

ECONOMICS

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Unit 1

Gross Domestic Product and its Growth: an Introduction

I] Choose the correct answer.

1. GNP equals

- a) NNP adjusted for inflation
- b) GDP adjusted for inflation
- c) GDP plus net property income from abroad.
- d) NNP plus net property income or ~~ab~~ abroad.

Ans → c) GDP plus net property income from abroad.

2. National Income is a measure of

- a) Total value of money
- b) Total value of producer goods
- c) Total value of consumption goods
- d) Total value of goods and services.

Ans → d) Total value of goods and services

3. Primary sector consists of

- a) Agriculture
- b) Automobiles
- c) Trade
- d) Banking

Ans → a) Agriculture

4. _____ approach is the value added by each intermediate good is summed to estimate the value of the final product good.

- a) Expenditure approach
- b) value added approach
- c) Income approach
- d) National Income.

Ans → b) value added approach.

5. Which one sector is highest employment in the GDP.
- a) Agricultural sector b) Industrial sector.
c) service sector d) None of the above

Ans → c) service sector

6. Gross value added at current prices for service sector is estimated at _____ lakh crore in 2018-19.
- a) 91.06 b) 92.26 c) 80.07 d) 98.29.

Ans → b) 92.26

7. India is _____ largest producer in agricultural product.
- a) 1st b) 3rd c) 4th d) 2nd.

Ans → d) 2nd

8. India's life expectancy at birth is _____ years.
- a) 65 b) 60 c) 70 d) 55

Ans → a) 65

9. Which one is a trade policy?
- a) irrigation policy b) import & export policy.
c) land reform policy d) wage policy

Ans → b) import and export policy

10. Indian economy is _____
- a) Developing Economy b) Emerging economy
c) Dual Economy d) All of the above.

Ans → d) All the above

II] Fill in the blanks.

1. Agriculture is the primary sector in India.
2. GDP is the indicator of health of a country's economy.
3. secondary sector otherwise called as industry sector.

III] Match the following.

- | | |
|----------------------------|-----------------------------|
| 1. Electricity/Gas & water | National Income/Population. |
| 2. Price Policy | Gross Domestic Product. |
| 3. GST | Industry Sector |
| 4. Per capita income | Agriculture |
| 5. $C + I + G + (X - M)$ | Tax on goods and service. |

- Ans →
1. Electricity/Gas and water → Industry sector
 2. Price Policy → Agriculture
 3. GST → Tax on goods and service
 4. Per capita income → National Income/Population.
 5. $C + I + G + (X - M)$ → Gross Domestic Product.

IV] Give short answer.

1. Define National Income.

→ National Income is a measure of the total money value of goods and services produced by an economy over a period of time, normally a year.

National income commonly called as Gross National Product (GNP) or National Dividened.

2. What is meant by Gross domestic product?

→ Gross domestic product is the market value of all the goods and services produced in the country during a time period.

3. Write the importance of Gross domestic product.

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- GDP (Gross domestic product) is one of the primary indicators used to measure the health of a country's economy.
 - helps in study of economic growth
 - problems of inflation & deflation.
 - comparison with developed countries of the world.
 - estimate the purchasing power.
 - study of public sector.
 - guide to economic planning.

4. What is per capita income?

→ Per-capita Income is an indicator to show the living standard of people in a country. It is obtained by dividing the National Income by the population of a country. It is also called as output per person of an economy.

5. Define the value added approach with example.

→ In the value added approach, the value added by each intermediate good is summed to estimate the value of final goods.

Eg. A cup of tea which is a final good. The goods used to produce it are - tea powder, milk and sugar. These goods are intermediate goods since they form part of final good, i.e. the cup of tea.

6. Write the name of economic policies in India.

→ Economic policies in India are:

- a) Agricultural policy
- b) Industrial policy
- c) New Economic Policy
- d) Textile Industry Policy
- e) Sugar industry Policy
- f) Price policy of industrial growth
- g) Small scale industrial policy
- h) Industrial Labour policy.

7. Write short note,

1) Gross National Happiness [GNH]

→ Gross National Happiness or GNH is a global indicator of progress which measures both sustainable economy and social developments while protecting the environment & culture.

The four pillars of GNH's are;

- a) sustainable and equitable socio-economic development.
- b) environmental conservation.
- c) preservation & promotion of culture.
- d) good governance.

2) Human Development Index [HDI]

→ The HDI is a composite index of life expectancy at birth, adult literacy rate and standard of living measured as a logarithmic function of GDP, adjusted to purchasing power parity.

A country scores a higher HDI when the lifespan is higher, the education level is higher, the education level is higher & the gross national income or GNI per capital is higher.

v) Write in detail answer.

