LATEST EDITION

CBSE

QUESTION & CONCEPT BANK

Chapter-wise & Topic-wise

CLASS 12

Chapter-wise
CONCEPT MAPS

Definitions & Summarized Concepts
NCERT & SMART SNAPS

Important Questions & MCQ's
POWER PRACTICE

INTRODUCTORY MACROECONOMICS

CONTENTS

1.	National Income	...	1-21
2.	Money and Banking	...	22-37
3.	Determination of Income and Employment	...	38-56
4.	Government Budget and the Economy	...	57-68
5.	Foreign Exchange Rate & Balance of Payment	...	69-84

Chapter

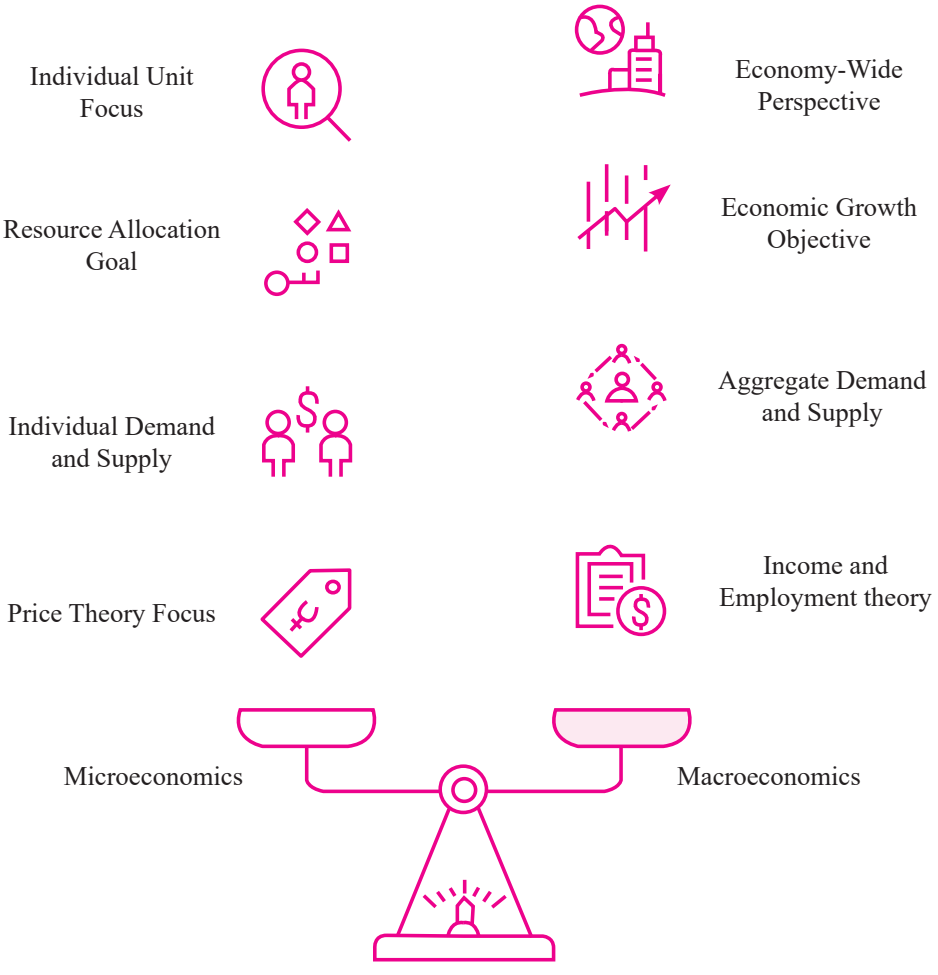
1

NATIONAL INCOME

LEARNING OBJECTIVES

- *Understand the basic concepts of national income, like GDP, GNP, NNP, domestic income, and factor cost.*
- *Distinguish between different measures of national income and their interrelationships using formulas.*
- *Learn methods of calculating national income: value added, income, and expenditure methods.*
- *Identify the components and precautions involved in national income estimation.*
- *Analyze the limitations of using GDP as an index of welfare.*

1. Difference between Microeconomics and Macroeconomics



2. Difference between Intermediate Goods and Final Goods

Intermediate vs. Final Goods

	Intermediate Goods	Final Goods
Use	Further production/resale	Final consumption/ investment
Buyer	Producers	Consumers and producers
Production Boundary	Within	Outside
Role in National Income	Not included	Included

3. Differences between Stock and Flow Variables

Stock vs Flow Variables

Time Reference
Stock variables are measured at a specific point in time, capturing a snapshot. Flow variables are measured over a period, showing change.

Nature
Stock variables are static, representing a fixed quantity. Flow variables are dynamic, reflecting continuous movement.

Time Dimension
Stock variables do not inherently have a time dimension. Flow variables always have a time dimension measured in terms of per second, per minute, per day, per month, etc..

Examples
Examples of stock variables include wealth, capital, and money supply. Examples of flow variables include income, investment, and expenditure.

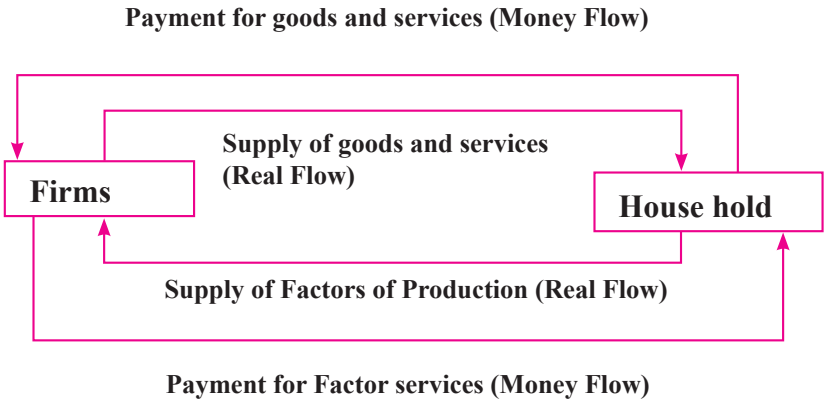
Examples Important for Exams

Component	Stock / Flow	Reason
Income	Flow	Measured over a period of time (e.g., per month or year)
Wealth	Stock	Measured at a particular point in time
Capital	Stock	Refers to the total value of assets at a given time
Investment	Flow	Refers to addition to capital over a time period
Water flow rate	Flow	Measured per second or per minute (time-based measurement)
National Income (NNP_{FC})	Flow	Total income earned in an economy during a year
Bank Balance	Stock	Amount available at a specific date
Production of goods	Flow	Measured over time (e.g., per day/month/year)

Circular Flow of Income

It refers to the continuous movement of money, goods, and services between different sectors of the economy.

