competitive market. It indicates that every buyer and seller is so small relative to the entire market that he cannot affect the market price by changing his purchases or output.

104. *Distinguish between economic rent and transfer earnings.*

Ans: Economic rent is the actual cost and so it is an essential part of the cost of production whereas transfer earning is the opportunity cost. It is not the part of cost of the production. Economic rent is the difference between actual earnings and transfer earnings of a factor, whereas transfer earnings are actual earnings minus rent.

105. *What is economic rent? Can factors other than land also earn rent? Explain briefly.*

Ans: According to classical economists economic rent is the payment for the use of land only. But according to the modern economists, rent is paid not only to land but to all the factors of production. According to them, it is the payment to any factor of production over and above the minimum price (transfer earnings), which it must get.

106. *Give three main features of Ricardian Theory of Rent.*

Ans: The three important features of Ricardian theory of rent are the following:

(i) Rent is paid to land only.

(ii) Rent is price paid for the use of original and indestructible powers of the soil.

(iii) Rent is a differential surplus—the difference between the produce of the superior lands and marginal lands.

107. *Discuss five conditions under which trade unions can raise wages.*

Ans: The conditions under which trade unions can raise wages are the following:

(a) When wages are less than the marginal revenue productivity of labour, trade union can get wages raised up to the level of their marginal revenue productivity.

(b) When higher wages results in raising productivity, the MRP curve of labour shifts to the right. In this situation, it is possible for the employers and trade unions to maintain the higher level of wage rate.

(c) If the increase in costs due to higher wages can be passed on to the consumers in form of higher prices of the commodities, trade unions can raise the wages.

(d) When the industry is earning abnormal profits, wages may be raised.

(e) If the demand for a particular type of labour in an industry is inelastic, trade unions can easily get the wages raised.

108. *What is derived demand?*

Ans: Derived demand means the demand, which depends upon the demand of other goods and services. For example demand for labour is a derived demand, as it depends upon the demand of final goods produced by labour.

109. *What are real wages?*

Ans: Real wages refer to total quantity of goods and services that can be purchased by a worker with his money wages.

110. *Name the factor, which determines the demand for labour.*

Ans: Demand for labour depends upon the following factors:

1. Marginal productivity of labour.
2. Price of substitutes factors.
3. Demand for the goods, which is being produced.

110. *Distinguish between nominal wages and real wages.*

Ans: Nominal wages are the payments made to labourers for their services in form of money or cash. If a worker gets Rs. 5000/- per month, it is an example of money wages.

Real wages refer to the total wages of a labourer that he gets in form of money and other facilities. Suppose a worker in addition to his money wage, gets some facilities like free education, medical facilities, subsidized houses etc, all this constitute his real wage.

111. *What factors influence real wages?*

Ans: The following factors affect real wages:

(*i*) Price level; (*ii*) Supplementary income; (*iii*) Nature of employment and (*iv*) Future prospects.

112. *Discuss the characteristics of labour as a factor of production.*

Ans: Labour is any type of human activity—physical or mental done with a view to earning a reward. Following are the characteristics of labour:

(a) It is a human factor.

(b) It is an active factor of production as other factors depend upon labour for their use.

(c) Labour is perishable. It cannot be stored.

(d) Labour is mobile. A labourer sells his labour not himself.

(e) Labour cannot be separated from labourers.

(f) The demand for labour is a derived demand.

(g) Labour varies in efficiency.

113. *Describe the causes of differences in rates of wages that exist in any country at a particular time.*

Ans: The causes of wage differentials can be classified into two categories:

(a) Wage differentials between different occupations.

(a) *Difference in demand for goods*: Demand for labour depends upon the demand for goods in the production of which they are employed. Demand for different commodities is not same. Difference in demand for different goods is an important factor that causes wage differentials.

(b) *Expenses on training*: Larger the expenses on training, more is the wage and vice versa.

(c) *Supplementary income*: Workers are ready to work at low wages in certain occupations where they can supplement their incomes compared to workers working in those occupations where there are fewer chances for them to supplement their incomes.

(d) *Risk of life*: In certain occupations, a great risk of life is involved. Therefore in such occupations, money wages are higher than the wages in less risky occupations.

(e) *Social status*: The greater the respect a person enjoys the lower the wages at which he would be ready to work. So wages tend to vary from occupation to occupation.

(*f*) *Future prospects*: Future prospects also vary from occupation to occupation. People are always ready to join occupations, where their future is bright at low wages.

(b) Wage differentials within the same occupation.

(a) *Differences in efficiency of labour*: All labourers are not alike. They differ in their efficiency. More efficient workers get better wages as compared to less efficient workers.

(b) *Geographical mobility*: Wages differ within the same occupation at different places. A worker earns much more in Delhi than at Kohima.

114. *What does the real flow of income show?*

Ans: Real flow of income shows the flow of goods and services between households and firms.

115. *Does transfer earning enter into national income?*

Ans: Transfer earnings do not enter into national income as these have not been earned but merely transferred by the government to other agencies.

116. *What do you call the assistance given by the government to firms to compensate for the costs?*

Ans: These are called subsidies.

117. *Define domestic factor income.*

Ans: The income generated within the domestic territory of a country by all producers is termed as domestic factor income.

118. *What do you understand by net retained income of resident company abroad?*

Ans: The difference between the retained earnings of foreign companies located in a country and the retained earnings of resident companies located abroad is called as net retained earnings from abroad.

119. *What is sum total of rent, interest and profits?*

Ans: Operating surplus.

120. *Explain the concept of operating surplus.*

Ans: Operating surplus is the income from control and ownership of capital. According to CSO, "Gross output at producer's value less the sum of intermediate consumption, compensation of employees (including labour income of the self-employed), consumption of fixed capital and indirect taxes." Symbolically,

OS = Gross value of output - Intermediate consumption – Consumption of fixed capital – Indirect taxes – Compensation of employees.

