INDIAN ECONOMIC DEVELOPMENT

CLASS-XII

LATEST 2026 CBSE SAMPLE PAPERS

Detailed Explanation of each concept as per CBSE Syllabus

300+ Practice Questions (from CBSE and KVS Sample Question Papers) along with Answer Key

Cheat Sheet or Chapter Summary for Last Minute Revision

Contents

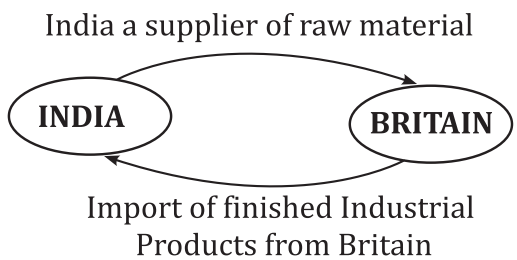
CHAPTER
1
Indian Economy on the Eve of Independence

TOPICS TO BE COVERED

- Agriculture Sector
- Industrial Sector
- Occupational Structure
- Demographic Conditions
- Foreign Trade
- Infrastructure
- The Features of the Indian Economy on the Eve of Independence

- **Before the advent of British rule, India was:**
  1. Independent economy
  2. Agriculture was main source of livelihood
  3. Famous for handicraft (in the field of cotton, silk, metal, precious stones etc.)
- **Sole Purpose of British Colonial rule in India:** Development of modern industries in Britain by making India a supplier of raw materials which was to be used in the production of final goods in Great Britain.

  The economic policies made by Britishers were more related to the protection and promotion of economic interest of their home country than the development of India. This made India a supplier of raw material and consumer of finished Industrial Products from Britain.



AGRICULTURE SECTOR

- **State of agriculture sector on the eve of Independence:**
  1. Main Source of living
  2. Low productivity/Stagnant
  3. Dependence on monsoon

- **Causes of Stagnation and Low Productivity in agriculture Sector:**

  1. **Land Settlement:** Under British rule, Zamindar/landlord exploited Cultivators in many ways.

     First, they charged high rent/Lagaan without knowing the monetary conditions of farmers.

     Second, they grabbed ownership rights of land from the farmers as a punishment for delay in rent payment

     Third, they did zero efforts towards making improvements on land

  2. **Lack of proper inputs:** Low level of technology is lack of irrigation facility and negligible use of fertilisers, added to aggravate the flight of the farmers and contributed to the dismal level of agricultural productivity.

  3. **Commercialisation of agriculture:** It refers to the production of cash crops instead of food crops. Indian farmers were forced to grow commercial crops (like indigo, cotton, jute etc). Instead of food crops (like rice and wheat). This commercialisation of agriculture not only increased the burden of high revenues on the poor farmers but also led India to face shortage of food grains, resources, technology and investment. Therefore, Indian agriculture remained backward and primitive.

INDUSTRIAL SECTOR

Britishers were the reason for de-industrialisation by not taking any steps to promote modern industry and reduced India to only an exporter of raw material and importer of finished goods.

The British had a two fold motive in de-industrializing India:

- To make India a supplier of raw materials for British industries at cheap rates.
- To create a market in India for British-manufactured goods, thereby eliminating Indian industries.

Textile Industry in Bengal: Muslin is a type of cotton textile which had its origin in Bengal, Particularly, Places in and around Dhaka (now the capital city of Bangladesh). Daccai Muslin had gained world-wide fame as an exquisite type of cotton textile. The finest variety of muslin was called malmal. Foreign travellers also used to refer to it as malmal shahi or malmal khas meaning that it was wore by, or fit for, the royalty.

In the second half of the 19th century, modern industry showed slow growth.

This development was confined to the setting up of cotton and jute textile mills.

Subsequently, the iron and steel industries began coming up in the beginning of the 20th century. In this context, the Tata iron and steel company (TISCO) was incorporated in August, 1907 in India. It established its first plant in Jamshedpur (Bihar at present Jharkhand).

But, these Industries were the result of hard work by the private sector. The government role in the process of modern Industrialisation was very limited.

- **The state of the Industrial Sector at the eve of Independence:**

  1. **Destruction of Handicraft Industry:** The Britishers adopted the following policies to systematically destroy the handicraft Industry.

     (i) Discriminatory Tariff Policy of the British Government: Heavy tariff on the export of Indian Handicraft was imposed and tariff free export of raw material to Britain was allowed So, Indian handicraft started losing their markets.

(ii) **Competition from Machine – made Products:** Machine made products from Britain were cheap and better in quality than the handicrafts products. This also led Indian handicrafts to close their business.

(iii) **Introduction of Railways in India:** The Britishers introduced Railways in India, to expand the market of its law priced Industrial Products.

So, the demand for expensive handicrafts products started to fall, thus heading to the downfall of handicrafts industry.

2. **Slow Growth of Modern Industry Reasons:**

(i) **Limited Growth of Public sector Enterprises:** Only few public sector enterprises such as railways, power, pot and telegraph were developed by the Britishers to increase the market size for British products in India.

(ii) **Lopsided Industrial Structure:** The Industrial growth was lopsided; in the sense that the consumer goods industry was not adequately supported by the capital goods Industry.

(iii) **Lack of Basic and Heavy Industries:** No Priority was given for the development of basic and heavy Industries

TISCO was the only heavy Industry in India.

OCCUPATIONAL STRUCTURE

It refers to the distribution of workforce among different economic sectors such as Primary, Secondary and tertiary sector.

❑ **State of Occupational Structure on the eve of Independence:**

1. Agriculture was the main source of occupation and about 72.7 percent of the working population was engaged in agriculture.
2. Only 10.1 percent of the working population was engaged in the manufacturing sector, which showed the backwardness of Indian Industry.
3. Only 17.2 percent of the working population was engaged in the service sector, which also proved the slow growth of tertiary sector.
4. There was an unbalanced growth of the Indian economy at the time of Independence. It indicates regional variations. There was a rise in agricultural workforce in Punjab, Rajasthan and Orissa but a fall in that of Bombay and Madras Presidency.

DEMOGRAPHIC CONDITIONS

It includes a detailed estimation of population size, along with a complete demographic profile of the country like death rate, birth rate etc.

India's 1st official census operation was undertaken in the year 1881. After that the census is conducted every 10 years.

Year of Great Divide 1921	
Phase-I	**Phase-II**
1921 was the year of great divide in the history of population growth in India because the growth rate of population was generally low before 1921	After 1921, there was considerable and continuous increase in the population that is called phase two of demographic transition.

MULTIPLE CHOICE QUESTIONS

1. Main intention of the British rulers behind the introduction of railways in India was:

(*a*) to earn profit through foreign trade.