There are two types of flows:



4. INVESTMENT

Gross Investment

It refers to the total investment made in the economy on capital goods (like machinery, buildings, and tools) during a year, **including depreciation.**

Net Investment

It refers to the **actual addition** to the capital stock in an economy after deducting depreciation from gross investment.

Formula: Net Investment = Gross Investment – Depreciation

5. National Income (NNP at FC) VS Domestic Income (NDP at FC)

National income refers to the net income earned by the normal residents of a country, both within and outside the country, during an accounting year.

It includes:

- Income earned **within the country**
- Income earned **from abroad by residents**

Domestic income refers to the net income generated within the domestic (economic) territory of a country, irrespective of who earns it (resident or non-resident), during an accounting year.

It includes:

- Income earned **within the country only**
- By **both residents and non-residents**

Conversion of Domestic Income into National Income

Formula: National Income (NNP at FC) = Domestic Income (NDP at FC) + NFIA

NFIA (Net Factor Income from Abroad)

NFIA refers to the net earnings from factor services (like wages, rent, interest, and profit) received from abroad and paid abroad.

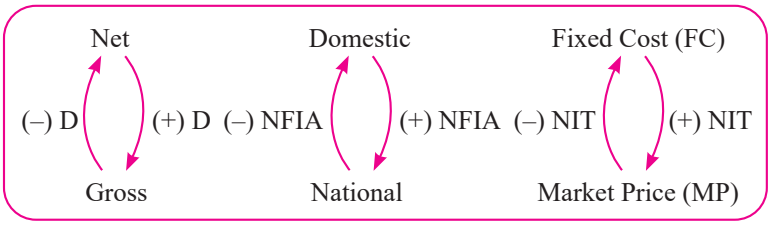
NFIA = Factor Income Received from Abroad – Factor Income Paid to Abroad

6. Factor Cost vs Market Price

- **Factor Cost =** Cost of production paid to factors (like wages, rent, interest, profit)
- **Market Price =** Price paid by consumers, which includes **taxes** and excludes **subsidies.**

To Convert	Formula
Market Price → Factor Cost	**Minus NIT** → Factor Cost = Market Price - NIT
Factor Cost → Market Price	**Add NIT** → Market Price = Factor Cost + NIT

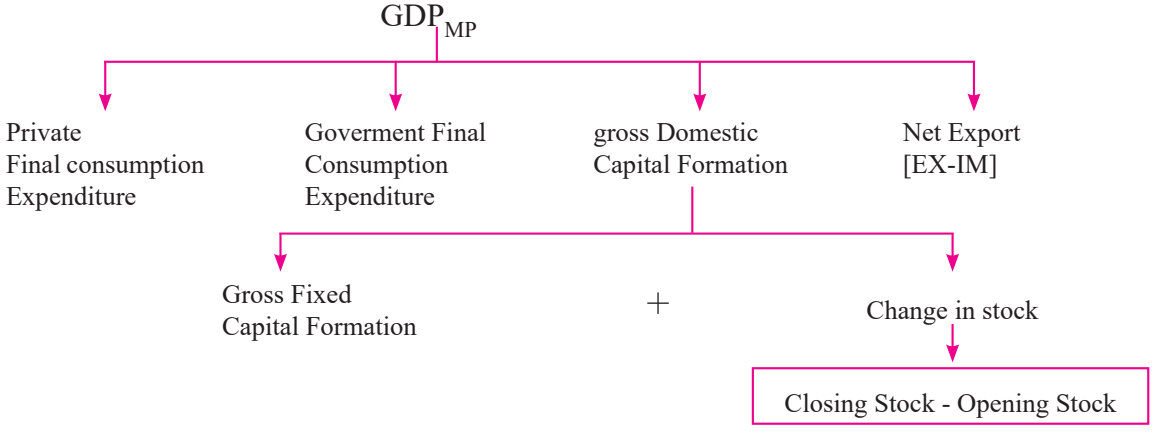
Hints:-



D → Depreciation/Consumption of fixed Asset
NFIA → Net factor income from abroad (Factor Income from Abroad - Factor Income to Abroad)
NIT → Net Indirect Taxes

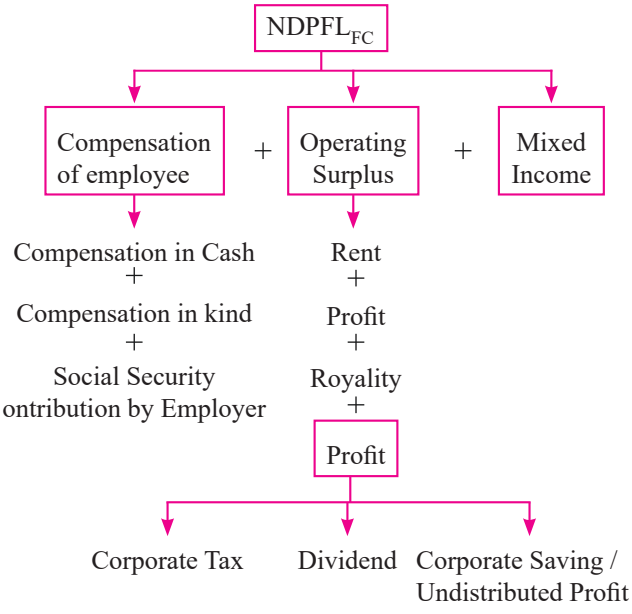
7. Methods of Calculation of National Income

7.1 Expenditure Method



- **GDP_{MP}** = Government Final Consumption Expenditure + Private Final Consumption Expenditure + Net Exports + Gross Domestic Capital Formation.
- **NNP_{FC} (National Income)** = GDP_{MP} – Consumption of fixed capital (Depreciation) + Net factor income from abroad – Net indirect tax.

