

ECONOMICS

2nd semester

Paper - 3CT

Macro Economics

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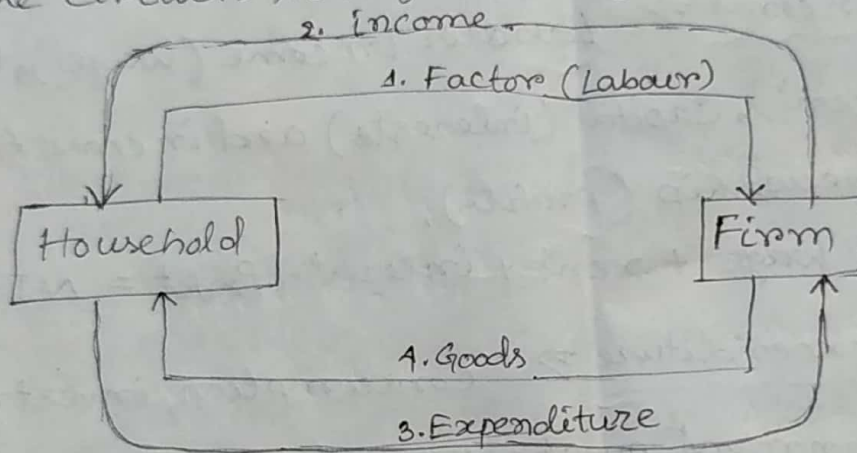
MACROECONOMICS

Q1. What do you mean by National Income?

Ans. The sum total of income earned by the people of a country through their contribution to the production process. It includes not only income earned within the domestic economy but also income earned abroad.

Q2. How the circular flow of income measured?

Ans.



The diagram shows four types of flow, viz. &

- (i) Flow of factors from H to F indicated by 1.
- (ii) The flow of income from F to H indicated by 2.
- (iii) Flow of expenditure from H to F indicated by 3.
- (iv) Finally flow of goods from F to H indicated 4.

Q3. Are national Product, national income and national expenditure equivalent concepts?

Ans. National Product \Rightarrow Market value of final goods and services in primary, secondary and tertiary sectors located both within India and abroad.

National Income \Rightarrow Labour income (wage), Land income (rent), Capital (interests) and income from entrepreneurship (profits).

i.e. $\text{wage} + \text{rent} + \text{interest} + \text{Profit} = \text{NI}$.

National Expenditure \Rightarrow Consumption, investment, Government purchases, net exports are sum.

National income can be expressed equally well as

(1) the market value of production

(2) total income (Land, Labour, capital, organisers).

(3) total expenditure (consumption + investment).

Q4. What are the key terms involved in GDP?

Ans. 1. The market value

GDP is an aggregate of the market values of the various different goods and services produced in the economy.

Exam - Goods and services provided by the government, which are included in GDP at the government's cost of providing them.

2. Final goods and services

Only goods and services consumed by the ultimate user also newly produced capital goods, such as factories and machines are counted in GDP. Intermediated goods and services which are used up in the production of final goods and services are not included in GDP.

3. Produced in a country

Only goods and services produced within a nation's domestic territory are included in GDP.

4. During a given year

Only goods and services produced during the current year are counted as part of the current year's GDP.

Q5. What is GDP (Gross Domestic Product)?

Ans. Really an economy produces numerous goods and services. GDP is money (market) value of all final goods and services produced in an economy in an accounting year.

GDP measure the money value of currently produced goods and services. It does not include the sale of second hand goods such as old cars and old furniture.

Q6. What is Gross National Product (GNP)?

Ans. To arrive at GNP, we have to make two adjustments.

First, We have to add the receipts of factor incomes (wages, rent, interest, profit) from the rest of the world.

Second, we have to subtract factor payment made to the rest of the world.

So we get

$$GNP = GDP \pm \text{net factor incomes from abroad.}$$

Q7. From GDP to Disposable Income (DPI)

Ans. How can we make a transition from GDP to ~~DPI~~ ^{or} DPI?
~~GNP~~ \neq GDP

Ans. $GNP = GDP \pm$ Net factor income from abroad

~~NNNP~~ ~~or~~ ~~GNP~~ ~~PI~~ - ~~Indirect business taxes and other adjustments,~~

~~NNNP~~ ~~or~~ $NNP = GNP -$ Depreciation

$NI = NNP -$ Indirect business taxes and other adjustment

$PI = NI -$ Corporate taxes

- Corporate profits

- Net interest paid and provident fund

+ Government transfer payments

+ Personal interest, dividends and other transfers

$DPI = PI -$ Personal tax.

Q8. How does the national income identity for an open economy?

Ans. From the expenditure side,

$$\text{National income} = C + I + G + X - M$$

where, C - Consumption, I - Investment, G - Govt expenditure
X - Export, M - Import.

Q. What is the GDP deflator?

Ans.

$$\text{GDP deflator} = \frac{\text{Nominal GDP in a given year}}{\text{Real GDP of that year.}}$$

Nominal GDP is the ~~the~~ value of output produced in given period in the prices of that period.

Real GDP is the value of output produced in a given period at converted prices of another period.

Q. Measurement of cost of living

Ans.

The cost of living depends on the rate of price level change.

In a period of inflation the cost of living, with the same amount of money we can buy less goods and services.

measurement \Rightarrow

- i) Consumer Price Index (CPI)
- ii) Laspeyres Index vs Paasche Index
- iii) Producer Price Index (PPI)