(*b*) to break geographical and cultural barriers.

(*c*) cheap and rapid movement of people from one place to another.

(*d*) to develop India's cotton and jute industry.

2. Which of the following is not a true statement?

(*a*) On the eve of Independence, agriculture was the principal occupation of the people in India.

(*b*) Mining is the main secondary occupation.

(*c*) Indian manufactured products enjoyed a worldwide market before the British established themselves in India.

(*d*) The role of the public sector under the British rule was confined only to a few industries.

3. Which major economic sector dominated the Indian economy on the eve of independence?

(*a*) Agriculture (*b*) Manufacturing

(*c*) Services (*d*) Mining

4. Whose estimate of national income was considered very significant? **(KVS SQP 2019-20)**

(*a*) Dadabhai Naoroji (*b*) William Digby

(*c*) RC Desai (*d*) VKRV Rao.

5. Major contribution to the GDP of the country on the eve of independence was from: **(KVS SQP 2019-20)**

(*a*) Tertiary sector

(*b*) Primary Sector

(*c*) Secondary sector

(*d*) Both Primary and secondary sector.

6. The main interest of the Zamindar was: **(KVS SQP 2019-20)**

(*a*) To collect rent

(*b*) To improve the condition of agriculture

(*c*) To produce food crops

(*d*) To produce cash crops

7. Details about the population of British India were first collected in: **(KVS SQP 2019-20)**

(*a*) 1871 (*b*) 1881

(*c*) 1891 (*d*) 1901

8. Initially, the industrial development was confined to the setting up of: **(KVS SQP 2019-20)**

(*a*) Cotton textile mills

(*b*) Jute textile mills

(*c*) Cotton and jute textile mills

(*d*) Capital goods industry

9. In the history of demographic transition, which year is regarded as the year of great divide? (**KVS SQP 2019-20**)

(*a*) 1901 (*b*) 1902

(*c*) 1921 (*d*) 1923

10. TISCO was set up in which year?

(*a*) 1901 (*b*) 1900

(*c*) 1853 (*d*) 1907

11. The first official census of India was conducted in

(*a*) 1891 (*b*) 1781

(*c*) 1881 (*d*) 1901

12. Which of the following is a cash crop?

(*a*) Rice (*b*) Wheat

(*c*) Jute (*d*) Jowar

13. The demographic profile of India on the are of independence showed

(*a*) High poverty

(*b*) High mortality rate

(*c*) High illiteracy

(*d*) Seal of the above

22. The first official census of British India was conducted in the year ____________________.

(*a*) 1851 (*b*) 1951

(*c*) 1881 (*d*) 1981

23. Read the following statements Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

Assertion (A): The colonial government never made any sincere attempt to estimate India's national and per capita income.

Reason (R): Growth of aggregate real output during the first half of the twentieth century was less than two per cent.

Alternatives:

(*a*) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

(*b*) Both Assertion (A) and Reason (R) arc true and Reason (R) is not the correct explanation of Assertion (A).

(*c*) Assertion (A) is true but Reason (R) is false.

(*d*) Assertion (A) is false but Reason (R) is true.

24. Read the following statements Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

Assertion (A): More than half of India's Foreign trade was restricted to Britain.

Reason (R): Britain maintained Monopoly control on India's imports and exports.

Alternatives:

(*a*) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

(*b*) Both Assertion (A) and Reason (R) arc true and Reason (R) is not the correct explanation of Assertion (A).

(*c*) Assertion (A) is true but Reason (R) is false.

(*d*) Assertion (A) is false but Reason (R) is true.

25. Which of the following was a key feature of the 'Drain of Wealth' theory put forward by Dadabhai Naoroji?

(*a*) Development of Indian industries

(*b*) Transfer of wealth from India to Britain

(*c*) Increased agricultural productivity

(*d*) Equal distribution of resources in India

SUBJECTIVE TYPE QUESTIONS

1. "During the colonial period, a number of socio-economic indicators were in a dilapidated state." List any three such indicators that led to the worsening of India's demographic profile. **(CBSE SQP 2023-24)**

2. "The pre-independent India's occupational structure experienced growing regional variation." Justify the above statement with valid explanation. **(CBSE SQP 2023-24)**

3. Identify and briefly explain three key features of the Indian economy on the eve of independence that contributed to its predominantly stagnant structure. **(CBSE SQP 2023-24)**

4. Describe three key features of India's foreign trade on the eve of independence. Illustrate with examples the country's trading patterns with other nations. **(CBSE SQP 2023-24)**

5. In order to understand the complexities of the industrial sector in India on the eve of independence, elaborate on the prevailing conditions that contributed to "Systematic de-industrialization" and technological backwardness. **(CBSE SQP 2023-24)**

6. Analyze the complex challenges posed by India's foreign trade situation on the eve of independence. Investigate the factors that led to the trade imbalances and dependence on imports during this period. **(CBSE SQP 2023-24)**

7. Comment upon any two salient features of the foreign trade policy of India, on the eve of Independence.

8. Highlight the challenges faced by the agricultural sector in India during the eve of independence.

9. Do you agree with the view that the zamindari system brought stability to cultivation during the British rule in India? Give reason for your answer.

10. (A) What was the state of Indian agriculture on the eve of independence?

(B) Comment upon the state of agriculture in India during the pre-British period.

11. What was the monopoly control of India's foreign trade by the British government? How was the two-fold motive behind the systematic de-industrialisations of the British in pre-independent India?

Answers

1. (*a*)	**2.** (*b*)	**3.** (*a*)	**4.** (*d*)	**5.** (*b*)	**6.** (*a*)	**7.** (*b*)	**8.** (*c*)	**9.** (*c*)	**10.** (*d*)
11. (*c*)	**12.** (*c*)	**13.** (*d*)	**14.** (*a*)	**15.** (*b*)	**16.** (*d*)	**17.** (*d*)	**18.** (*b*)	**19.** (*c*)	**20.** (*b*)
21. (*d*)	**22.** (*b*)	**23.** (*a*)	**24.** (*a*)	**25.** (*b*)					

Solutions

SUBJECTIVE TYPE QUESTIONS

1. India's demographic indicators were in a dilapidated state during the colonial period as:
   - The overall literacy level was less (below 16%).
   - Life expectancy was very low (32 years).
   - Alarming infant mortality rate (218/1000).

2. The pre-independent India's occupational structure experienced growing regional variation as:
   - Parts of Madras Presidency, Bombay and Bengal witnessed a decline in the dependence of the workforce on the agricultural sector with a commensurate increase in the manufacturing and the services sectors.
   - There had been an increase in the share of workforce in agriculture in states such as Orissa, Rajasthan and Punjab.