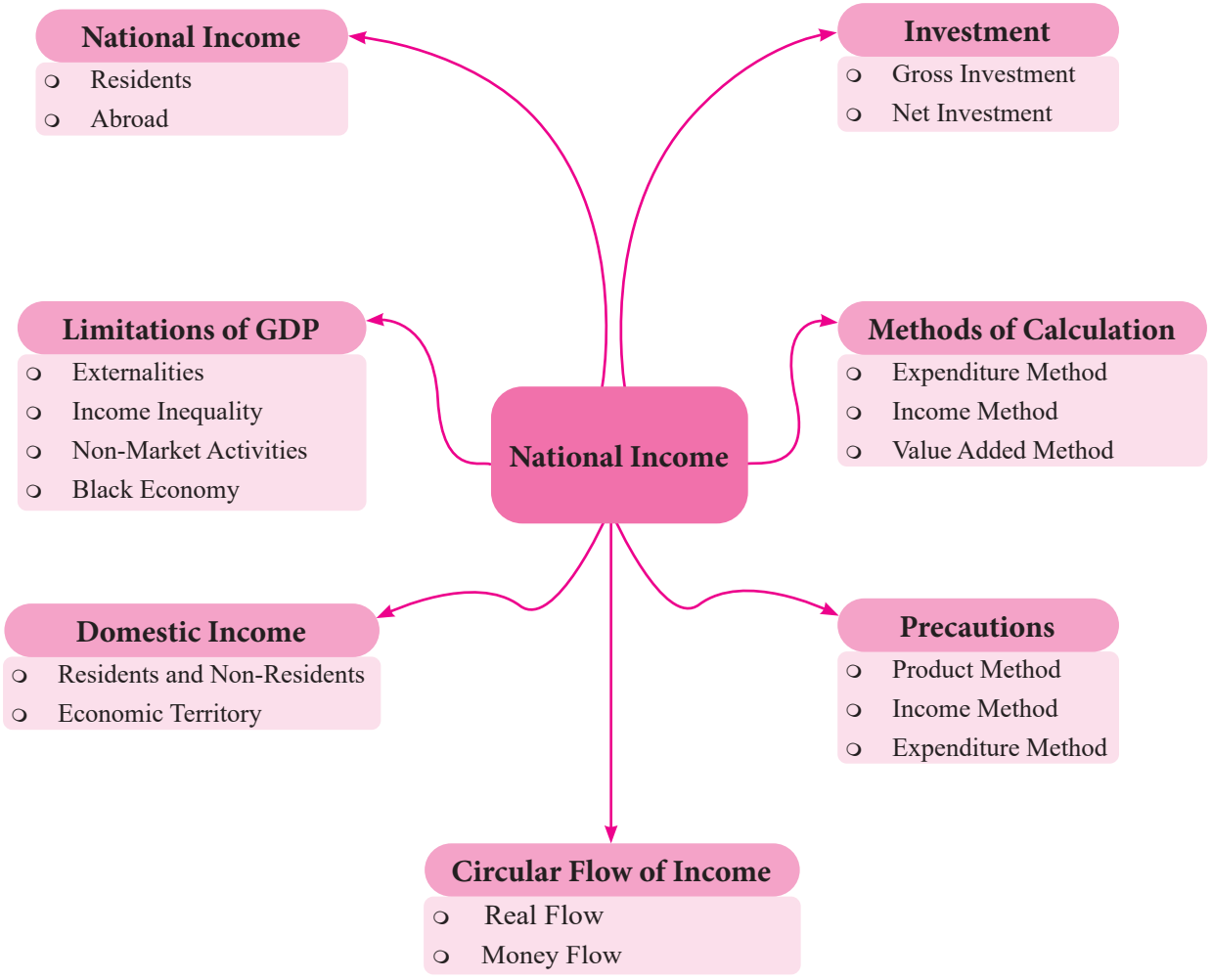
7.2 Income Method



- **NNP_{FC} (National Income)** = NDP_{FC} + Net factor income from abroad

CONCEPT MAP

National Income and Related Concepts



Topic-Wise Exam- Analysis

Topic	Question Types	Year(s)
Basic Concepts (GDP, GNP, FC, MP, etc.)	1M, 3M	2025, 2023, 2021
Domestic vs. National Income	1M, 3M	2024, 2022
Factor Cost vs. Market Price	3M	2024, 2021
Normal Resident	1M	2023
Circular Flow of Income	3M	2025, 2022
Investment (Gross/Net, Domestic/National)	1M, 3M	2024, 2021
Numericals (Conversions & Methods)	3M, 6M	2025–2021
Methods of Measuring NI (VAM, Income, Expenditure)	6M	2025, 2023, 2022, 2021
Precautions in Methods	1M, 3M	2024, 2022, 2021
Treatment of Items (Special Cases)	1M, 3M	2025, 2024, 2023
NFIA (Net Factor Income from Abroad)	1M, 3M	2023, 2021
Concept Differences (e.g., GDPmp vs NDPfc)	1M, 3M	2024, 2022

EXAM BASED QUESTIONS

Multiple Choice Questions

Intermediate Goods vs. Final Goods

1. Which of the following is an intermediate good?

(*a*) Cotton bought by a textile mill
(*b*) Laptop used by a student
(*c*) Car purchased by a consumer
(*d*) Refrigerator used in a house

Ans: (*a*) Cotton used in textile production is for further processing, so it's intermediate.

2. Goods purchased for final consumption are called:

(*a*) Intermediate goods
(*b*) Capital goods
(*c*) Final goods
(*d*) Producer goods

Ans: (*c*) Final goods are not meant for further production or resale.

3. Machinery purchased by a firm for production is a:

(*a*) Final good
(*b*) Intermediate good
(*c*) Capital good
(*d*) Consumer good

Ans: (*c*) Machinery is a capital good—used in production to generate further output.

Stock vs. Flow Variables

4. Wealth, as measured on 31st March, is:

(*a*) Flow variable
(*b*) Stock variable
(*c*) Not an economic variable
(*d*) Not measurable

Ans: (*b*) Stock variables are measured at a specific point in time.

5. Which of the following is a flow variable?

(*a*) Capital
(*b*) National income
(*c*) Inventory
(*d*) Foreign exchange reserves

Ans: (*b*) National income is measured over some time—hence a flow.

