SHORT ANSWER QUESTIONS

**Q1.** Briefly explain the concept of Net Indirect Tax. Ans : It refers to the difference between Indirect Tax paid by the enterprises to the Govt. & the Subsidies paid by the Govt. to some of the enterprises. This concept is used to obtain the national income at factor cost or factor prices. The NIT is deducted from market price (MP) to get factor cost (FC).Indirect Tax is the amount of burden whose impact falls on one person or a group and the incidence falls on other person or group. Subsidies refer to the financial assistance or aid provided by the state to the weak & sick units. **Q.2.** Define the term Net Factor Income from Abroad & explain its components. Ans : It is defined as the difference between income earned by the resident households in abroad & the same earned by the foreign residents in a resident country in an accounting year. In other words, it is the income earned from work, property & entrepreneurship by the resident household of a particular country in the ROW 'less' the same earned by the residents of ROW in a resident country in an year. Components of NFIA: I i) Net Compensation of Employees: This refers to the income from work earned by the resident workers in the ROW 'less' the same earned by the resident workers of ROW in a resident country. ii) Net Operating Surplus: This refers to the difference between the income from property & entrepreneurship earned by the residents in ROW & the same earned by the foreign residents in a resident country. (iii) Net Retained Earnings of Resident Companies in Abroad: It is the difference between the retained earnings of the resident companies abroad & the same of the foreign companies in a resident country. **Q3.** Define the following Concepts of Value of Output

1.Intermediate Goods

2.Sales

3.Change in stock Ans : 1. Intermediate Cost / Consumption is defined as the expenditure incurred on raw materials, fuel, semi-finished goods & other inputs by the firms to produce final products. It is the sum of purchase of raw materials & fuel purchased in domestic market & abroad (Import of raw materials). This amount has to be deducted from GVO to obtain GDPMP, as the intermediate expenditure is not estimated in the estimation of NI to avoid the problem of double counting. 2. Final sales are the sum of domestic sales & sales made in abroad (Exports) & production for self-consumption. 3. Change in Stock is defined as the difference between Closing Stock & Opening Stock. Closing stock is the stock of raw materials, semi-finished goods, unsold finished goods been held by the enterprises; strategic materials &food grains held by the govt. agencies; & the livestock held by the animal husbandry, been estimated in the end of an accounting year i.e. 31st of March of a year. Opening stock is the same estimated in the beginning on an accounting year i.e. 1 st of April of year. **Q4..** How are the following treated while estimating private final consumption expenditure Give reasons for your answer. 1. Exports; 2. Direct purchases made abroad by resident household; 3. Final consumption expenditure of non-profit institutions serving households; 4. Change in stocks. Ans: 1. Exports will not be included in private final consumption expenditure as exports do not reflect consumption expenditure by residents. 2. It will be included in private final consumption expenditure as such purchases are meant for consumption. 3. It will be included in private final consumption expenditure as non-profit institutions serving households are a component of household sector. 4. It will not be included in private final consumption expenditure as it is a component of capital formation. Q5. Differentiate between stock & flow. Ans : Stock refers to those variables which are measurable at a given point of time while flow refers to those variables which are measurable during a given a period of time. In this way, stock is static while flow is dynamic. Stock has no time dimension while flow has. For eg. Wealth is stock while income is flow, capital is stock while capital formation is flow

**Q6.Define the Terms Nominal GDP and Real GDP . Ans Nominal Gross Domestic Product** It refers to market value of the final goods and services produced within the domestic territory of a country during a financial year, as estimated using the current year prices. It is also called GDP at current price.

**. Real Gross Domestic Product** It refers to market value of the final goods and services produced within the domestic territory of a country during a financial year, as estimated using the base year prices. It is also called GDP at constant price. **Q7.Why the GDP is not a better indicator of development? Ans. GDP is not Appropriate Indicator for Welfare GDP** may be a good a indicator of economic growth but not economic welfare or economic development, because of:

(i) Ignorance of distribution of income among the population.  
(ii) Welfare is not a component of GDP calculation.  
(iii) Non-monetary transactions are ignored.  
(iv) Externalities (good and bad impact of personal activities on others). **Q8. Define externalities. Give an example of negative externality. What is its impact on welfare?**

**Ans.** Externalities refer to the benefits or harms a firm or an individual causes to another for which they are not paid.

Examples of negative externalities are:

(i) River pollution created by an oil refinery has disastrous effects on aquatic life.  
(ii) It reduces the overall welfare of the society and creates negative externality.

**Q9.What are externalities? Give an example of a positive externality and its impact on welfare of the people.**

**Ans.** Externalities refer to the benefits or harms a firm or an individual causes to another for which they are not paid. These externalities can be positive as well as negative. A positive externality exists when an individual or firm making a decision does not receive the full benefit of the decision, e.g. Immunisation prevents an individual from getting a disease, but has the positive effect of the individual not being able to spread the disease to other.

It enhances the overall walfare of the society and creates positive externalities.

**Q10. Explain how ‘non-monetary exchanges’ are a limitation in taking domestic product as an index of welfare?**

**Ans.** The non-monetary exchanges which take place in the informal sectors are not included in the calculation of GDP since money is not being used. For example, Service of a housewife, kitchen gardening, etc. This results in an under estimation of GDP. Hence, GDP calculated in the standard manner may not give us a clear indication of the productive activity and actual welfare of the country.