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Answers Key:

1 Marks

1. (☒) Income received without rendering any productive services is known as Transfer Income.
2. (☒) Flow concept
   Reason: It is related to a period of time.
3. (☒) Included
   Reason: As it is within the domestic territory of our country.
4. (☒) True
   Reason: It happens because firms sell their entire output to the households.
5. (☒) False
   Reason: Books used in a library are final goods as these are used by the end user.
6. (☒) Intermediate consumption is the expenditure incurred on the production of goods and services.

5 Marks

7. In laynan terms, the domestic territory of a nation is understood to be the territory lying within the political frontiers (or boundaries) of a country. But in national income accounting the term domestic territory is used in a wider sense. Based on 'freedom' criterion, the scope of economic territory is defined to cover:
   (i) Ships and aircrafts owned and operated by normal residents between two or more countries. For example, Indian Ships moving between China and India regularly are part of domestic territory of India. Similarly, planes operated by Air lndia between Russia and Japan are part of the domestic territory of India. Similarly, planes operated by Malaysian Airlines betwern India and Japan are a part of the domestic territory of Malaysia.
   (ii) Fishing vessels, oil and natural gas rigs and floating platforms operated by the residents of a country in the international waters where they have exclusive rights of operation. For example, Fishing boats operated by Indian fishermen in international waters of Indian Ocean will be considered a part of domestic territory of India.
   (iii) Embassies, consulates and military establishments of a country located abroad. For example, Indian Embassy in Russia is a part of the domestic territory of India.
   'Consulate' is an office or building used by consul (an officer commissioned by the government to reside in a foreign country to promote the interest of the country to which he belongs).
8. Producer goods are all those goods which are used in the process of production i.e., which are used in the production of other goods. Producer goods include two types of goods:
   (i) **Single-use Producer Goods:** Goods used as raw material by the producers. It includes raw material like coal, wood, etc. They are not capital goods as they cannot be repeatedly used in the production process.
   (ii) **Capital Goods:** Goods which are used as fixed assets by the producers, like plant and machinery, which can be repeatedly used in the production process.
   So, it can be said that all capital goods are producer goods, but all producer goods are not capital goods.
9. No, it is not necessary that mnachine purchased is a final good. It will depend upon its use.
   (i) If a machine is purchased by a household, then it is a final good. For example, washing machine purchased by a consumer household is a final goods.
   (ii) If it is purchased by a firm for its own use, then it is also a final good. For example, refrigerator purchased by a firm.
   (iii) If it is bought by a firm for resale, then it is an intermediate good. For example, machine purchased by a 1machine dealer.
10. No, it is not necessary that machine purchased is a capital good. It will depend upon its use.
    (i) If a sewing machine is purchased by a tailor, then it is a fixed asset of the tailor and considered to be a capital good. But the same machine purchased by a consumer household is considered to be a durable use Consumer goods.
    (ii) If a car purchased by a taxi driver as a taxi or if purchased by a firm for use in its business is a capital good. But the same car purchased by a consumer household is a durable use consumer goods.
    Note: So, finally, the end user of a good determine, whether it is capital good or durable use consumer goods. If an end user of a durable goods is a producer, it is a capital
    good. If an end user of a durable goods is a consumer household, it is a durable use consumer goods. So, capital goods are only those durable goods which are used as procducer goods, not as consumer goods.

3 Marks

11. An economy may be divided into different sectors depending on the nature of study.
    (i) Producer sector engaged in the production of goods and services.
    (ii) Household sector engaged in the consumption of goods and services.
    Note: Households are taken as the owners of factors of production.
    (iii) The government sector engaged in activities like taxation and subsidies.
    (iv) Rest of the world sector engaged in exports and imports.
    (v) Financial sector (or financial system) engaged in the activity of borrowing and lending.
12. Features of capitalist economy are:
    (i) Private ownership of land and capital.
    (ii) Profit is the only motive.
    (iii) Free play of the market forces of demand and supply.
    (iv) Government looks after growth, stability and social justice in the economy.
13.

The Great Depression took place in 1929 which adversely affected the developed economies of Europe and North America. It continued for 10 years. There was extreme fallin aggregate demand due to fall in income, which led to a vicious circle of poverty.

14. Differences between stock and flow are (any three)

Basis	Stock	Flow
Time elements	It relates to a point of time	It relates to the period of time
Dimension	It is not time dimensional.	It is time dimensional as per hour, per month, per year.
Impact	It influences the flow. Greater the stock of capital greater is the flow of goods and services.	It influences the stock e.g. monthly increase in the supply of money leads to an increase in the quantity of money.
Concept	Static concept	Dynamic concept
Example	Money in bank account as on 31st March, 2016.	Number of births during the month of March 2016

2 Marks

15. Microeconomics : Studies the behavior of individuals and businesses in making decisions about resource allocation and prices. Microeconomics focuses on individual markets, sectors, or industries. Topics include supply and demand, elasticity, opportunity cost, and market equilibrium.
Macroeconomics : Studies the economy as a whole, including national, regional, and global economies. Topics include output, GDP, national income, unemployment, price indices, inflation, consumption, saving, investment, energy, international trade, and international finance.
16. It is the loss in the value of fixed assets in use on account of normal wear and tear, normal rate of accidental damages and expected or foreseen obsolescence. Depreciation is also called consumption of fixed capital.

Multiple Choice Question

17. (d) Both statements are false
18. (a) flow, stock
19. (c) Depreciation
20. (a) Capital
21. (d) All options are incorrect

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