6. Which of the following pairs are stock-flow pairs?

(*a*) Income – Saving
(*b*) Wealth – Interest
(*c*) Capital – Investment
(*d*) GDP – Exports

Ans: (*c*) Capital is a stock; investment (change in capital stock) is a flow.

Circular Flow of Income

7. Which of the following represents **real flow** in the circular flow model?

(*a*) Goods and services
(*b*) Income payments
(*c*) Taxes
(*d*) Profits

Ans: (*a*) Real flow involves actual movement of goods and services between sectors.

8. Households provide factor services and receive:

(*a*) Goods and services
(*b*) Factor payments
(*c*) Intermediate goods
(*d*) Loans

Ans: (*b*) Households offer land, labor, and capital and Get factor Payment in return.

9. In the money flow, which of the following flows from firms to households?

(*a*) Factor services
(*b*) Goods and services
(*c*) Wages and rent
(*d*) Raw materials

Ans: (*c*) Firms pay wages, rent, and profit to households for factor services.

Gross vs. Net Investment

10. If Gross Investment = ₹800 crore and Depreciation = ₹200 crore, Net Investment =?

(*a*) ₹1,000 crore (*b*) ₹600 crore

(*c*) ₹800 crore (*d*) ₹200 crore

Ans: (*b*) Net Investment = Gross Investment – Depreciation = ₹800 – ₹200 = ₹600 crore

11. When gross investment = depreciation, it means:

(*a*) Capital stock is increasing (*b*) Net investment = 0

(*c*) The economy is declining (*d*) Capital gains increase

Ans: (*b*) All new investment is replacing old/worn-out capital—net addition to stock is zero.

12. An increase in net investment implies:

(*a*) No capital formation (*b*) Replacement of old capital

(*c*) Increase in capital stock (*d*) Zero depreciation

Ans: (*c*) Positive net investment means new capital formation and economic expansion.

National Income vs Domestic Income

13. Which of the following is included in national income but not in domestic income?

(*a*) Rent paid to a resident by another resident (*b*) Profit earned by an Indian company in the USA

(*c*) Wages paid to foreign workers in India (*d*) Interest earned within Indian territory

Ans: (*b*)National Income = Domestic Income + NFIA. Profit earned abroad by Indian residents is included in national income only.

14. Which of the following is part of domestic income but not national income?

(*a*) Wages paid to Indian embassy workers in the USA (*b*) Rent received from property in the UK

(*c*) Profits earned by a Japanese company in India (*d*) Interest from an Indian bank abroad

Ans: (*c*) It's earned in India (included in domestic income) but goes to foreigners, so it's excluded from national income.

15. A doctor working in the Indian Embassy in the UK is:

(*a*) Included in the Domestic Income of India (*b*) Included in the National Income of the UK

(*c*) Included in the National Income of India (*d*) Excluded from both

Ans: (*c*) Embassies are treated as part of the home country's territory, so this is an Indian economic activity abroad.

Factor Cost vs Market Price

16. If Net Indirect Tax is ₹100 crore and GDP at FC is ₹900 crore, then GDP at MP is:

(*a*) ₹800 crore. (*b*) ₹1,000 crore

(*c*) ₹900 crore (*d*) ₹1,100 crore

Ans: (*b*) $GDP_{MP} = GDP_{FC} + NIT = ₹900 + ₹100 = ₹1,000$ crore

17. When subsidies exceed indirect taxes, what is the relation between FC and MP?

(*a*) MP > FC (*b*) MP = FC

(*c*) MP < FC (*d*) Can't say

Ans: (*c*) NIT = Indirect Tax – Subsidies

If subsidies > taxes, NIT becomes negative → FC > MP.

18. Market Price includes:

(*a*) Factor payments only (*b*) Factor cost + Net Indirect Taxes

(*c*) Only profit and wages (*d*) Only transfer payments

Ans: (*b*) Market Price = Cost of production (FC) + Taxes – Subsidies (i.e., NIT)

Methods of Calculating National Income

19. Which of the following is **not** included in the income method?

(*a*) Rent (*b*) Interest on productive loans

(*c*) Gifts (*d*) Profit

Ans: (*c*) Gifts are transfer incomes, not earned through production, hence excluded.

Assertion & Reason Based Questions

Instructions *For each question, choose the correct option:*

(*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*) *are true, but 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.*

1. **Assertion (A):** Gross investment is always greater than net investment.
Reason (R): Gross investment includes depreciation, while net investment does not.

Ans: (*a*) Gross investment = Net investment + Depreciation. Since depreciation is always positive, gross investment is always greater. Hence, both A and R are true, and R correctly explains A.

2. **Assertion (A):** Interest on personal loans is included in national income.
Reason (R): All forms of interest are considered factor income.

Ans: (*d*) Interest on personal loans is **not** included in national income, as it is not earned from productive activity. So, A is false, and R is true but irrelevant.

3. **Assertion (A):** Sale of second-hand goods is excluded while calculating national income.
Reason (R): Secondhand goods are part of intermediate consumption.

Ans: (*c*) Secondhand goods are excluded because they have already been counted earlier. But they are **not** intermediate goods; hence, R is false.

4. **Assertion (A):** Household kitchen work is not included in national income.
Reason (R): It is considered a non-market activity with no monetary transaction.

Ans: (*a*) Household work is unpaid and not traded in the market, so it is excluded. Both A and R are true, and R is the correct reason.

5. **Assertion (A):** Production of military tanks raises GDP.
Reason (R): GDP accounts for all goods and services, regardless of their utility.

Ans: (*a*) GDP includes all final goods/services produced, whether socially useful or not. Hence, both A and R are correct, and R explains A.

6. **Assertion (A):** GDP underestimates economic welfare in a country.
Reason (R): GDP ignores non-market activities and externalities.

Answ (*a*) **Explanation:** GDP doesn't account for unpaid services (e.g., voluntary work) or negative/positive externalities. Hence, both A and R are true, and R explains A.

7. **Assertion (A):** GDP at market price is always more than GDP at factor cost.
Reason (R): Indirect taxes are always more than subsidies.

Ans: (*b*) While GDP at MP = FC + Net Indirect Taxes, the assumption that taxes are always more than subsidies isn't necessarily true. Hence, A and R are true, but R is not the full explanation.

