59. *Explain the importance of national income studies.*

Ans: In recent years, national income studies have become very useful for an economy. The points below explain the importance of national income studies:

(a) The government uses national income data to formulate economic policies.

(b) National income figures are important indicators of the economic progress and welfare of a country.

(c) National income estimates are used in comparing the international level of economic progress of welfare.

(d) National income data enable us to have an idea about the structure of an economy.

(e) The data relating to national income are very useful for the trade unions.

(f) National income data are also useful to determine the expenditure for the development of defence in the country.

60. *What is value added?*

Ans: It refers to the addition made in the value of intermediate goods by a firm with the help of factors of production. For example, a cotton textile mill buys raw materials worth Rs. 1000 and converts them into cotton cloth whose market value is Rs. 1500. Here, value added by the firm is Rs.500 (1000-500).

61. *What are inferior goods?*

Ans: Inferior goods are those goods whose demand falls with the fall in price and rises with the rise in price. For example, Biri, Gur, Toned milk etc.

62. *What are capital goods?*

Ans: Capital goods are those goods, which are used for further production. These include both durable and non-durable goods such as machines, factory building, semi-finished goods etc.

63. *Distinguish between economic and non-economic goods.*

Ans: The distinction between economic or free goods and non-economic goods are as follows:

Economic Goods	*Non-Economic Goods*
1. These goods are limited in supply. supply.	1. These goods are available in abundant amount.
2. These goods command price. To obtain such goods, one has to pay price.	2. These goods do not command any price. These are available free of cost.
3. Economic goods are man-made.	3. These are free gifts of nature.
4. Scarce resources are used to produce such goods.	4. No such resources are required in their production.

64. *Write a note on the concept of operating surplus.*

Ans: Operating Surplus is the sum total of income from property (rent and interest) and income from entrepreneurship (profits). CSO has defined it as, **"**Gross output of a producer's value less the sum of intermediate consumption, compensation of employees, consumption of fixed capital and indirect taxes."

65. *Define economic goods.*

Ans: All goods which are scarce in supply, and for which we have to pay something are called economic goods. For example – cloth, milk, books etc.

66. *What is capital formation?*

Ans: An addition made to the existing stock of capital formation during a given period is called capital formation. Thus, it refers to investment in fixed capital assets like machines, tools, buildings, roads, dams, etc.

67. *Define net value added at factor cost.*

Ans: Net value added at factor cost is the sum total of factor payments. It is the cost incurred by the firm on various factors of production.

68. *Define break-even point.*

Ans: The break-even point is the point at which firm's total revenue (TR) equals total cost (TC).

69. *Explain the nature of Production process.*

Ans: Production process is a continuous process in which goods and services are produced, consumed and the surplus of production over consumption is carried over to the next year in order to produce more goods and services. Since, human wants are unlimited and reoccur frequently, production is to go on continuously. Production becomes necessary also for the maintenance and replacement of capital equipment. Production process requires use of factors of production. These factors of production are required to be organized in order to increase efficiency. Further, selection of appropriate technology is a prime decision to be taken by the producers.

70. *What are primary inputs?*

Ans: These are also known as factor inputs. Factor inputs are mainly of four types – land, labour, capital and enterprise that help in the process of production.

71. *Give two examples of private corporate enterprise.*

Ans: (*i*) Reliance Industries Ltd.

(*ii*) Infosys Ltd.

72. *Define dividend.*

Ans: Dividend is that part of profit of a corporate enterprise which is distributed among the shareholders.

73. *What are transfer payments?*

Ans: Transfer payments are those payments, which are received without doing any work or without contributing to the flow of goods and services.

74. *Name three collective wants to be satisfied by govt. production.*

Ans: (*i*) Health; (*ii*) Law and order, and (*iii*) Street lighting.

75. *Give two examples of financial non-departmental enterprises in India.*

Ans: (*i*) Industrial Finance Corporation of India.

(*ii*) Life Insurance Corporation of India.