3. Three key features of the Indian economy on the eve of independence that contributed to its predominantly stagnant structure:

   I. **Agricultural Dominance and Low Productivity:** The Indian economy was primarily agrarian, with agriculture being the main occupation for a significant portion of the population. However, the agricultural sector suffered from low productivity due to traditional and outdated farming methods. Lack of modern agricultural technology, inadequate irrigation facilities, and fragmented land holdings limited economies of scale, resulting in stagnant agricultural output and perpetuating rural poverty.

   II. **Colonial Economic Exploitation:** The British colonial rule pursued economic policies that were designed to serve Britain's interests at the expense of Indian development. India was primarily treated as a supplier of raw materials for British industries, while finished goods were imported, leading to deindustrialization. The drain of wealth from India through heavy taxation and unequal trade policies hindered the growth of domestic industries and stifled economic progress.

III. **Limited Industrialization and Infrastructure:** The Indian economy lacked significant industrialization on the eve of independence. The lack of domestic industries and a weak manufacturing base limited employment opportunity outside the agricultural sector. Additionally, inadequate infrastructure, including transportation and communication networks, hampered the efficient movement of goods and services, restricting market integration and economic growth.

4. On the eve of independence in 1947, India's foreign trade was characterized by several key features:

I. **Dominance of British Trade Relations:** The country's trade was largely focused on exporting raw materials, such as cotton, jute and tea to Britain and importing finished goods in return. This trade pattern resulted from the exploitative economic policies imposed by British colonial rule, which hindered India's industrial development.

II. **Limited Diversification of Trading Partners:** India had limited trading partners outside the British Empire. The colonial rule discouraged India from actively engaging in trade with other countries, and the majority of its foreign trade was confined to British colonies. This lack of diversification in trading partners restricted India's economic growth and hindered the development of a more dynamic foreign trade landscape.

III. **Low Share of Industrial Exports:** India's foreign trade was characterized by a relatively low share of manufactured or industrial goods in its export basket. The economy was primarily agrarian, and the majority of exports consisted of primary agricultural commodities. This limited India's ability to earn foreign exchange and hindered the development of a self-reliant industrial base.

5. Systematic Deindustrialization during British Rule in India:

I. **Decline of Indian courts:** The disappearance of Indian courts struck the first blow at Indian handicrafts. As native states passed under British rule, the demand for fine articles, for display in durbars and other ceremonial occasions disappeared. The ordinary demand did continue for some time longer, but the younger generation lacked the means and inducement to patronize the arts and handicrafts and they declined.

II. **Introduction of New Patterns:** With the disappearance of Indian states, old rulers and nobles also disappeared and their place was taken up by the European Officers and tourists. Indian craftsmen, however, did not clearly understand the forms and patterns which suited European tastes. They tried to please their new customers by copying their forms and patterns.

III. **Competition of Machine Made Goods:** Apart from the abolition of Indian courts and the introduction of foreign influences, it was the superior manufacturing technique based on power and improved machinery which enabled the British manufacturers to drive the Indian artisans from out of their home market.

6. British rule in India brought an end to India's foreign trade as India primarily became a net exporter of raw materials and importer of finished goods produced by British industry.

I. **Net Exporter of Primary Products and Importer of Finished Goods:** India under British rule became an exporter of raw materials (cotton, wool, indigo, etc) and importer of finished goods. Composition of exports and imports showed the backwardness of the economy.

CHAPTER SUMMARY AND GLOSSARY

Indian Economy on the Eve of Independence

Before The Advent of British Rule In India

- Independent economy
- Famous for handicrafts

Sole Purpose of British Colonial Rule in India

- Exporting raw material from India to Britain
- Importing finished goods to India from Britain for the economic interest of their home country.

State of Infrastructure on The Eve of Independence

- Positive contribution of the British govt. in the field of infrastructure.
- Provided transport facilities, Specially railway was introduced in 1850s.
- Development of ports
- Postal and telegraph services were introduced.
- British govt. gave a strong and efficient administrative set up.
- Evolution of Banking and Monetary system.

State of Agriculture Sector on The Eve of Independence.

- Main source of living
- Dependency on monsoon
- Low productivity/stagnant growth

Causes of Stagnation and Low Productivity in Agriculture

- Terms of revenue settlement
- Land settlement system
- Lack of proper inputs
- Commercialisation of agriculture

State of The Industrial Sector at the EVE of Independence

Destruction of handicraft industry

- Discriminatory tariff policy of the british govt.
- Competition from machine - made products
- Introduction of railways in India

Slow growth of public sector enterprises

- Limited growth of public sector enterprises
- Lopsided industrial structure

State of Occupational Structure on The EVE of Independence

- Agriculture; Main Source of Occupation as About 72.7 % People Were Engaged In Agriculture.
- Only 10.1 % of the working population were engaged in manufacturing sector.
- An unbalanced growth of Indian economy at the time of Independence . It indicates regional variations.

Demographic Conditions on The Eve of Independence

- High birth rate and death rate indicating very low survival rate
- Life expectancy was low as 44%.
- Literacy rate was also low as 16%. Female literacy was only at 7%.
- Rampant poverty was also lowering the demographic profile of India.
- The Infant mortality rate was 218 per thousand.

State of Foreign Trade at The Eve of Independence.

- Volume of foreign trade
- Direction of foreign trade
- Drain of India's wealth.

INTRODUCTORY MACROECONOMICS

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CHAPTER

1

National Income

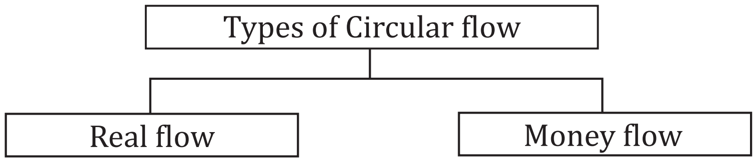
TOPICS TO BE COVERED

- Difference between Micro and Macro Economics
- Difference between Transfer Income and Factor Income
- Concept of Domestic Territory
- Resident (Normal Resident)
- Relation between National Income and Domestic Income
- Circular flow of Income under Two-sector Economy
- Distinguish between Stock and Flow
- Types of Goods
- Methods of Calculating National Income
- National Income Aggregates
- Gross Domestic Product (GDP)