8. **Assertion (A):** Profit earned by a US firm in India is part of India's domestic income.
Reason (R): Domestic income includes all income generated within the domestic territory, regardless of nationality.

Ans: (*a*) Domestic income is based on location, not nationality. So, both A and R are correct, and R explains A.

9. **Assertion (A):** Stocks are measured at a point in time, whereas flows are measured over some time.
Reason (R): National income is a stock variable.

Ans: (*c*) The assertion is correct, but the reason is false. National income is a **flow**, not a stock.

10. **Assertion (A):** Transfer payments are excluded from national income.
Reason (R): They do not represent the production of goods and services.

Ans: (*a*) Transfer payments (like pensions and gifts) are not earned through productive activity. Hence, both A and R are true, and R correctly explains A.

Two Statement Based Questions

1. **Statement-I:** GDP at market price includes depreciation.
   Statement-II: Net Domestic Product at factor cost includes both depreciation and net indirect taxes.

Ans: (*c*) Statement-I is correct because GDP at MP = NDP at MP + depreciation.
Statement-II is incorrect. NDP at FC = NDP at MP – Net Indirect Taxes, and does not include depreciation.

2. **Statement-I:** Intermediate goods are included in the calculation of national income.
   Statement-II: Final goods are those that are used either for consumption or for investment.

Ans: (*d*) Statement-I is incorrect. Intermediate goods are excluded to avoid double counting.
Statement-II is correct. Final goods include consumer goods and capital goods.

3. **Statement-I:** Net exports can be negative if a country imports more than it exports.
   Statement-II: Imports reduce the value of domestic income.

Ans: (*a*) Both statements are **correct**.
Negative net exports (X–M) happen when imports exceed exports.
Imports are a **leakage** in the circular flow of income.

4. **Statement-I:** Consumption of fixed capital refers to depreciation.
   Statement-II: Depreciation is the cost of wear and tear of capital assets during the year.

Ans: (*a*) Both statements are **correct**.
Depreciation = Consumption of Fixed Capital. It accounts for the fall in value of fixed assets.

5. **Statement-I:** Payment of interest by a bank on public deposits is a factor payment.
   Statement-II: Interest on borrowing for consumption is not included in national income.

Ans: (*a*) Interest paid by a bank is for the use of public savings (a factor service).
However, interest paid on **personal loans** is not for production; hence, it is **excluded** from national income.

6. **Statement-I:** Transfer payments are included while calculating national income.
   Statement-II: National income includes only factor incomes.

Ans: (*d*) Statement-I is **incorrect**. Transfer payments (pensions, scholarships) are **not included** in national income.
Statement-II is **correct**—only incomes earned from production (rent, wages, etc.) are included.

7. **Statement-I:** The sale of shares in the stock market is included in national income.
   Statement-II: Commission earned by the broker on the sale of shares is included in national income.

Ans: (*d*) Statement-I is **incorrect**. The sale/purchase of shares is a **financial transaction**, not production.
Statement-II is **correct**. A broker's commission is **payment for a productive service**.

8. **Statement-I:** Production for self-consumption is included in national income.
   Statement-II: Goods produced and consumed by the producer are considered as final goods.

Ans: (*a*) **Both** are **correct.** Self-consumed goods are valued at market price and included in national income. Since no further transformation happens, they are final goods.

Match the Following

1. Match the items in Column-I with those in Column-II and choose the correct pair.

Column-I	Column-II
(a) Income from Property	(i) Rent received on owned house
(b) Income from Entrepreneurship	(ii) Profit
(c) Mixed Income	(iii) Self-employed farmer's earnings
(d) Compensation of Employees	(iv) Salary and Perks

Options:

(*a*) (*a*) – (ii)
(*b*) (*b*) – (iii)
(*c*) (*c*) – (ii)
(*d*) (*d*) – (iv)

Ans: (*d*) (*d*) – (i)

Compensation of employees includes all forms of payments (wages, salaries, perks) made to employees by employers. Salary and perks fall under this category.

2. Match the items in Column-I with those in Column-II and choose the correct pair.

Column-I	Column-II
(a) Transfer Income	(i) Old-age pension
(b) Income from Entrepreneurship	(ii) Operating surplus
(c) Income from Property	(iii) Rent from land
(d) Mixed Income	(iv) Labour and capital income both

Options:

(*a*) (*a*) – (i) (*b*) (*b*) – (iii)

(*c*) (*c*) – (iv) (*d*) (*d*) – (ii)

Ans: (*a*) (*a*) – (i)

Old age pension is a transfer income, as it is received without rendering any productive service during the current accounting year.

3. Match the items in Column-I with those in Column-II and choose the correct pair.

Column-I	Column-II
(a) Net Factor Income from Abroad	(i) Difference between NFIA and NIFA
(b) Gross Domestic Product (GDPmp)	(ii) Domestic product at market price
(c) Net National Product (NNPfc)	(iii) National income
(d) Gross National Product (GNPmp)	(iv) GDPmp + NFIA

Options:

(*a*) (*a*) – (iii) (*b*) (*b*) – (ii)

(*c*) (*c*) – (iv) (*d*) (*d*) – (i)

Ans: (*b*) (*b*) – (ii)

GDPmp refers to Gross Domestic Product at market prices, i.e., the total value of goods and services produced within the domestic territory at market prices.

4. Match the items in Column-I with those in Column-II and choose the correct pair.

Column-I	Column-II
(a) Net Indirect Taxes	(i) Indirect taxes – subsidies
(b) National Income	(ii) NNPfc
(c) Gross Domestic Product at FC	(iii) GDPmp – NIT
(d) Gross National Product at MP	(iv) NNPfc + Depreciation

Options:

(*a*) (*a*) – (ii) (*b*) (*b*) – (iii)

(*c*) (*c*) – (iii) (*d*) (*d*) – (i)

Ans: (*c*) (*c*) – (iii)

GDP at factor cost is obtained by subtracting net indirect taxes from GDP at market prices. So, GDPfc = GDPmp – NIT.

