Unit-1: basic issues in Indian economy

Points to Remember:

1. To **achieve a high rate of growth of national output**, the economy has to increase the **rate of investment and reduce the capital output ratio**.
2. **National income** refers to **NNP at factor cost**.
3. **Central Statistics Office (CSO)** is in charge of preparation of **national income accounts.**
4. **Per capita income** is obtained by dividing **National Income** by **total population** of the country
5. **GDP at Factor Cost** is **GDP minus indirect taxes plus subsidies**
6. Gross Domestic Product is defined as the value of all final goods and services produced in an economy in a year
7. The main **difference** between **Gross Domestic Product (GDP) and Gross National Product (GNP)** is **Net factor income from abroad**
8. The term **economic growth** refers to **rate of increase in real GDP or GNP, or increase in per capita real income.**
9. **Economic development** is characterized by **improvement in not only income**, but also **the quality of life of the people**.
10. **Structural change** in an economy is characterised by many parameters. For example, the **shift from primary sector to secondary and tertiary sectors** contribution to the GDP, or a **change in occupational structure** may indicate structural change.
11. Economic development is a wider concept than growth. There are various parameters used to define and measure it.
12. An underdeveloped economy is characterized by a state of deprivation of large proportion of population.
13. Underdeveloped countries face the problem of deprivation of large section of the population, low per capita real income etc.
14. **Scarcity of capital, technological backwardness and unemployment** are generally found in **Underdeveloped countries**.
15. Underdeveloped countries lag behind in various factors like availability of resources, technology etc.
16. The features of an **underdeveloped economy** include **high level of poverty**, low **level of capital productivity** and a relatively closed economy.
17. Other important features of an **underdeveloped economy** are **High rates of unemployment and underemployment**, rapid population growth and **technological backwardness**.
18. Capital formation in underdeveloped countries is a major bottleneck. The reasons are Small size of market with no incentive for investment and Low level of income. Higher level of capital-output ratio indicates the productivity of capital in the economy.
19. **COR (capital-output ratio) refers to the ratio of capital required to produce one unit of output (both measured in value terms).**
20. A **higher level of COR means inefficient use of capital.**

21. Physical Quality of Life Index is one of the indicators to measure human development.
22. The concept of **HDI** was popularized by **Mahbub-Ul Haq**.
23. The concept of **HDI was developed in the 1990s**. It has 3 important parameters- **life expectancy, education achievement index and standard of living index**.
24. The Multidimensional Poverty Index has been developed by Oxford HDI.
25. **Dual economy** refers to existence of **Traditional and modern** aspects in the economy.
26. Dual economy is a feature of developing countries. **In a dualistic economy, can find the simultaneous usage of traditional methods and modern methods, as well as the presence of a strong organised and a large unorganised sector** etc.
27. **Mixed economy** means an economy where there is a strong simultaneous presence of both **public and private** sectors.
28. In India, there is existence of both public and private sectors working together.
29. While **calculating GDP, income generated by nationals of a country outside the country is not taken into account.**
30. The net value of GDP after deducting depreciation from GDP is Net domestic product.
31. After deducting the depreciation charges from GDP, we get net value of GDP which is called NDP.
32. **While calculating GNP, income generated by nationals of a country outside the country is taken into account.**
33. While calculating GNP, income generated by foreigners within a country is not taken into consideration.
34. When depreciation is deducted from GNP, the net value is Net national product.
35. **The value of NNP at consumer point is NNP at market price.**
36. **The value of NNP at production point is called NNP at factor cost.**
37. **The value of national income adjusted for inflation is called Real national income**. It is adjusted for inflation that is calculated from a reference point which is a base year.
38. Per capita income is calculated by dividing the total national income by the total population of the year.
39. The most appropriate measure of a country's economic growth is Per capita real income

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Multiple Choice Questions (MCQs: marks-1)

1. The achieve high rates of growth of national output, the economy has to

[A] Incur external debt
[B] Reduce the rate of savings
[C] Reduce the rate of growth of population
[D] Increase the rate of investment and reduce the capital output ratio

Answer: Option [D]

2. National income refers to

[A] Money value of stocks and shares of a country during a year
[B] NNP at factor cost
[C] Money value of consumer goods produced by a country during a year
[D] Money value of goods and services produced in a country during a year

Answer: Option [B]

3. Inflation is most likely to be caused by:

[A] Increase in supply of goods
[B] Decrease in money supply
[C] Increase in money supply
[D] Decrease in investment

Answer: **Option [C]**

4. Open market operation refers to

[A] Purchase and sale of Government securities by the R.B.I. (or the Central Bank of a country)
[B] Purchase and sale of bounds and securities by the Central Govt.
[C] Borrowing by commercial banks from the R.B.I.
[D] Lending by scheduled banks to non-scheduled banks

Answer: Option [A]

5. What is the main function of Central Statistics Office (CSO)?

[A] Determination of money supply
[B] Price determination
[C] Preparation of national income accounts
[D] Collection of data regarding outstanding bank loans

Answer: Option [C]

6. What does GDP mean?

[A] The total value of all consumer goods produced in the country during a period of one year
[B] The total value of all capital goods produced in the country during a period of one year
[C] The total value of all stocks and shares in the country during a period of one year
[D] The total value of all final goods and services produced in the country during a period of one year

Answer: Option [D]

7. Per capita income is obtained by dividing National Income by

[A] Area of the country
[B] Volume of capital used
[C] Total working population
[D] Total population of the country