76. *Give two examples of acquiring foreign financial assets.*

Ans: (*i*) Investment in foreign countries.

(*ii*) Excess of exports over imports.

77. *State the relationship between demand & price.*

Ans: Law of demand states that other things remaining the same, demand for a good will fall if price rises and vice versa. Demand for a good has inverse relationship with its price.

78. *Define Gross Fixed Capital Formation.*

Ans: Gross fixed capital formation means investment made in fixed capital assets like machines, tools, buildings, roads, etc during a year. It is the sum of net fixed investment and depreciation.

79. *What are goods in economics?*

Ans: All material things that satisfy human wants are called goods in economics. For example–books, pens, cloth etc.

80. *Explain the concept of mixed income of self-employed.*

Ans: Mixed income is the income of self-employed persons like doctors, lawyers, barbers, shopkeepers, farmers etc. These persons work both as producers and as suppliers of factor services to themselves independently. Some part of their income relates to wage income and the rest part to property income. So, their income is called as mixed income. Mixed income is generated in all the sectors of the economy. However, the primary sector constitutes the larger part of the mixed income. Mixed income included in the national income.

81. *Differentiate between consumer goods and producers' goods.*

Ans: Consumer goods are the goods finally used by the consumers to satisfy their wants. These goods directly satisfy human wants.

Producer goods are those goods, which are used by the producers to produce more goods or continue the process of production.

The examples of consumer goods are milk, food, a TV set; car etc and that of producers' goods are machines, tools, equipments etc.

82. *State the process of capital formation.*

Ans: An addition made to the existing stock of capital during a given period is called capital formation. Thus, it refers to investment in fixed capital assets like machines, tools, buildings, roads, dams etc. Capital formation depends on saving. More saving leads to more capital formation.

83. *What is factor cost?*

Ans: Total cost incurred by the producer on various factor of production during the process of production is called factor cost. This is factor income for the factors of production.

84. *Define land.*

Ans: Land in economics does not only mean the upper surface of the earth but also all other free gifts bestowed to us by nature such as air, water, sunshine, rivers, forests, mountains, mines etc.

85. *What is Capital?*

Ans: Capital refers to all man made goods, which is used for further production. For this reason capital is called produced means of production.

86. *"Economic is a science of choice" Discuss.*

Ans: Economics is a science of choice. Every economy is faced with this basic problem. This has been reflected in the definition given by Prof. Lionel Robbins in his book, "An Essay on the Nature and Significance of Economic Science". According to Robbins economics studies human wants and scarce means, which have alternative uses. Scarcity of means in relation to unlimited wants leads to the problem of making a choice. Hence, the problem of choice is the central problem of an economy.

87. *State the Law of Diminishing Returns?*

Ans: The law of diminishing returns is one of the very old laws in economics. Sir Edward West was the first to explain this law. It states that when an additional unit of a variable factor is applied while other factors are fixed, the total product increases at a decreasing rate. According to Prof. Boulding, **"**As we increase the quantity of one input which is combined with a fix quantity of the other input, the marginal physical productivity of the variable input must eventually decline."

88. *What is elasticity of supply? How is it measured?*

Ans: Elasticity of supply of a commodity measures changes in the quantity supplied as a result of a change in the price of the commodity. It can be measured as:

$$E_s = \frac{\text{Percentage change in quantity supplied}}{\text{Percentage change in price of the commodity}}$$

$$E = \frac{\Delta q}{\Delta p} \times \frac{p}{q}$$

89. *Define supply.*

Ans: The supply refers to the quantity of a commodity that a seller is prepared to sell in the market at a given price at a given time.

90. *What are free goods?*

Ans: Free goods are those goods that are available in abundance and these goods, therefore, do not command any price. For example–air, sun shine, water etc.

91. *Name a Governmental Enterprise in India.*

Ans: Food Corporation of India (FCI).

92. *Name a government non-departmental enterprise.*

Ans: Bharat Heavy Electronics Ltd (BHEL).

93. What is labour in economics?

Ans: Labour is any type of human activity–physical or mental done with a view to earning money.