5. Match the items in Column-I with those in Column-II and choose the correct pair.

Column-I	Column-II
(a) Net National Product at FC	(i) National Income
(b) Rent, Interest, Wages, Profit	(ii) Factor incomes
(c) Factor Income from Abroad	(iii) Income received from the rest of the world
(d) Personal Disposable Income	(iv) Personal income – direct taxes

Options:

(*a*) (*a*) – (ii) (*b*) (*b*) – (i)

(*c*) (*c*) – (iii) (*d*) (*d*) – (ii)

Ans: (*c*) (*c*) – (iii)

Factor income from abroad includes wages, rent, interest, and profits received by non-residents from the rest of the world.

Short Answer Type Questions

1. Will the services of a housewife be included in the estimation of national income?

Ans: No. The services of a housewife are not included in national income because she is not paid for her work. Although her contribution has value, it does not involve a monetary transaction in the market. National income includes only those goods and services that are economically exchanged and have a market price. Therefore, unpaid household work is excluded.

2. A businessman earns profit from his shop in India. Will this be included in national income?

Ans: Yes. The profit is a factor income (reward for entrepreneurship) earned by a normal resident within the domestic territory. Since the income is both earned inside the country and accrues to a resident, it satisfies the conditions of domestic income and national income, and hence, it is included.

3. A foreign company pays rent for using land in India. Will this rent be part of India's national income?

Ans: Yes. The rent is being paid to an Indian resident for land located within India, meaning the income is generated in the domestic territory and received by a normal resident. Since both conditions for national income are satisfied, it will be included. This is a case where foreign investment leads to income generation for the domestic economy.

4. A student receives a scholarship from the government. Is this counted in national income?

Ans: No. A scholarship is a transfer payment, meaning it is not made in return for any productive service. Since national income includes only those incomes arising out of productive economic activities, scholarships (like pensions, donations, or unemployment benefits) are excluded.

5. A Chinese engineer working on an Indian railway project earns ₹1 lakh per month. Will it be included in India's national income?

Ans: No. Although the income is earned in India (domestic territory), it goes to a non-resident (a Chinese national). National income includes only incomes earned by normal residents, whether earned inside or outside the country. So, this is excluded from national income but included in domestic income.

6. Distinguish between domestic income and national income in one line.

Ans: Domestic income is earned within the country's territory, while national income is earned by residents of the country, regardless of location. Domestic income is based on the location of earnings, while national income is based on the residency of the earner. For example, a Japanese company earning profits in India is part of India's domestic income but not its national income.

7. Will the production of goods for self-consumption be a part of national income? Give a reason.

Ans: Yes. Even though such goods are not sold in the market, they are meant for personal consumption and have value. Their value is imputed (estimated) and included in national income because they represent actual production. For example, a farmer growing wheat for his family is contributing to the economy's output.

8. An Indian artist performs in the UK and earns income. Will it be part of India's national income?

Ans: Yes. The artist is a normal resident of India, and national income includes all factor incomes earned by residents, whether earned inside or outside India. Even though the performance happened in the UK, the income is counted in India's national income.

9. What is meant by factor income?

Ans: Factor income refers to income earned by providing factors of production—land, labor, capital, and entrepreneurship. These include wages (labor), rent (land), interest (capital), and profit (entrepreneurship). National income includes only these types of incomes, as they result from productive activity. It does not include transfer incomes like gifts or pensions.

10. A person receives ₹10,000 as interest from Indian government bonds. Is this included in national income?

Ans: Yes. Interest is a factor of income received on capital provided. If the person receiving interest is a normal resident, it is part of national income. This shows how even government liabilities, when they pay income to residents, become part of productive earnings in the economy.

Long Answer Type Questions

1. (*a*) Differentiate between Gross Domestic Product (GDP) and Gross National Product (GNP) with the help of one example.

Basis	GDP (Gross Domestic Product)	GNP (Gross National Product)
Definition	GDP is the money value of all final goods and services produced within the **domestic territory** of a country in a year.	GNP is the money value of all final goods and services produced by the **normal residents** of a country in a year, regardless of where they are produced.
Scope	Includes income generated **within the country**, both by residents and non-residents.	Includes income earned **by residents only**, whether earned domestically or abroad.

Formula	GDP = GNP - Net Factor Income from Abroad (NFIA)	GNP = GDP + NFIA
Example	Income earned by a German company operating in India is included in India's GDP.	Income earned by an Indian company operating in the USA is included in India's GNP.

(*b*) Explain how Net Factor Income from Abroad (NFIA) helps in converting GDP into GNP.

Ans: Net Factor Income from Abroad (NFIA) refers to the difference between factor income earned by residents from abroad and factor income paid to non-residents within the domestic territory.

To convert GDP to GNP, we adjust for NFIA as follows:

If NFIA is positive (i.e., residents earn more abroad than foreigners earn domestically), then GNP > GDP.

If NFIA is negative, then GNP < GDP.

Formula:

GNP = GDP + NFIA

So, NFIA accounts for international income flows and helps in shifting the focus from location-based production (GDP) to ownership-based income (GNP).

2. (*a*) State two differences between National Income at Market Price and National Income at Factor Cost.

Basis	National Income at Market Price	National Income at Factor Cost
Definition	It is the value of final goods and services **at current market prices**, including indirect taxes and excluding subsidies.	It is the value of final goods and services **received by factors of production**, excluding indirect taxes and including subsidies.
Includes	Indirect taxes (e.g., GST), exclude subsidies	Excludes indirect taxes, includes subsidies
Usefulness	Reflects actual expenditure by consumers	Reflects actual income earned by producers/factors of production

(*b*) What adjustments are required to convert National Income at Market Price into National Income at Factor Cost?

Ans: To convert National Income from Market Price (MP) to Factor Cost (FC), we make the following adjustments:

Subtract indirect taxes (since they increase market price but are not part of factor incomes).

Add subsidies (as they are income support from the government and increase factor income).

Formula:

National Income at FC = National Income at MP − Indirect Taxes + Subsidies

This adjustment helps reflect the **real income earned by the factors of production**, not just the price paid by consumers.

3. (*a*) Distinguish between Domestic Income and National Income with appropriate examples.

Basis	Domestic Income	National Income
Definition	Income generated by all production units **located within the domestic territory** of a country, regardless of ownership.	Income earned by **normal residents** of a country, whether earned domestically or abroad.
Ownership	Includes income of both residents and non-residents operating in the country.	Includes only the income of residents, even if earned abroad.
Formula	Domestic Income = National Income − NFIA	National Income = Domestic Income + NFIA
Example	Profit earned by a foreign company operating in India is part of India's domestic income.	Wages earned by an Indian working in the US are part of India's national income.

