***18.*** *Define durable-use consumer goods.*

**Ans:** These are the goods that can be used repeatedly. These last for long.

***19.*** *Give two examples of intermediate consumption in a transport company.*

**Ans:** (*i*) Tyres and (*ii*) petrol.

***20.*** *Give two examples of intermediate consumption in agricultural sector in India.*

**Ans:** (*i*) Seeds and (*ii*) fertilizers.

***21.*** *What are final products?*

**Ans:** Final goods are those goods, which are capable of directly satisfying human wants. These are the ready-to-use goods.

***22.*** *Define value of output.*

**Ans:** Money value of goods and services produced in an economy is called value of output.

***23.*** *What is an economic good?*

**Ans:** A good, which is available in exchange of money, is called an economic good. These are scarce goods.

***24.*** *How is the value of gross output different from gross value added?*

**Ans:** Gross value added does not include intermediate consumption. Thus it is value of gross output minus intermediate consumption.

***25.*** *How is capital loss different from the consumption of fixed capital?*

**Ans:** Capital loss refers to the loss of utility of capital equipment due to external factors such as floods, earthquakes, storms etc. But consumption of fixed capital refers to loss of value of capital equipment due to general wear and tear during the production process.

***26.*** *Explain the meaning of change in stocks.*

**Ans:** Changes in the physical value of stock refers to the following:

(a) Change in the stock of raw materials, semi-finished and finished goods,

(b) Change in the stock of strategic materials, food grains etc held by the government,

(c) Change in the stock of livestock raised for slaughter.

***27.*** *Distinguish between intermediate products and final products.*

**Ans:** When the goods and services are consumed for further production they are called intermediate goods. These goods do not directly satisfy human wants but help in the production of consumer goods. For example, cotton used in spinning and weaving mills. Final goods are the goods ready for final use. For example, car, T.V. sets etc.

***28.*** *What do you understand by demand for intermediate consumption?*

**Ans:** The different production units of an economy such as corporate enterprises, quasi-corporate enterprises, governments, households, require various inputs for production. The demand for these commodities for the purpose of production is called demand for intermediate consumption.

***29.*** *What do you understand by final consumption?*

**Ans:** The demand for goods and services for consumption by general governments, households and non-profit institutions, is called final consumption.

***30.*** *Distinguish between final consumption and intermediate consumption. Give suitable examples.*

**Ans:** Final consumption refers to the demand for various goods and services for current consumption.

It satisfies consumer's needs directly. Demand from final consumption comes from two sectors. They are: (*i*) General government, and (*ii*) Households.

Intermediate consumption means use of non-factor inputs for the purpose of production of goods and services. For example non-factor inputs used in production of wheat are: seeds, fertilizers, water etc.

***31.*** *Distinguish between fixed capital formation and changes in stocks.*

**Ans:** Fixed capital formation refers to the creation or addition of fixed capital assets such as buildings, machines, tools, equipment, roads, railways etc, during a year. Change in stock is the difference between closing stock and opening stock.

Fixed capital formation is addition to fixed capital assets but change in stocks is an addition to inventories. The former is done in view of long-term demand whereas the latter is determined by short-term demand.

***32.*** *What is net value added at factor cost? Is it always equal to factor incomes? Why?*

**Ans:** Net value added at factor cost is the sum total of factor payments. In other words, it is the cost incurred by the firm on various factors of production. It is the result of the contribution of factors of production and hence is distributed among them as factor payments such as rent, wages, interest and profits. Thus, it is equal to the sum of factor payments. In short:

$$\text{Net value added at }_{FC} = \text{Rent} + \text{wages} + \text{Interest} + \text{profits.}$$

***33.*** *Distinguish between value of output and value added at factor cost. Why is it important to measure value added at factor cost?*

**Ans:** Value of output is the money value of all the goods and services produced by a firm at current prices. It can be estimated by multiplying quantity of output with its price. For example, if a cotton textile mill produces 100 meters of cloth and sells at @ Rs. 20 per meter, the value of its output will be Rs. 20000.