94. Distinguish between product-based division of labour and process-based division of labour.

Ans: Division of labour refers to the division of total work or amount of labour into a number of parts or works and assigning of each part to the person who is best fit in. It may be of two types:

1. Product based division of labour.
2. Process based division of labour.

Product based division of labour implies specialization in the production of a single complete commodity or service. For example, a farmer in India takes care of all processes in production such as cultivation, sowing of seeds, irrigation, harvesting, selling etc.

On the other hand, process based division of labour refers to the production of a commodity or rendering a service by dividing the whole work into a number of operations or processes and assigning each operation or process to a worker who is expert to do the work. Thus, it means specialization in the single process in the production of a commodity. For example, in a modern tailoring shop, one person cuts the cloth. Another does stitching and another buttons, and so on.

95. Why is the cost curve always "U" shaped? Give the reasons.

Ans: Average cost is usually U shaped. At first, the average cost is high due to large fixed cost and small output. As output increases, the fixed cost is thinly spread over the larger number of units produced, and the average cost accordingly falls. This is due to various internal economies and fuller use of indivisible factors. But when diminishing returns sets in due to difficulties of management and limitations of plants and space, the variable costs and therefore average costs start increasing. The lower end of the curve turns up and gives it a U shape. That is why average cost curves are U shaped.

96. Differentiate between durable and non-durable goods.

Ans: Durable goods are those goods, which can be put to repeated use whereas non-durable are those goods that can be used only once. Durable goods have long life. Examples of durable goods are TV set, furniture, car etc. Non-durable goods have very short life. Vegetables, fruits, milk etc are the examples of non-durable goods.

97. Distinguish between labour-intensive and capital-intensive technology of production.

Ans: Labour intensive technology of production refers to the technique in which more labour per unit of output is used. On the other hand, capital-intensive technology uses more capital per unit of output.

98. Although water is useful but it is cheap, on the contrary a diamond is not much of use but is very expensive. Give an economic reason for this paradox.

Ans: Water is available in plenty whereas diamond is scarce. Therefore, water commands no price but diamond is very expensive.

99. *How do you find out whether a particular expenditure is on intermediate goods or final goods?*

Ans: If the expenditure on a product is meant for further production of goods and services or for resale, then it is the expenditure on intermediate goods. But if the expenditure on a particular good is for private consumption or investment, then it is the expenditure on final good.

100. *Define equilibrium point.*

Ans: The point where demand is equal to supply is called the equilibrium point.

101. *What is equilibrium price? How is it determined?*

Ans: The price prevalent at the equilibrium point is called the equilibrium price. According to Marshall, when the demand price is equal to the supply price, the total output produced has no tendency either to be increased or decreased; it is said to be in equilibrium. The illustration below shows how the equilibrium price in the market is determined.

Price of sugar (Rs.)	*Demand (Kg)*	*Supply (Kg)*
20	20	3
25	18	8
30	14	10
36	12	12
52	10	14
65	8	18
70	3	20

The above table shows demand and supply of sugar at different prices. Demand and supply are equal at 12 Kg of sugar. This is the equilibrium point. At this point price of sugar is Rs. 36 kg. Thus the equilibrium price in the market is Rs. 36.

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

Ans: Short run is a time period when some factors are fixed and some variable. Adjustment to demand can only be done by changing the variable factors such as raw materials, labour, power etc. A firm cannot change the amount of factors such as land, machinery, factory building etc. Long run is a time period when all factors are variable. A producer has enough time to expand his business by changing plants and equipments etc.

103. *How is a seller under perfect competition a price taker? What is the relevance of the characteristic that there is large number of sellers in this context?*

Ans: Under perfect competition, the price of the commodity is determined by the equilibrium between demand and supply of the industry. No individual firm can influence the price as he has the insignificant share of the total quantity of a commodity. Thus a firm has to accept the price as determined by the industry. Therefore it is said that a firm under perfect market is a price-taker.

The presence of a large number of buyers and sellers is an important condition of a perfectly