(*b*) Classify the following items into domestic income or national income:

(i) Compensation of employees received from abroad

National Income (Because it is earned by a resident of the country from abroad)

(ii) Rent received by an Indian resident from property located in the USA.

National Income. It is earned by a normal resident from abroad, so it is included in national income but not in domestic income.

(iii) Salaries paid to foreign embassy staff working in India.

Not Included in Domestic or National Income. Embassies are considered part of the territory of the respective foreign country. Hence, this is excluded from both.

(iv) Profit earned by a branch of an Indian bank located in Canada.

National Income. It is earned by an Indian resident enterprise from abroad, so it is part of national income but not domestic income.

(v) Wages paid to a foreigner working temporarily in India.

Domestic Income. The income is earned within the domestic territory, even though the person is a non-resident, so it is part of domestic income, not national income.

(vi) Dividends received by an Indian from shares in a U.S. company.

National Income. This is factor income from abroad earned by a resident, included in national income, not in domestic income..

Numericals

1.

Items	(₹ in crore)
1. Gross domestic fixed capital formation	400
2. Private final consumption expenditure	8000
3. Government final consumption expenditure	3000
4. Change in Stock	50
5. Consumption of fixed capital	40
6. Net indirect taxes	100
7. Net exports	– 60
8. Net factor income to abroad	– 80
9. Net current transfers from abroad	100
10. Dividend	100

Gross Domestic Capital Formation = Gross Domestic fixed capital formation + change in stock

Gross Domestic Capital Formation = 400 + 50 = ₹450

GDP at MP = Private Final consumption expenditure + Government Final Consumption Expenditure + Gross domestic capital formation + Net Exports

GDP at MP = 8000 + 3000 + 450 – 60

GDP at MP = ₹11390,

NNP at MP = GDP at MP – consumption of fixed capital + NFIA

NNP at MP = 11390 – 40 – (- 80) = ₹11430

2. Find Net Value Added at Market Price:

Items	(₹ in lakh)
i) Fixed capital goods with a life span of 5 years	15
ii) Raw Materials	6
iii) Sales	25
iv) Net Change in Stock	(–) 2
v) Taxes on production	1

Ans: Value of Output = Sales + Change in Stock

Value of Output = iii) + iv) = 25 + (– 2) = 23

Gross Value Added at MP = Value of Output – Intermediate Consumption

GVA at MP = ₹ 23 – ₹ 6 = ₹ 17

Net Value Added at MP = GVA at MP – Consumption of fixed Capital

Consumption of Fixed Capital = Total value of fixed Capital/life span = 15/5 = ₹ 3 lakh

NVA at MP = ₹ 17 – ₹ 3 = ₹ 14

3. Calculate 'Net National Product at Factor Cost from the following:-

Items	(₹ in crore)
1. National debt interest	60
2. Wages and salaries	600
3. Net current transfers to abroad	20
4. Rent	200
5. Transfer payments by the government	70
6. Interest	300
7. Net domestic product at factor cost accruing to the government	400
8. Social security contributions by employers	100
9. Net factor income paid to abroad	50
10. Profits	300

NDP at FC = COE (Wages & Salaries + Social Security contribution of employers) + Mixed Income + Rent + Interest + Profit
NDP at FC = (600 + 100) + 0 + 200 + 300 + 300
NDP at FC = 1500
NNP at FC = NDP at FC – Net factor income paid to abroad
NNP at FC = 1500 – 50
NNP at FC = ₹ 1450 crore

4. From the following data, find out value added by firm X:

S.N	Items	(₹ lakh)
(i)	Sales by Firm Y to Firm X	400
(ii)	Sales by Firm X to households	500
(iii)	Purchases by firm Z from Firm X	300
(iv)	Opening stock of firm X	25
(v)	Closing stock of firm X	75

Value of Output = Sales (Sales by Firm X to households + Purchases by firm Z from firm X) + Change in stock (Closing Stock by firm X – Opening stock of Firm X)
Value of Output = (ii + iii) + (v – iv) = (500 + 300) + (75 – 25) = ₹ 850
Value added by Firm X = Value of Output – Intermediate Consumption (sales by Firm Y to firm X)
Value added by Firm X = 850 – 400 = ₹ 450 lakh

Previous Year Questions

Multiple-choice questions (1 mark)

1. From the items given in Column-I and Column-II, choose the correct pair. **(CBSE 2025)**

Column-I		Column-II	
(a)	Income from Property	(i)	Old age pension
(b)	Income from Entrepreneurship	(ii)	Profit
(c)	Mixed Income	(iii)	Rent free accommodation from an employer
(d)	Compensation of Employees	(iv)	Interest from capital

Options:

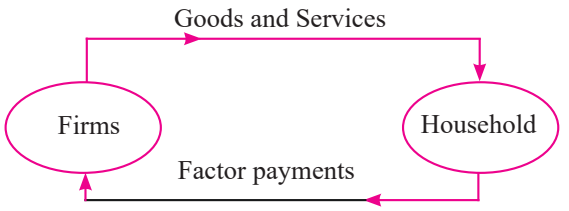
(*a*) (*a*) - (i)
(*b*) (*b*) - (ii)
(*c*) (*c*) - (iii)
(*d*) (*d*) - (iv)

Ans: (*b*)

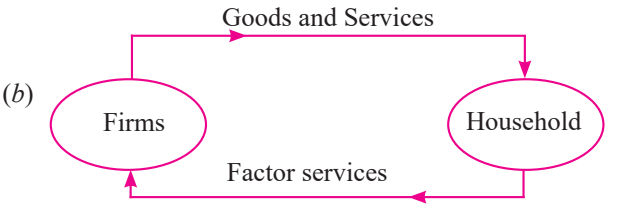
(*a*) Income from Property → Should match with (iv) Interest from capital
(*b*) Income from Entrepreneurship → Correctly matches with (ii) Profit.
(*c*) Mixed Income → Includes all types of income in small businesses, but (iii) Rent-free accommodation is part of Compensation to Employees.
(*d*) Compensation of Employees → Matches with (iii), not (iv).
So, only option (B) gives the correct match: Income from entrepreneurship = profit.