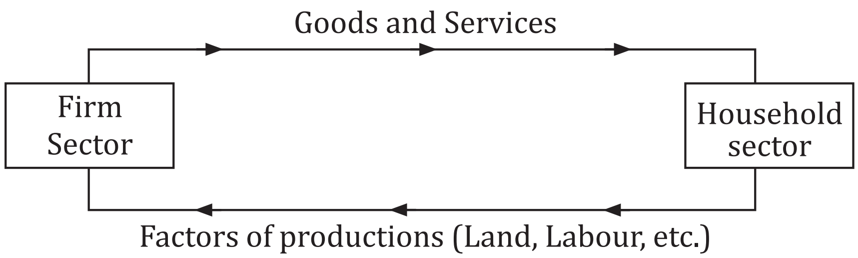
DIFFERENCE BETWEEN MICRO AND MACRO ECONOMICS

S. No.	Micro Economics	Macro Economics
1.	It is the study of the individual economic units of an economy.	It is the study of the economy as a whole and its aggregates.
2.	It deals with individual income, individual prices & Individual output etc.	It deals with national income, general price, and national output etc.
3.	Its central problem is price determination and allocation of resources.	Its central problem is the determination of National income.
4.	Its main roots are demand and supply of particular commodities/factors.	Its main roots are aggregate demand and aggregate supply of the economy as a whole.
5.	It discusses how equilibrium of a consumer or of a producer or of an industry is attained.	It is concerned with determination of equilibrium level of income and employment.

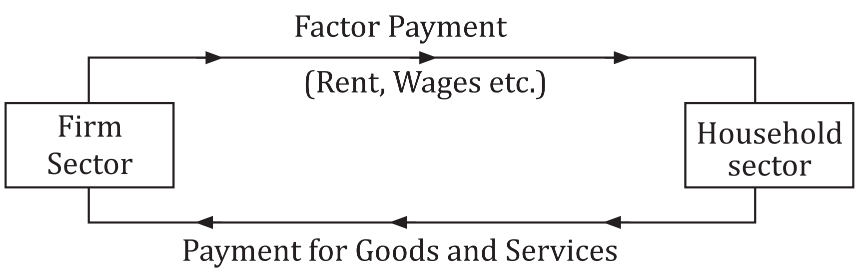
Further, the firm sector gives goods and services to household sector and in return Household sector gives payment for goods & services to firm sector.



Real flow: It refers to the flow of non-inventory transactions in an economy. It is also known as physical flow.



Money flow: It refers to the flow of monetary transactions in an economy. It is also known as nominal flow:



DISTINGUISH BETWEEN STOCK AND FLOW

	Stock Variable	Flow Variable
Meaning	These are those variables whose quantity can be calculated at a particular point of time.	These are those variables whose quantity can be calculated over a period of time
Nature	They are static in nature	They are dynamic in nature
Time dimension	They do not have time dimension	They have a time dimension.
Examples	Balance sheet, wealth, National capital, Money supply, Opening stock, Closing stock etc.	Capital formation, profit loss, change in money supply, change in stock etc.

TYPES OF GOODS

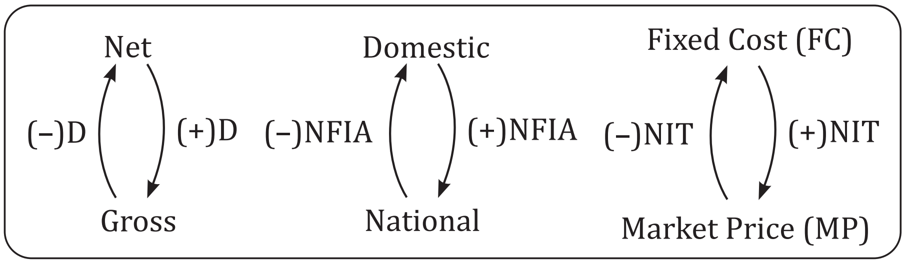
Types of Goods

- On the Basis of Nature
  - Final Goods
    - Used by Ultimate User
      - Consumer
      - Producer
      - Government
    - No Further transformation
    - No Resale in the Same Year
    - No Value addition
    - It will be included while estimating National Income
  - Intermediate Goods
    - Used as Raw Material
    - Remain Inside Production boundary
    - Further transformation will take place
    - Value addition will be there
    - Will be resale in the same year
    - Will not be included while estimating National Income
- On the Basis of User
  - Consumption Goods
    - Goods used by consumer for direct consumption.
    - Semi durable Goods. [1-2 year] Ex:- cloth, shoes, crockery, etc.
    - Durable Goods [5 years and more] Ex: AC, Cars, Fridge, etc.
    - Single used goods. Ex:- bread, milk
    - Services Doctor, lawyer, CA, etc.
  - Producer Goods
    - Goods used by producer for production purpose
      - Capital Goods
        - Plant
        - Machinery
        - Building
      - Single use Producer Goods
        - Raw Material

Note: (i) The Goods are Final or intermediate is depend upon its end use and user and (ii) All capital goods are producer goods but all producer goods are not capital goods.

❑ **Conversation Formulas:**

1. $NNP_{MP} = GNP_{MP}$ – Depreciation
2. $NDP_{MP} = GDP_{MP}$ – Depreciation
3. $NDP_{FC} = NDP_{MP}$ – Net indirect taxes (Indirect tax – subsidies)
4. $GDP_{FC} = NDP_{FC}$ + Depreciation
5. $NNP_{FC} = NDP_{FC}$ + Net factor income from abroad.
6. (NNP_{FC} is the sum total of factor income earned by normal residents of a country during the accounting year)
7. $NNP_{FC} = GDP_{MP}$ – depreciation + Net factor income from abroad – Net indirect taxes.



D → Depreciation/Consumption of fixed Asset

NFIA → Net factor income from abroad (Factor Income from Abroad - Factor Income to Abroad)

NIT → Net Indirect Taxes

METHODS OF CALCULATING NATIONAL INCOME

Methods of Calculating National Income

- Product Method
- Income Method
- Expenditure Method

1. Product Method (Value Added Method)

(i) Sales + Change in Stock = Value of Output

(ii) Change in stock = Closing stock – Opening Stock

(iii) Value of Output – Intermediate Consumption = GDP_{MP}/GVA_{MP}

(iv) NNP_{FC} (National Income) = GDP_{MP} – Consumption of fixed capital (depreciation) + Net factor income from abroad – Net indirect tax

The Main Steps Involved in Measuring National Income through Product Method:

A. Classify the producing units into industrial sectors like primary, secondary and tertiary sectors.

B. Estimate the net value added at the factor cost.

C. Estimate the value of output by sales + change in stock.

D. Estimate gross value added by value of output – intermediate cost.

E. Deduct depreciation and net indirect tax from gross value added at market price to arrive at net value added at factor cost = NDP_{FC}.

