national income?

(1) Rent of self-owned building used for manufacturing

(2) Income from sale of shares, bonds and debentures

(3) Services of free government dispensary

(4) Interest on public debt

(5) Expenses on electricity by a factory

Options:

[a] 1, 2, and 3

[b] 2, 4, and 5

[c] 3 and 5

[d] 1 and 3

Ans. (d)

Explanation -

(1) It is the **imputed cost of the building. Imputed costs are added into the National Income.**

(2) Income from sale of shares, bonds and debentures is just a **transfer income.**

(3) Services of government free dispensary is the **government's final consumption expenditure.**

(4) Interest on public debt is a **transfer income.**

(5) Expenses on electricity by a factory is an **intermediate cost of the factory** and accounted through the value-added method of estimating national income.

Q.18) Which of the following statement(s) is/are **not correct with respect to Green GDP?**

[a] Green GDP is the **index of the Economic growth** of a particular country which **enshrines the environmental consequences of the economic growth.**

[b] Green GDP is **conventional gross domestic product figures adjusted for the environmental costs of economic activities.**

[c] It accounts for the monetized loss of biodiversity and costs caused by climate change.

[d] Green GDP is calculated by **adding net natural capital consumption to the standard GDP.**

Ans. (d)

Explanation –

Calculating green GDP **requires that net natural capital consumption, including resource depletion, environmental degradation, and protective and restorative environmental initiatives, be subtracted from traditional GDP.**

Q.19) Nominal GNP is the same as:

[a] GNP at constant prices

[b] Real GNP

[c] GNP at current prices

[d] GNP less net factor income from abroad

Ans. (c)

Explanation -

Nominal GNP is the value, which is calculated using the current prices in the economy.

Q.20) Which of the following is an **example of transfer payment?**

[a] Free meals in the company canteen

[b] Employers' contribution to social security

[c] Bus fare paid by a passenger

[d] Old-age pension

Ans. (d)

Explanation -

Transfer payments are unilateral (one sided) payments. A transfer payment is a payment of money for **which there are no goods or services exchanged.**

(a) Free meals for employees is **a part of the Cost to Company (CTC) of employees. It is counted in wages-in-kind part of National Income.**

(b) Social security is a **part of the compensation of employees' component of the National Income.**

(c) Bus fare paid by a passenger is a **private final consumption expenditure.**

(d) Old-age pension is a transfer payment. It is unilateral and it does not entail the production of goods and services in return.

Q.21) GNP at MP = ______

[a] GDPMP – Depreciation

[b] GDPMP + Depreciation

[c] GDPMP - Net Indirect Taxes

[d] GDPMP + Net factor income from abroad

Ans. (d)

Explanation -

GNP at MP = GDP at MP + Net factor income from abroad

Q.22) Calculation of National Income at Market Prices is known as _________?

[a] Money income

[b] Real income

[c] non-monetary income

[d] Standard income

Ans. (a)

Explanation -

Basis of Distinction	**Money Income**	**Real Income**
Meaning	It is basically the income in terms of money. How many Rupees you bring to home?	Real income deducts inflation first in order to gauge the actual purchasing power of the earners.
Other Names	Current Income, Nominal Income, GDP at current prices	GDP at Constant Prices

Q.23) Who among the following will be considered a Resident of India?

(1) Maria, who lives in the US, purchases stocks, bonds, and make direct investments in Indian businesses

(2) Joseph has come to Goa from Mauritania to celebrate Christmas with his family and friends living in India

(3) Raju, a construction worker residing in Bihar, crosses the Indo-Nepalese border on a daily basis to earn wages

(4) M. Shravan, an architecture by profession, went to Dubai for a period of 6 months and earned wages there

Options:

[a] Only 1

[b] Only 1 and 2

[c] Only 2 and 3

[d] Only 3 and 4

Ans. (d)

Explanation -

(1) Maria is not a resident because she is just investing in India. All the other economic activities (like income generation, consumption, and expenditure) are done by her in the US.

(2) Joseph is just a foreign traveler to India.

(3) Raju is a resident because even if he is crossing the border to earn money; he is spending the money in India only.

(4) M Shravan is also a resident of India because even if he has gone to Dubai to earn money; he is spending the money in India only.

Generally, an individual is said to be resident in India in a fiscal year, **if he is in India for more than 182 days in India**.

In economics, a person is considered resident of a place where his economic interest lies, which means the place where he earns, spends and invests money.

Q.24) Calculate GDP at MP from the following:

(1) Purchases by Firm A from Firm B - Rs 100 lakhs

(2) Purchases by Firm B from Firm A - Rs 150 lakhs

(3) Sales by Firm A - Rs 200 lakhs

(4) Sales by Firm B - Rs 300 lakhs

(5) Exports by Firm B - Rs 30 lakhs

(6) Change of Stock of Firm A - (-) Rs 20 lakhs

(7) Change in Stock of Firm B - Rs 10 lakhs

Options:

[a] Rs 240 lakhs

[b] Rs 160 lakhs

[c] Rs 75 lakhs

[d] Rs 120 lakhs

Ans. (a)

Explanation -

Product Method:

GDP (GVA) at MP = Sales (A + B) + Change in Stock (A + B) - Intermediate Consumption (A + B)

= (200 + 300) + (-20 + 10) - (100 + 150)

= 500 -10 - 250

= Rs 240 lakhs

Exports by Firm B are already included in Sales of Firm B. Therefore, they are not added in the calculation to avoid duplication. If ‘domestic sales’ was mentioned here, then we would add exports to calculate total sales.