1. Briefly explain various terms associated with measuring of national income.

→ i) Gross National Product (GNP)

Gross National Product is the total value of goods & services produced and income received in a year by domestic residents in a year of a country. It includes profits earned from capital invested abroad.

$$GNP = C + I + G + (X - M) + NFIA.$$

C = consumption, I = Investment, G = Govt. expenditure,

X - M = Export - Import.

NFIA = Net factor Income from Abroad.

ii) Gross Domestic Product (GDP)

• GDP is the total value of output of goods & services produced by factors of production within the geographical boundaries of country.

iii) Net National Product (NNP)

• NNP is arrived by making some adjustment with regard to depreciation that is we arrive the Net National product (NNP) by deducting the value of depreciation from Gross National Product.

$$\boxed{NNP = GNP - \text{Depreciation}}$$

iv) Net Domestic Product (NDP)

• NDP is part of GDP, NDP is obtained from GDP by deducting the quantum of tear & wear expenses (depreciation).

$$\boxed{NDP = GDP - \text{Depreciation}}$$

v) Per capita Income (PCI)

• PCI or output per person is an indicator to show the living standard of people in a country. It is obtained by dividing the National Income by the population of a country.

$$\text{per capita Income} = \frac{\text{National Income}}{\text{population}}$$

vi) Personal Income (PI)

• Personal income is the total money income received by individuals and households of a country from all possible sources before direct taxes.

vii) Disposable Income (DI)

• Disposable Income means actual income which can be spent on consumption by individuals & families, thus it can be expressed as $DPI = PI - \text{Direct taxes}$.

2. What are the methods of calculating Gross Domestic Product? & explain its.

→ There are 3 methods of calculating Gross Domestic Product,

i) Expenditure Approach

ii) Income Approach

iii) value-added approach.

i) Expenditure Approach

According to this method, the expenditure on all the final goods & services produced in the country during a specific period are added together to get the GDP.

$$Y = C + I + G + (X - M)$$

Y = National Income,

C = Consumption Expenditure, I = Investment Expenditure
G = Government Expenditure, X = Exports, M = Imports.

ii) The Income Approach.

In this method, the earnings of all women and men who are involved in producing goods and services are added together to measure GDP.

$Y = W + R + I + \pi$

Y = National Income, W = Wages, R = Rent,
I = Interest, π - profit.

iii) value added approach

In this method, the value of each intermediate good is added together to estimate the value of final goods.

The sum of the value of all final goods gives us the total value of the final goods produced in the economy, which is measured as GDP.

GDP = Sum of final goods produced in the economy.

S_p = Sum of Intermediate goods produced in the economy.

3. Write about composition of GDP in India.

→ Indian economy is broadly divided into 3 sectors which make up the composition of GDP in India -:

i) Primary Sector

- Includes agriculture based allied activities, production of raw material such as cattle farm, fishing, mining, forestry etc.
- Also called as agricultural sector.

ii) Secondary sector.

- Includes industries that produce a finished usable product or are involved in construction.

- This sector generally takes output of primary sector and manufacture finished goods.
- Also called as industrial sector.

iii) Tertiary sector.

- Includes transport, insurance, banking, trade, education, healthcare etc.
- known as service sector.

4. Write any 5 differences between growth & development.

Economic Growth

Defⁿ: It is positive quantitative change in the output of an economy in a particular time period.

Concept: Economic growth is 'Narrower' concept.

Nature of approach: Quantitative in nature

Term/Tenure: Short term in nature

Applicability: Developed nation

Economic development

It considers rise in output in an economy along with advancement of HDI index.

Economic development is a 'broader' concept.

Qualitative in nature.

long term in nature.

Developing economies.

Date

5) Explain the following economic policies.

1. Agricultural Policy

This policy is a set of government decisions & actions relating to domestic agriculture & imports of foreign agricultural products. Government usually employs agricultural policies with the goal of achieving a specific outcome in the domestic agricultural product markets.

Some agricultural policies are - price policy, land reform policy, irrigation policy, Green revolution, Food policy etc.

2. Industrial policy

Industrial development is an important aspect of any economy. It creates employment, promotes research and development, leads to modernisation & ultimately make the economy self sufficient.

Several industrial policies have been enacted since 1948, eg - Textile industry policy, Sugar industry policy, Price Policy of industrial growth. Small scale industrial policy & Industrial Labour policy.

3. New Economic Policy

The New model of economic reforms is commonly known as LPG known as Liberalisation, Privatisation & Globalisation. The Primary objective of this model was to make the economy of India the fastest developing economy in the globe with capabilities that help to match up with the biggest economies of the world.

These economic reforms influenced the overall economic growth of the country in a significant manner.