Or

OS = Income from property (rent + interest) + Income from entrepreneurship (profit)

121. *What are the components of the compensation of employees?*

Ans: Compensation of employees is mainly divided into the following two components:

(a) Wages and salaries, and

(b) Social security contributions.

Wages and salaries are the reward for the services rendered by the workers. These may be in kind or in cash. These include:

(*a*) Salary; (*b*) commission; (*c*) bonus; (*d*) dearness allowance; (*e*) housing allowance; (*f*) rent free accommodation; (*g*) free medical facilities; (*h*) car allowance etc.

Compensation of employees also includes social security contributions made by the employers to their employees. These are provident fund, pensions, casuality or life insurance etc.

122. *What do you understand by factor incomes?*

Ans: Income earned by factors of production during the process of production is known as the factor incomes.

123. *Briefly explain the concept of a mixed income of the self-employed.*

Ans: It is the income of self-employed persons like doctors, lawyers, chartered accountants, barbers, shopkeepers, farmers etc. These persons work both as producers and as suppliers of factor services to themselves independently. Some part of their income is wage income and the rest relates to capital income. Therefore their income is called as mixed income. Mixed income is generated in various sectors of the economy. The largest part of the mixed income is generated in the primary sector of the economy. Mixed income is included in the measurement of national income.

124. *What is compensation of employees?*

Ans: Compensation of employees refers to all payments made by employers to their employees in form of wages and salaries, both in kind and cash, and contribution to social security schemes.

125. *What are corporate taxes?*

Ans: Taxes levied on company's income are called corporate taxes.

126. *Give one example each of voluntary and compulsory transfers.*

Ans: *Voluntary transfers*: Governments grants.

Compulsory transfers: Wealth tax, estate duty.

127. *In which sectors of the Indian economy expenditure or commodity flow method of national income estimation is used?*

Ans: Construction sector.

128. *Name four inputs used in Indian agriculture.*

Ans: Seeds, fertilizers, water, and electricity.

129. *Name the sub-sectors of the secondary sectors.*

Ans: Manufacturing (registered and unregistered), electricity, gas and water supply, construction and trade, hotels and restaurants.

130. *Name the sub-sectors of the primary sector.*

Ans: Agriculture, forestry and logging, fishing, mining and quarrying and registered manufacturing.

131. *How is net-value added by registered manufacturing estimated in India?*

Ans: The actual figures of compensation of employees, interest, rent and profits relating to different enterprises in the manufacturing sector are aggregated to get the value added.

132. *Who publishes 'National Accounts Statistics in India'?*

Ans: Central Statistical Organization, New Delhi.

133. *Name the sectors of the Indian economy for which value added approach is used for measuring their contribution to national income.*

Ans: Agriculture, forestry and logging, fishing, mining and quarrying and registered manufacturing.

134. *Name the sub-sectors into which the Indian economy is divided for the purpose of estimation of domestic product.*

Ans: 1. Primary Sector

(i) Agriculture, forestry and fishing

(ii) Mining and quarrying

2. Secondary sector

(i) Manufacturing

(ii) Electricity, gas and water supply

(iii) Construction

(iv) Trade, hotels and restaurants

3. Tertiary sector

(i) Transport, storage and communication

(ii) Financing, insurance, real estate and business services

(iii) Community and personal services.

135. *Name four major activities of the tertiary sector of an economy.*

Ans: Banking and Insurance; transport; trade and hotels and real estate, ownership of dwellings, public services.

136. *What do you understand by acquisition of financial assets abroad? Give one example.*

Ans: Acquisition of financial assets abroad means financial assets or capital such as shares and bonds etc held by residents and government of a country abroad. For example, loans given to foreign countries.

137. *What do you understand by the term value added? What is its significance in national accounting?*

Ans: Value added is the difference the value of goods and cost of inputs used in producing them. In other words, the value created at different stages of production is called value added. It can be calculated by deducting intermediate consumption from its value of output. Symbolically,

Value added = Value of output – Intermediate consumption

The concept has great significance in national income accounting. Double counting is the main problem involved in the calculation of national income. In order to avoid this problem, value added method of measuring national income is used.

138. *What is meant by intermediate expenditure?*

Ans: The expenditure on non-factor inputs such raw materials; fuel etc, for the purpose of production is called intermediate expenditure.

139. *What does capital transfer mean?*

Ans: Capital transfers are those transfer payments that create physical assets and thus, promote capital formation. For example, investment allowance to a production unit or compensation for war damages by the government to households etc.

140. *Define the concept of producers' goods.*

Ans: Producer's or capital goods are the goods used for the production of final consumer goods. These goods do not directly satisfy human wants but help in their production. The demand for capital goods is called derived demand. Factory building, plant, equipment, machinery, dams, canals, roads, bridges, powerhouses, etc are the examples of capital goods. Capital goods can be classified into two types: (*i*) Single-use capital goods, and (*ii*) Durable capital goods.

141. *What is meant by tax?*

Ans: Tax is a compulsory payment to the government by the households and enterprises of a country.

142. *Is income equal to savings plus consumption?*

Ans: Yes.

143. *What is meant by net exports?*

Ans: Net export is the difference between the exports of a country to the rest of the world and imports from the rest of the world.

144. *Give an example of close substitute.*

Ans: Tea and coffee are close substitutes.

145. *Why is current transfer from abroad not a part of national income?*

Ans: Current transfers from abroad not a part of national income because these do not contribute to the flow of goods and services in the economy.

146. *Distinguish between depression and recession.*

Ans: Depression is a stage when the business confidence is at its lowest level. Investment, employment, output, income, and prices — all are at low level. Recession is a stage when there