Q.25) Which of the following sources of income is excluded while calculating national income through the Income Method?

[a] Salaries

[b] Rent

[c] Profit from sale of second-hand goods

[d] Mixed income

Ans. (c)

Explanation -

The income method concentrates on the income generated from the various factors of production. This method does not consider the income generated from the sale of second-hand goods.

Q.26) Identify the correctly matched pair of items in Column A to those in Column B:

Column A	**Column B**
1. Personal income	(a) Corporate Tax
2. Real GDP	(b) Market price
3. Depreciation	(c) Consumption of fixed Capital
4. Interest	(d) Payment for Labor

Options:

[a] 1- a

[b] 2- b

[c] 3- c

[d] 4- d

Ans. (c)

Explanation -

Depreciation refers to the loss in value of fixed assets which are in use due to wear and tear, accidental damages and obsolescence.

Q.27) Which of the following statement(s) is/are incorrect?

(1) Gross Domestic Product (GDP) at Market price = GDP at factor cost plus Net Indirect Taxes

(2) Net National Product (NNP) at Market Price = GDP at Market Price plus Depreciation

(3) Gross National Product (GNP) at market Price = GDP at market Price plus Net Factor income from abroad

(4) Net National product (NNP) at factor cost = NDP at Factor cost + Net Factor Income from Abroad

Options:

[a] Only 1

[b] Only 2

[c] Only 3

[d] Only 4

Ans. (b)

Explanation -

Net National Product at Market Price = GDP at MP – Depreciation

Q.28) Identify the intermediate consumption from the following options:

[a] Tax paid by a bread manufacturing company to government

[b] Wheat produced for self-consumption

[c] Purchase of a scooter by a food delivery company for daily operations

[d] Purchase of a second-hand machine from a domestic firm

Ans. (c)

Explanation -

(a) Taxes are transfer payments and not intermediate consumption. They are not included in National Income.

(b) Wheat is a part of the self-produced goods. It is not intermediate consumption because it is not used further for production of another good.

(c) Scooter is an intermediate cost of a food delivery company because it is used to make deliveries. Here, the scooter is used for the production of the final good.

(d) This second-hand machinery would have been counted, when it was produced for the first time. Adding it again would lead to duplication.

Q.29) Foreign embassies in India are a part of India's ________.

[a] Economic Territory

[b] Geographical Territory

[c] Territorial Zones

[d] Special Economic Zone

Ans. (b)

Explanation -

Foreign embassies are owned by their respective countries only. Hence, the economic activities carried out in the foreign embassies accrue to their respective countries. It is, however, a part of the Geographical territory. For ex. embassy of Russia is politically and economically owned by Russia but geographically, the area lies in Delhi, India.

Q.30) Why are Retained Earnings and Corporate Taxes deducted from the Private Income to calculate Personal Income?

[a] Private Income calculates the total income accruing to the private sector whereas Personal Income is the measure of actual income received by the Private Sector

[b] Private Income deducts Retained Earnings and Corporate Taxes to calculate Personal Income because both of them are dead assets

[c] Private Income deducts Retained Earnings and Corporate Taxes to calculate Personal Income because both of them directly contribute to personal wealth accumulation

[d] Private Income deducts Retained Earnings and Corporate Taxes to calculate Personal Income because they are considered as primary sources of personal income and wealth accumulation

Ans. (a)

Explanation -

Personal Income is the actual income received by the households from all sources. Private Income deducts Retained Earnings and Corporate Taxes to calculate Personal Income because they represent profits retained by corporations and taxes paid by them, which are not directly available for personal consumption or individual income

Q.31) Which of the following is not highlighting the significance of the Circular Flow of Income?

[a] It reflects structure of an economy

[b] It shows interdependence among different sectors

[c] It shows injections and leakages from flow of money

[d] It does not help in estimation of national income and related aggregates

Ans. (d)

Explanation -

Circular Flow of Income helps in estimation of national income and related aggregates.

Q.32) Nominal GDP in the Year 1 is £500 billion. Now, suppose, the Year 1 is taken as the base year. By the next year, i.e., Year 2, the nominal GDP has reached £700 billion. The GDP deflator is 125. Calculate the Real GDP of each year.

[a] £625 billion in year 1 and £560 billion in year 2

[b] £625 billion in year 1 and £700 billion in year 2

[c] £500 billion in year 1 and £560 billion in year 2

[d] £500 billion in year 1 and £700 billion in year 2

Ans. (c)

Explanation -

Since, Year 1 is the base year. So, the real and nominal GDP of Year 1 are same i.e., £500 billion.

Real GDP = Nominal GDP / GDP Deflator X 100

Real GDP of Year 2 = 700 billion / 125 X 100

= £560 billion

Q.33) In what circumstances is an economy said to be in recession?

[a] If real GDP falls in one quarter compared with the quarter before

[b] If real GDP falls for two consecutive quarters

[c] If real GDP falls in one year compared with the year before

[d] If real GDP falls for two consecutive years

Ans (b)

Explanation -

Statement b is correct: If real GDP falls for two consecutive quarters. This is the definition of a recession used by economists.