2. Identify which of the following represents only the real flow: **(CBSE 2023)**

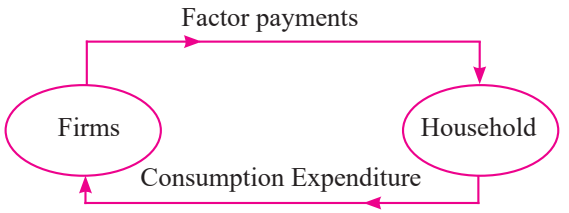
(*a*)



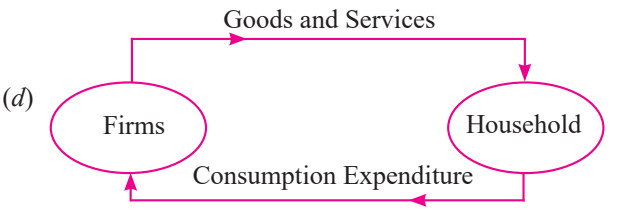
(*b*)



(*c*)



(*d*)



Ans: (*b*) Option (*b*) shows only real flow—i.e., flow of goods & services from firms to households and factor services from households to firms, with no money involved.

3. The difference between National Income at market price and National Income at factor cost is _____. **(CBSE 2023)**
(Choose the correct alternative to fill up the blank.)

(*a*) Net Indirect Taxes
(*b*) Net Factor Income from Abroad
(*c*) Consumption of Fixed Capital
(*d*) Market Price

Ans: (*a*) Net Indirect Taxes
National Income at Market Price – Net Indirect Taxes = National Income at Factor Cost
Net Indirect Taxes = Indirect Taxes – Subsidies
Hence, the difference between MP and FC is due to net indirect taxes.

Subjective Answer Type Questions (3-6 MARKS)

1. (*a*) Calculate the value of Net Value Added at Factor Cost (NVAFC): **3 M (CBSE 2025)**

S. No.	Particulars	Amount (In crore)
(i)	Operating Surplus	3,740
(ii)	Increase in unsold stock	600
(iii)	Sales	10,625
(iv)	Purchase of raw materials	2,625
(v)	Consumption of fixed capital	500
(vi)	Subsidies	400
(vii)	Indirect taxes	1,200

OR

(*b*) Distinguish between Net Factor Income from Abroad (NFIA) and Net Exports (X-M). **3 M**

Ans: (*a*) Gross value of output - Intermediate consumption
= value of output – Sales + change in stock
= 10625 + 600 11,225
= 11,225
GVA_{MP} = 11,225 – 2645 = 8600
NVA_{FC} = GVA_{MP} – Dep – NIT
= 8,600 – 500 – (12,00 – 400)
8,600 – 500 – 800 – 7800
NVA_{FC} = 7300

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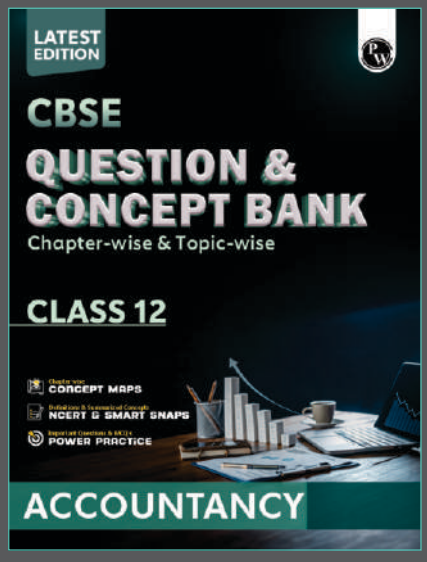

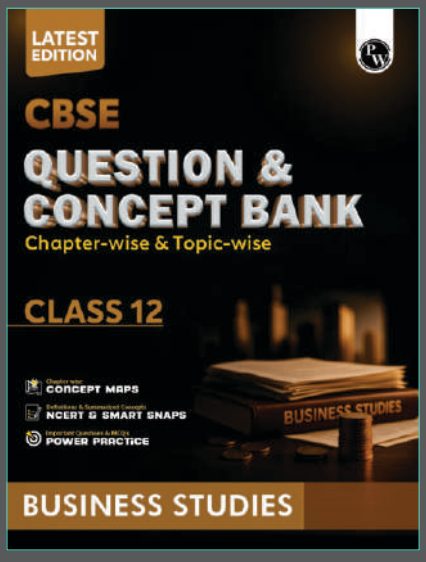

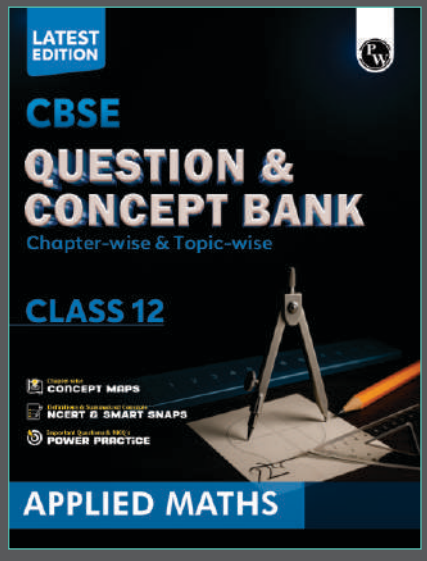

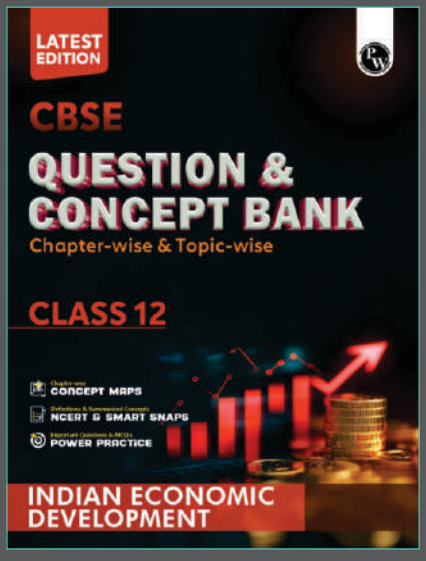

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