F. Add net factor income received from abroad to NDP_{FC} to obtain NNP_{FC} which is national income.

Illustration-1: From the following data, calculate Gross National Product at Market Price:

S. No.	Particulars	₹ in crores
1.	Sales	300
2.	Opening stock	40
3.	Depreciation	30
4.	Intermediate consumption	120
5.	Exports	50
6.	Change in stock	20
7.	Net indirect taxes	15
8.	Factor income to abroad	10

Using Output Method:
Value of output = Sales + change in stock
= ₹300 + ₹20 = ₹320 crores
GDP_{MP} = Value of output – Intermediate consumption
= ₹320 – ₹120 = ₹200 crores
GNP_{MP} = GDP_{MP} + Net factor income from abroad (assuming Factor Income from Abroad equals to zero)
= ₹200 – ₹10 crores = ₹190 crores

Illustration-2: Calculate 'value of output' from the following data:

S. No.	Particulars	₹ in crores
1.	Subsidy	10
2.	Intermediate consumption	150
3.	Net addition to stocks	(–)113
4.	Depreciation	30
5.	Goods and Services Tax	20
6.	Net value added at factor cost	250

Value of output = NVA at FC + Depreciation + NIT + Intermediate consumption
= 250 + 30 + 10 + 150 = 440
Hence, the required answer is Rs. 440 crores.

Illustration-3: Calculate value of output and gross value added at market price

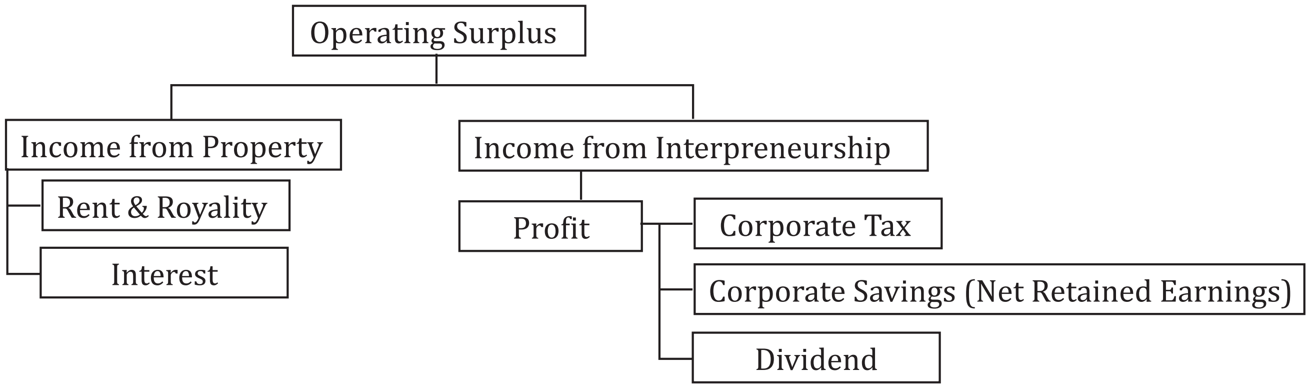
S. No.	Particulars	₹ in crores
1.	Opening stock	1,000
2.	Closing stock	800
3.	Purchase of raw materials	200
4.	Sales	10,000
5.	Indirect taxes	250
6.	Subsidies	50

Value of output = Sales + Change in stock (Closing stock – Opening stock)
= ₹[10,000 +(800 - 1,000)]crores
= ₹9,800 crores
GVA at MP = Value of output – Intermediate consumption (Purchase of raw materials)
= ₹[9,800 – 200] crores
= ₹9,600 crores

Illustration-4: Calculate the value of 'Sales' from the following data:

S. No.	Particulars	₹ in crores
1.	Net Value Added at Factor Cost	800
2.	Subsidies	40
3.	Change in Stock	(–)70
4.	Sales	?
5.	Intermediate Consumption	450
6.	Consumption of Fixed Capital	40

(b) Operating Surplus:



(c) Mixed Income of Self-Employed (MISE): "Mixed income" in the context of self-employed individuals typically refers to earnings that come from a combination of different sources or activities. Self-employed individuals often engage in various business activities, and their income may come from a mixed source.

- NDP_{FC} = (a) + (b) + (c) = Compensation of Employees + Operating surplus + Mixed Income of Self Employed
- NNP_{FC} (National Income) = NDP_{FC} (Domestic Income) + Net factor income from abroad

Steps Involved in Calculation of National Income through Income Method:

A. Classify the producing enterprises into industrial sectors like primary, secondary and tertiary.

B. Estimate the following factor income paid out by the producing units in each sector
   - Compensation of employees
   - Operating surplus
   - Mixed income of self-employed

C. Take the sum of the factor income by all the sectors to arrive at the NDP_{FC} (which is called domestic income)

D. Add net factor income from abroad to the net domestic product at factor cost to arrive at the net national product at factor cost.

Illustration-1: Calculate value of "Interest" from the following data:

S. No.	Particulars	₹ in crores
1.	Indirect Tax	1,500
2.	Subsidies	700
3.	Profits	1,100
4.	Consumption of fixed capital	700
5.	Gross Domestic Product at Market Price	17,500
6.	Compensation of Employees	9,300
7.	Interest	?
8.	Mixed Income of Self-Employed	3,500
9.	Rent	800

(ii) Using Income Method:

NDP_{FC} = Compensation of employees + operating surplus + Mixed income from self employed
= ₹2,544 + ₹108 + ₹168 + ₹156 + ₹252 + ₹192 + ₹228 + ₹372 = ₹4,020 crores

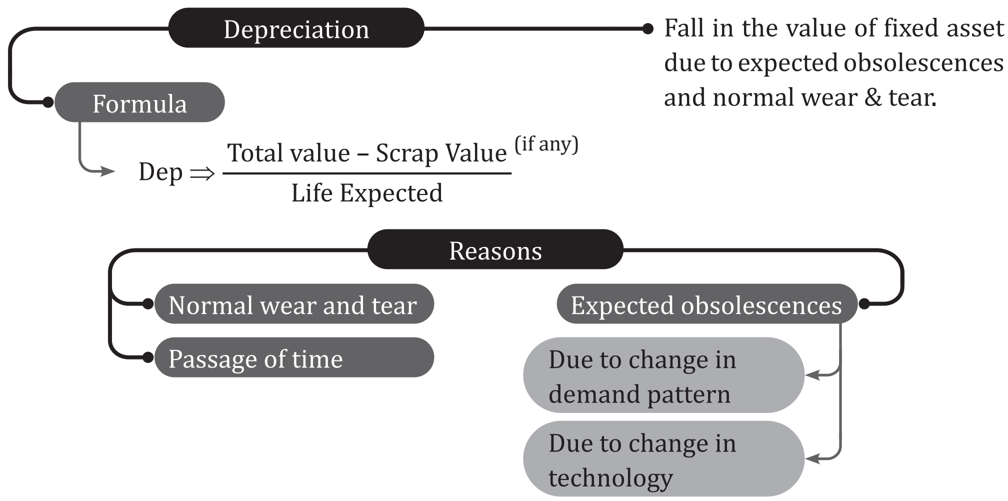
NNP_{FC} = NDP_{FC} + Net factor Income from abroad
= ₹4,020 + ₹15 = ₹4,035 crores