Value added refers to the additions made in the value of intermediate goods by a firm with the help of factors of production. For example, cotton textile mill purchases intermediate goods worth Rs. 1000, convert them to cloth, and sell the same for Rs. 1500. Thus, the firm has added the value of Rs. 1500–1000 = Rs. 500.

***34.*** *Explain the end-use classification of goods.*

**Ans:** Goods and services produced by the producing units are consumed by different categories of consumers. These include households, enterprises and general government. According to end-use, goods and services are classified into the following broad categories:

(i) **Consumer goods:** Consumer goods may be durable, non-durable, or perishable.

(ii) **Intermediate goods:** When the goods and services are consumed for further production they are called intermediate goods.

(iii) **Capital goods:** Capital goods are defined as all goods produced for use in future productive processes. These include both durable and perishable goods.

The end-use classification of goods and services clearly explain that a commodity which is a consumer good for one consumer may become intermediate good for another and capital good for the third category.



***35.*** *Distinguish between 'normative' and 'positive' economics.*

**Ans:** A statement that makes a real description of an activity is known as positive statement. Positive statements deal with 'What', 'How' and 'Why' of economic variables. For example, 'India is a poor country', is a positive statement.

A statement which deals with 'what ought to be' is a normative statement. It makes an assessment of an activity and offers suggestions. For example, 'India should check population growth', is a normative statement.

***36.*** *Give the definition of a scarce resource.*

**Ans:** A resource is said to be scarce when its supply is short in relation to its demand.

***37.*** *Define an economy.*

**Ans:** An economy is a place where people earn their living by doing various economic activities.

***38.*** *Give meaning of inductive and deductive methods of constructing economic theory.*

**Ans:** Deductive method is also known as the abstract, analytical, hypothetical or a priori method. This method accepts certain universal truths or axioms and tries to deduce inferences about the particular event through a process of logical reasoning. In other words, deductive method goes from general to particular.

For example, it is a universal truth that 'man is mortal'. Since James is a man he is also mortal.

Inductive method is also known as Historical method, Concrete method, Analytical method and Realistic method. This method starts investigation on the basis of particular facts, historical events and tries to generalize them with reference to the whole economy. Induction is the process of reasoning by which we try to establish a causal relationship between two phenomena through an examination of a number of individual cases in order to get truth or generalize a phenomenon. Inductive method thus moves from particular to general. On the basis of real facts and particular events attempt is made to formulate general laws.

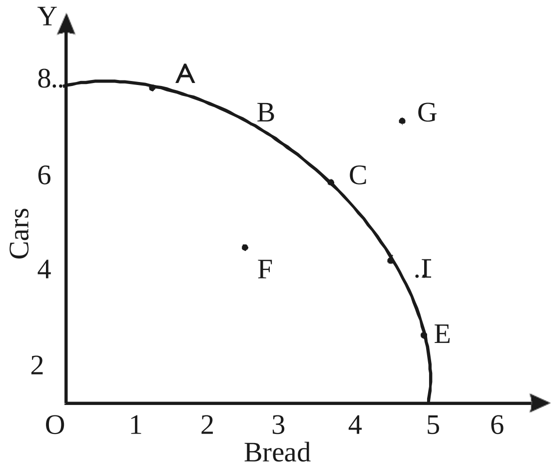
For example, we observe that Jack buys more rice when the price of rice falls. We further observe that James also purchases more rice at a lower price. Likewise, we observe the behaviour of many buyers of rice in the market. We find similarity in their behaviour and formulate a general law that "people purchase more rice at low prices."

***39.*** *Draw a production possibility curve and show the following situation on the diagram:*

*(a) Full employment of resources.*

*(b) Underutilization of resources.*

**Ans:** (*a*) A, B, C, D and E: Full employment of resources. (*b*) F: Underutilization of resources.




***40.*** *Distinguish between short run and long run.*

**Ans:** In the short run, some factor inputs are fixed while the others are variable. Only increasing the quantity of the variable factors can increase the production. The time is so limited that the firms cannot contract to hire additional units of the fixed factors. This sets limit to the maximum quantity of output that a firm can turn out.

In the long run, all the factors of production become variable. A firm can install a new plant or construct a new building in response to increased demand. The distinction between the fixed factors and the variable factors becomes irrelevant. The quantity of output to be produced by a firm will range from zero to an indefinite quantity.