Answer: Option [D]

8. GDP at Factor Cost is

[A] GDP minus indirect taxes plus subsidies
[B] GDP minus subsidies plus indirect taxes
[C] NNP plus depreciation allowances
[D] GDP minus depreciation allowances

Answer: Option [A]

9. Gross Domestic Product is defined as the value of all

[A] Goods produced in an economy in a year
[B] Goods and services produced in an economy in a year
[C] Final goods produced in an economy in a year
[D] Final goods and services produced in an economy in a year

Answer: Option [D]

10. Which of the following is not a part of national income?

[A] Income from a lottery prize
[B] Profits
[C] Wages and Salaries
[D] Income of the self-employed

Answer: **Option [A]**

11. The main difference between Gross Domestic Product (GDP) and Gross National Product (GNP) is

[A] Capital gains
[B] Transfer payments
[C] Net factor income from abroad
[D] Capital consumption allowance

Answer: Option [C]

12. Which of the following explains the term economic growth?

    a. Increase in per capita production
    b. Increase in per capita real income
    c. Increase in real GDP
    d. all the above are right

    ANSWER: d. all the above are right

13. Features of economic development include:
    a. Structural change in the economy
    b. Change in the occupational structure
    c. Both a and b
    d. None of the above

    ANSWER: c. Both a and b

    Note: Economic development is a wider concept than growth. There are various parameters used to define and measure it.

14. An underdeveloped economy is characterized by

    a. High per capita real income
    b. Large proportion of labor force in the tertiary sector
    c. State of deprivation of large proportion of population
    d. All the above

    ANSWER: c. State of deprivation of large proportion of population

15. Scarcity of capital, technological backwardness and unemployment are generally found in

    a. Developed countries
    b. Underdeveloped countries
    c. Both
    d. None of the above

    ANSWER: b. Underdeveloped countries

16. Which of the following denotes an underdeveloped economy?

    a. High level of Unemployment and underemployment
    b. Low level of capital productivity
    c. A relatively closed economy
    d. All the above

    ANSWER: d. All the above

    Other than the above features, we can find High incidence of poverty, rapid population growth and technological backwardness too.

Multiple Choice Questions (MCQs: marks-2)

1. Capital formation in underdeveloped countries is a major bottleneck. The reason can be

    a. Small size of market with no incentive for investment
    b. Low level of income
    c. Low rates of savings

d. All the above

ANSWER: d. All the above

Note: *Capital formation refers to investment in tools, machinery, buildings etc.*

2. *Consider the following statements and identify the right ones.*

i. Higher level of capital-output ratio indicates inefficient use of capital.

ii. Higher level of capital-output ratio reflects higher productivity of capital in the economy

a. i only
b. ii only
c. both
d. none

ANSWER: a. i only

Note: *COR refers to the number of units of capital required to produce one unit of output. A higher level of it means inefficient use of capital.*

3. The concept of PQLI was developed by

a. Morris D Morris

b. UNO

c. UNDP

d. Oxford Poverty and Human Development Initiative

ANSWER: a. Morris D Morris

Note: *Physical Quality of Life Index is one of the indicators to measure human development.*

4. The concept of HDI was popularized by

a. Morris D Morris

b. Adam Smith

c. Keynes

d. Mahbub-Ul Haq

ANSWER: d. Mahbub-Ul Haq

Note: *The concept was developed in the 1990s. It has three important parameters - life expectancy, education achievement index and standard of living index (as measured by an adjusted per capita income).*

5. The component/s of HDI is/are

a. Life expectancy

b. Infant mortality rate

c. Population growth rate

d. All the above

ANSWER: a. Life expectancy

6. The Multidimensional Poverty Index has been developed by

a. The UNDP

b. Oxford HDI

c. The UNO

d. Morris D Morris

ANSWER: b. Oxford HDI

The MPI concept was developed by the Oxford Human Development Initiave

7. Dual economy refers to existence of

   a. Imports and export activities

   b. Bilateral ties

   c. Traditional and modern aspects in the economy

   d. Both a and b

   ANSWER: c. Traditional and modern aspects in the economy

   Dual economy is a feature of developing countries. Here one can find both usage of traditional methods and modern methods.

8. Mixed economy means an economy where there is

   a. Existence of capitalism

   b. Privatization, liberalization and globalization

   c. Strong co-existence of both public and private sectors

   d. Growing crops along with rearing animals

   ANSWER: c. Existence of both public and private sectors

   In India, there is existence of both public and private sectors working together.

9. When depreciation is deducted from GNP, the value is

   a. Net national product

   b. Net domestic product

   c. Gross national product

   d. Disposable income

   ANSWER: a. Net national product

10. The value of NNP at consumer point is

   a. NNP at factor cost

   b. NNP at market price

   c. GNP at market price

d. GNP at factor cost

ANSWER: b. NNP at market price

11. The value of NNP at production point is called

    a. NNP at factor cost

    b. NNP at market price

    c. GNP at market price

    d. GNP at factor cost

    ANSWER: b. NNP at market price

    NNP at factor cost is the value of the NNP when the value of goods and services are taken at the production point.

12. The value of national income adjusted for inflation is called

    a. Per capita income

    b. Disposable income

    c. Inflation rate

    d. Real national income

    ANSWER: d. Real national income

    Note: *It is adjusted for inflation that is calculated from a reference point which is a base year.*