GNP_{FC} = NNP_{FC} + Depreciation
= ₹4,035 + ₹324 = ₹4,359 crores

GNP_{MP} = GNP_{FC} + Net indirect taxes
= ₹4,359 + ₹216 = ₹4,575 crores

NATIONAL INCOME AGGREGATES

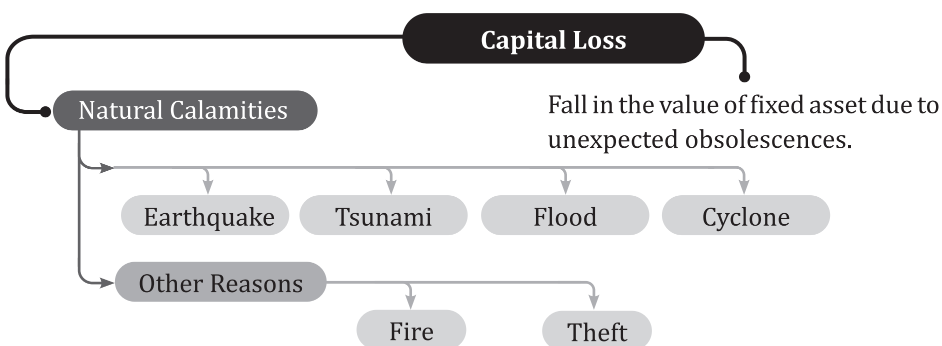
DEPRECIATION



Other Names of Depreciation

- Current replacement cost
- Replacement investment
- Consumption of Fixed Capital

CAPITAL LOSS



Note:

1. Due to the expected obsolescences the production process do not stop.
2. But due to unexpected obsolecences the production capacity may decrease or it may stop the production process.

INVESTMENT

1. It is an Expenditure.
2. It refers to the process of capital formation or a process that increase the stock of capital.

Investment on the basis of nature

- **Fixed Investment**: It refers to increase in the stock of fixed capital.
  Ex:
  1. Plant and Machinery
  2. It is also said to be "fixed capital formation"
- **Inventory Investment**: It refers to the increase in the stock of
  1. Finished Goods
  2. Semi-Finished Goods
  3. Raw Material

Investment on the basis of value

- **Gross Investment**: It refers to total production of capital goods during the year OR It refers to the Gross addition to stock.
  Gross Investment = Net Investment + Dep.
- **Net Investment**: It refers to the Net addition of capital stock during a year.
  Net Investment = Gross Investment – Dep.

- **Net Factor Income from Abroad:** Difference between the factor incomes earned by our residents from abroad and factor income earned by non-residents within our country.

  Components of Net Factor Income from Abroad:
  1. Net compensation of employees
  2. Net income from property and entrepreneurship (other than retained earnings of resident companies of abroad)
  3. Net retained earnings of residents companies abroad.

GROSS DOMESTIC PRODUCT (GDP)

It may be defined as the money value of all goods and services produced within the domestic boundary of an economy during a period of time.

- **Limitations of GDP:** The GDP is an index of the welfare of the people in the economy. But it is not an adequate measure of the welfare because of following limitations:
  - **(a) Externalities:** GDP does not account for externalities, which are the unintended side effects of economic activities that affect third parties. Positive externalities (benefits to society) and negative externalities (costs imposed on society) are not reflected in GDP. For example, environmental pollution or the positive impact of education on societal well-being is not directly captured.
  - **(b) Distribution of GDP or Inequality:** GDP provides an aggregate measure of economic output but does not reveal how income is distributed among the population. High GDP does not necessarily imply equitable distribution of wealth. A country may have a high GDP but still experience significant income inequality, which can have implications for social welfare.
  - **(c) Composition of GDP:** GDP aggregates different economic activities without considering their nature or contribution to well-being. It treats all economic activities equally. For instance, GDP does not distinguish between spending on healthcare and spending on arms, even though the healthcare contributes more directly to well-being.
  - **(d) Non-Monetary Transactions:** GDP primarily focuses on monetary transactions and excludes non-market activities, such as household work and volunteer activities. This exclusion may lead to an incomplete picture of economic and social contributions made by individuals and communities.

MULTIPLE CHOICE QUESTIONS

1. For a closed economy (with no foreign trade), which one of the following is correct? **(CBSE SQP 2023-24)**

(*a*) GDP = GNP (*b*) GDP > GNP

(*c*) GDP < GNP (*d*) GDP + GNP = 0

2. The scenario which would lead to an increase in GDP, but might not necessarily improve overall welfare? **(CBSE SQP 2023-24)**

(*a*) Reduction in income inequality

(*b*) Rapid growth of the financial sector

(*c*) Expansion of environmentally harmful industries

(*d*) Increased government investment in education and healthcare

3. Which of the following method can be used to calculate National income?

(*a*) Income Method

(*b*) Expenditure Method

(*c*) Value Added Method

(*d*) All of the above

4. Read the following statements: Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

Assertion (A): Domestic Income is a territorial concept.

Reason (R): Domestic Income includes value of final goods and services produced in the entire world.

(*a*) If both Assertion (A) and Reason (R) are True and the Reason (R) is a correct explanation of the Assertion (A).

(*b*) If both Assertion (A) and Reason (R) are True but Reason (R) is not a correct explanation of the Assertion (A).

(*c*) If Assertion (A) is True but the Reason (R) is False.

(*d*) Assertion (A) is False but Reason (R) is True.

5. Final goods are used by:

(*a*) Household

(*b*) Firm

(*c*) Government

(*d*) All of these

6. Which of the following is included in inventory investment?

(*a*) Change in stock of Raw Material

(*b*) Change in stock of Semi-finished Goods

(*c*) Change in stock of Finished Goods

(*d*) All of these

7. Factor income paid to non-residents within the domestic territory of a country leads to:

(*a*) Increase in Domestic Income

(*b*) Decrease in National Income

(*c*) Both (*a*) and (*b*)

(*d*) None of these

8. National Income = Domestic Income, when:

(*a*) Net Factor Income from abroad (NFIA) is positive

(*b*) NFIA is negative

(*c*) NFIA is zero

(*d*) None of the above

9. What does GDP measure?

(*a*) Only the value of final goods and services produced within a country during a given time period.