***41.*** *Give two reasons for the operation of the law of increasing returns to scale.*

**Ans:** (*i*) Technical economies.

(*ii*) Discovery of new ways to do things or innovations.

***42.*** *Give two examples each of implicit and explicit costs in a tailoring shop.*

**Ans:** Explicit costs:

(a) Rent of the shop paid to the landlord.

(b) Payments to workers.

Implicit costs:

(i) Tailors' own sewing machines.

(ii) His own labour.

***43.*** *What do substitute goods mean?*

**Ans:** When two goods can easily be used in place of one another with nearly the same level of satisfaction; they are called substitute goods. For example—Tea can be used in place of coffee; similarly sugar and gur are substitutes.

***44.*** *What do complementary goods mean?*

**Ans:** When two goods are of the nature that they are used together to satisfy a particular human want, they are called as complementary goods. For example—bread and butter, scooter and petrol, pen and refill etc.

***45.*** *What is meant by production process?*

**Ans:** It refers to a continuous process of production of goods and services, consumption of goods and services and capital formation in the economy.

***46.*** *What are Giffen's goods?*

**Ans:** Giffen goods are those goods, the demand of which does not increase with decline in their prices, because consumers may be tempted to divert the extra-earned purchasing power to some other better commodity.

***47.*** *What are indirect taxes?*

**Ans:** Taxes that are imposed by the government on production, sale and import of goods are known as indirect taxes. For example—sales taxes, excise duty, custom duty etc. The burden of taxes in such case can easily be shifted to other persons.

***48.*** *What is meant by factor income?*

**Ans:** Income received by the factors of production from the services they have rendered to the producers is called factor income.

***49.*** *What is per capita income?*

**Ans:** Per capita income is an average income of the individuals during a year. It can be expressed as:

$$\text{Per capital income} = \frac{\text{National income}}{\text{Total population}}$$

***50.*** *Define the concept "compensation of employees."*

**Ans:** Compensation of employees stands to all payments made by employers to their employees in the form of wages and salaries and contribution to social security schemes.

***51.*** *What is national income accounting?*

**Ans:** National income accounting is a statistical classification or statement that shows the value of total final goods produced in the various sectors of the economy.

***52.*** *Mention two sources of gross domestic capital formation.*

**Ans:** Two sources of gross domestic capital formation are:

(1) Saving.

(2) Provision for depreciation.

***53.*** *What happens to demand when there is a contraction in demand?*

**Ans:** When there is a contraction in demand, the consumer buys less of a commodity. In other words, demand decreases due to rise in the price of a commodity.

***54.*** *What are transfer earnings?*

**Ans:** Transfer earnings or income are the income received by both households and enterprises without rendering any services or adding to the flow of goods and services. For example, scholarships received by the students.

***55.*** *Differentiate between production for exchange and production for self-consumption.*

**Ans:** The main points of differences between production for self-consumption and production for exchange are as follows:

| *Production for self consumption* | *Production for exchange* |
|---|---|
| 1. Production is meant for self-use. | 1. Production is meant for sale in the market. |
| 2. It does not generate any operating surplus. | 2. It generates operating surplus. |
| 3. It takes place in subsistence economies. | 3. It is the feature of modern economies. |
| 4. No capital formation. | 4. Enables capital formation. |

***56.*** *Distinguish between current transfers and capital transfers.*

**Ans:** The difference between current transfers and capital transfers are shown below:

| *Current transfers* | *Capital transfers* |
|---|---|
| 1. Current transfers are paid out of the current income. | 1. They are paid from the past savings or wealth. |
| 2. They add to the current income of the recipient. | 2. They help in capital formation. |
| 3. They are made in for short-term expenditure. | 3. They are made for long-term expenditure. |

***57.*** *Why is it important to measure the value of goods and services produced?*

**Ans:** It is important because the value of output helps in estimating national income of a country.

***58.*** *What are considered as capital losses?*

**Ans:** Capital losses are the loss of value of fixed assets due to unexpected obsolescence such as natural calamities like floods, earthquakes, depletion of mineral resources etc. Production generally comes to an end during the time of capital loss.