(*b*) The total value of all goods and services produced within a country during a given time period.

(*c*) The value of goods and services produced within a country's borders, regardless of ownership, during a given time period.

(*d*) The total value of goods and services produced by the citizens of a country, regardless of their location, during a given time period.

10. Which of the following is not included in the calculation of Gross Domestic Product (GDP) in a four sector economy?

(*a*) Government spending
(*b*) Household savings
(*c*) Business investments
(*d*) Net exports

11. In the context of National Income, what does GNP stand for?

(*a*) Gross Net Product
(*b*) Gross National Product
(*c*) Gross Nonresident Product
(*d*) Gross Neutral Product

12. Which of the following represents the total income earned by a nation's residents and businesses from within the country or abroad?

(*a*) Gross Domestic Product (GDP)
(*b*) Gross National Product (GNP)
(*c*) Net Domestic Product (NDP)
(*d*) National Income (NI)

13. Which of the following is the most inclusive measure of National Income?

(*a*) Net Domestic Product (NDP)
(*b*) Gross Domestic Product (GDP)
(*c*) Net National Product (NNP)
(*d*) Disposable Income (DI)

NUMERICAL TYPE QUESTIONS

1. On the basis of the given data, estimate the value of Domestic Income:

(CBSE SQP 2023-24)

S.No.	Items	Amount (₹in crore)
(i)	Household Consumption Expenditure	600
(ii)	Gross fixed capital Formation	200
(iii)	Change in Stock	40
(iv)	Government Final Consumption Expenditure	200
(v)	Net Exports	(–) 40
(vi)	Net Indirect Taxes	120
(vii)	Net Factor Income From Abroad	20
(viii)	Consumption of Fixed Capital	40

2. Calculate Gross Domestic Product at market price using Expenditure method:

(CBSE SQP 2023-24)

S.No.	Items	Amount ₹ (in crore)
(i)	Private final consumption expenditure	9,800
(ii)	Government final consumption expenditure	12,000
(iii)	Change in stock	275
(iv)	Gross domestic fixed capital formation	875
(v)	Consumption of fixed capital	600
(vi)	Net exports	(–) 90
(vii)	Net factor income from abroad	790

3. Calculate National Income by (a) expenditure method and (b) production method from the following data:

(₹ in crores)		
(i)	Gross value added at market price by the primary sector	300
(ii)	Private final consumption expenditure	750
(iii)	Consumption of fixed capital	150
(iv)	Net indirect taxes	120
(v)	Gross value added at market price by secondary sector	200
(vi)	Net domestic fixed capital formation	220
(vii)	Change in stocks (–)	20
(Viii)	Gross value added at market price by the tertiary sector	700
(ix)	Net imports	50
(x)	Government final consumption expenditure	150
(xi)	Net factor income from abroad	20

4. Calculate 'Net Domestic Product at Factor Cost' by the expenditure method and the production method:

(Amount in crores)		
(i)	Value of output in the economic territory	4,100
(ii)	Net imports (–)	50
(iii)	Intermediate purchases by the primary sector	600
(iv)	Private final consumption expenditure	1,450
(v)	Intermediate purchases by the secondary sector	700
(vi)	Government final consumption expenditure	400
(vii)	Net domestic fixed capital formation	200
(Viii)	Intermediate purchases by the tertiary sector	700
(ix)	Net change in stocks (–)	50
(x)	Indirect taxes	100
(xi)	Consumption of fixed capital	50

5. Calculate National Income from following data:

Items	(₹in crore)
Mixed income of self employed	200
Old age pension	20
Dividend	100
Net Indirect Taxes	50
Operating surplus	900
Wages and salaries	500
Profit	400
Employers contribution to Social Security schemes	50
Net factor income from abroad	– 10
Consumption of fixed capital	50

6. Find out 'Value Added by Firm B' from the following data:

S.No.	Items	(₹ in lakh)
(i)	Purchases by firm B from firm A	30
(ii)	Sales by firm B to firm C	25
(iii)	Sales by firm B to households	35
(iv)	Opening stock of firm B	5
(v)	Opening stock of firm C	10
(vi)	Closing stock of firm B	10
(vii)	Purchases by firm B from firm D	15
(viii)	Exports by firm B	20

7. From the following data calculate net value added at factor cost:

Particulars	(₹ in crores)
Per unit of output	20
Output sold (in units)	1250
Excise duty	5000
Consumption of fixed capital	1000
Change in stock	(–) 500
Single use producer goods	6000

8. From the following data calculate National Income by (i) Income Method, and (ii) Expenditure Method:

S.No.	Items	(₹ in crore)
(i)	Compensation of employees	600
(ii)	Government final consumption expenditure	550
(iii)	Net factor income from abroad	(–)10
(iv)	Net export	(–)15
(v)	Profit	400
(vi)	Net indirect tax	60
(vii)	Mixed income of self-employed	350
(viii)	Rent	200
(ix)	Interest	310
(x)	Private final consumption expenditure	1000
(xi)	Net domestic capital formation	385
(xii)	Consumption of fixed capital	85

9.

Compensation of Employees (₹500) + ________ + Mixed income of Self-employed (₹500) = Net Domestic Product at Factor Cost (₹5,000)

Analyse the formula given above and state the missing term in it. Also, mention its components.

10. Calculate GNPfc

Items	(₹ in crores)
Gross fixed capital formation	100
Change n stocks	20
Net capital formation	110
Mixed income self employed	200
Net factor income from abroad	–10
Net exports	–20
Compensation of employees	250
Operating surplus	400
Net indirect taxes	50

11. Calculate Gross Value Added at factor cost

Items	(₹ in crores)
Sales	180
Rent	5
Subsidies	10
Change in stock	15
Purchase of raw material	100
profits	25

SUBJECTIVE TYPE QUESTIONS

1. Explain the concept of Double Counting in the context of calculating National Income and provide a practical way to avoid it. **(CBSE SQP 2023-24)**

2. State the meanings of the following:

(i) Externalities

(ii) Operating Surplus

(iii) Consumption Goods **(CBSE SQP 2023-24)**

3. Giving valid reasons, explain how the following would be treated while estimating domestic income?

(i) Payment made by American tourists for goods purchased in India.

(ii) Tomatoes grown by Ms. Puja in her kitchen garden. **(CBSE SQP 2023-24)**

4. "Machine purchased by a firm is always a capital good". Do you agree with the given statement? Give valid reasons for your answer. **(CBSE SQP 2023-24)**

5. In the estimation of a country's National Income, are the following items included. Provide reasons for each.

(i) Rent-free house to an employee by an employer

(ii) Purchases by foreign tourists

(iii) Purchase of a truck to carry goods by a production unit **(CBSE SQP 2023-24)**

6. Elaborate on the concepts of Nominal Gross National Product and Real Gross National Product with examples to illustrate the significance of these measures in economic decision-making. **(CBSE SQP 2023-24)**

7. Domestic services (Household services) performed by a woman are not considered as an economic activity. Defend or refute the given statement with valid reason.

8. Mona purchased a car worth ₹5,50,000 to commute between her home and the office. Would you treat it as an intermediate consumption and therefore not included in the estimation of national income? Justify your answer.

9. Defend or refute the statement "Value of intermediate goods is equal to the value of intermediate consumption".

10. Firm A spent 500 on non-factor inputs and produced goods worth 900. It sold goods worth 600 and 300 to firm B and consumer households respectively. Find out gross value added by firm A.

11. Is it correct to say that all producer goods are capital goods?

12. Distinguish between Factor payment and Transfer payment.

13. Should we treat subsidies to the producers as transfer payments?

14. What is meant by the term circular flow of income? State its significance.

15. What are the components of the domestic territory of India?

16. Explain the concept of normal residents of a county.

Answers

1. (*a*) **2.** (*c*) **3.** (*d*) **4.** (*c*) **5.** (*d*) **6.** (*d*) **7.** (*c*) **8.** (*c*) **9.** (*c*) **10.** (*b*)
11. (*b*) **12.** (*b*) **13.** (*c*)

Solutions

NUMERICAL TYPE QUESTIONS

1. Domestic Income (NDP at FC) = Private final consumption expenditure + Government final consumption expenditure + (Gross fixed capital formation + change in stock) + Net exports – Consumption of fixed Capital – Net Indirect Taxes

= (i) + (iv) + [(ii) + (iii)] + (v) – (viii) – (vi)

= 600 + 200 + (200 + 40) + (–40) – 40 – 120

= 840 crore

2. Using Expenditure Method, GDP at MP = Private final consumption expenditure + Government final consumption expenditure + Gross domestic capital formation (Gross domestic fixed capital formation + Change in stock) + Net exports

= 9,800 + 12,000 + 275 +875 + (–)90 crores

= 22,860 crores

3. (a) National Income/NNP$_{FC}$ by the Expenditure Method

= (ii) + (x) + (vi) + (vii) – (ix) – (iv) + (xi)

= 750 + 150 + 220 + (–20) – 50 – 120 + 20

= ₹950 crores

(b) National Income/NNP$_{FC}$ by the Production Method

= (i) + (v) + (viii) – (iii) – (iv) + (xi)

= 300 + 200 + 700 – 150 – 120 + 20

= ₹950 crores

4. (a) NDP$_{FC}$ by the Expenditure Method = (iv) + (vi) + (vii) + (ix) – (ii) – (x)

= 1,450 + 400 + 200 + (–50) – (–50) – 100

= ₹1,950 crores

(b) NDP$_{FC}$ by the production Method = (i) – (iii) – (v) – (viii) – (x) – (xi)

= 4,100 – 600 – 700 – 700 – 100 – 50

= ₹1,950 crores

5. Wages and salaries + Employers' contribution to social security schemes + Operating surplus + Mixed income of the self-employed + Net factor income from abroad

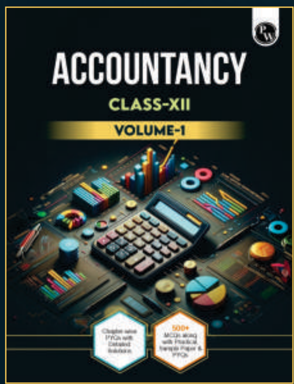
= ₹500 crore + ₹50 crore + 900 crore + 200 crore + (–) 10 crore

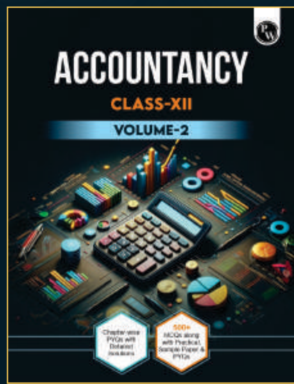
National income = ₹1640 cr

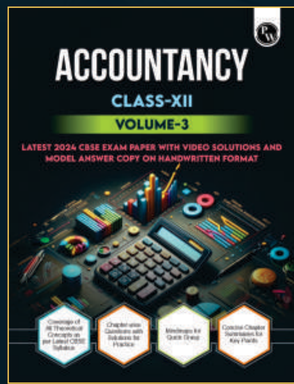
6. Value Added by Firm B = Sales by firm B + Change in stock of firm B – Purchases from other firms

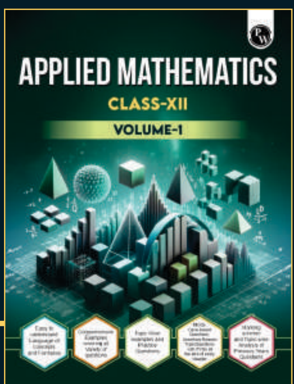
Description	(₹ in lakh)
(i) Sales = Sales by Firm B to Firm C	25
+ Sales by Firm B to Households	35
+ Export by Firm B	20
Total	**80**
(ii) Change in Stock of Firm B = Closing Stock – Opening stock = 10 – 5	5
(iii) Purchases of Firm B from other Firms = Purchase by Firm B from Firm A + Purchase by Firm B from Firm D = 30 + 15	45
Value Added = (80 + 5) – 45	**40**

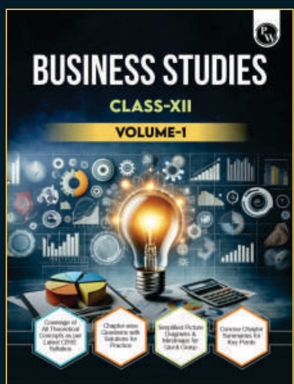
COMPLETE YOUR PREPARATION

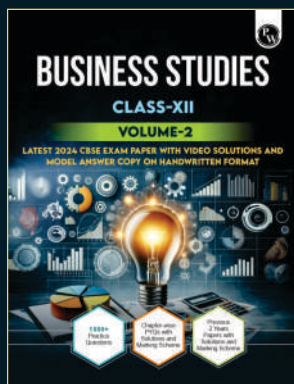


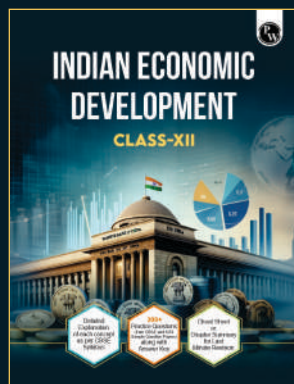












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