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MEASUREMENT OF NATIONAL INCOME



ECONOMIC & SOCIAL ISSUES - MULTIPLE CHOICE QUESTIONS

Economic & Social Issues - Multiple Choice Questions (MCQs)

Measurement of National Income

Q. 1. Consider the following statements-

1. Domestic' (in 'Gross Domestic Product') indicates that the inclusion criterion is geographical.
2. Gross national product is another name for gross domestic product.
3. Transfer payments are not included in GDP.
4. Intermediate goods and services that are used to produce other final goods and services are included in GDP.
5. The word gross in GDP signifies that depreciation is already deducted from the total value arrived.

Which of the following statements is/are correct?

- A. Only 1 & 3
- B. Only 2
- C. 1, 2, 3 & 5
- D. All of the above.

Answer- A

Explanation-

- **Gross National product (GNP)** is the total value of all goods and services produced by the **nationals of a country**.
- **Intermediate goods and services are not included in GDP to avoid the problem of double counting.**
- The term 'gross' implies that GDP is measured 'gross' of depreciation. i.e., depreciation is **not deducted** from the total value arrived at.

Q.2. Consider the following statements-

1. GVA is measure of value added in goods and services produced in economy i.e.,

GVA = economic output – input.

2. GVA is sector specific while GDP is calculated by summation of GVA of all sectors of economy without considering taxes and subsidies.

3. Central Statistics Office (CSO) in the Ministry of Statistics and Programme Implementation (MoSPI) is responsible for the compilation of National Account Statistics including GDP. **CSO became NSO** in 2019 after merging with NSSO.

4. GVA and GDP can be used interchangeably.

5. Basic Price = Factor Cost + Production taxes – Production Subsidy

Which of the following statement is/are correct?

- A. 4 & 5
- B. 2, 3 & 4
- C. 1, 3 & 5
- D. All of the above

Answer- C

Explanation-

- GVA is sector specific while GDP is calculated by summation of GVA of all sectors of economy **with taxes added and subsidies are deducted.**
- **Gross Domestic Product (GDP)** is the monetary value all final economic goods and services produced in a country during a specific period of time.
- Domestic territory means political frontiers of the country including its territorial waters, commercial vessels operated by country's residents etc. & also includes country's embassies & consulates located abroad while
- **GVA** is measure of value added in goods and services produced in economy.

Q.3. Consider the following statements-

1. While calculating the GNP, only citizens residing in the country are considered.
2. GNP calculation does not consider income of the foreign nationals residing within the country.
3. Income from abroad includes: Private Remittances, Interest on External Loans, External Grants.
4. Net factor income from abroad = Exports – Imports
5. GNP is used to see the strength of country's local economy.

Which of the following statements is/are correct?

- A. 1,3 & 4.
- B. 2, 3 & 4
- C. 1 only
- D. 2, 4 & 5

Answer- B**Explanation-**

- While calculating GNP, Citizens are those who are residing within the country and abroad. Hence statement 1 is wrong.
- GNP is used to see how nationals of a country are doing economically. Hence statement 5 is wrong.

Q.4. Consider the following statements-

1. The net domestic product equals the gross domestic product plus depreciation on a country's capital goods.
2. Net domestic product accounts for capital that has been consumed over the year in the form of housing, vehicle, or machinery deterioration.
3. NDP is used to compare two economies as method of calculating depreciation is almost similar.
4. The governments of the economies have no role in the determination of rates by which assets depreciate.

Which statement is/are correct?

- A. 2 & 3
- B. 1, 3 & 4
- C. Only 2

D. None of the above

Answer- C

Explanation-

- The net domestic product equals the gross domestic product **minus** depreciation on a country's capital goods.
- NDP is not used to compare two economies as method of calculating depreciation is different for all.
- Depreciation is used a tool of economic policy making. The governments of the economies decide and announce the rates by which assets depreciate.

Q.5. Consider the following statements-

1. Unlike in NDP, depreciation is added to GNP while calculating NNP.
2. **Per capita Income = NDP/Total Population.**
3. **PI = NI + income received but not earned - income earned but not received**
4. **DI = PI + Personal Income Taxes**
5. India officially uses market cost to calculate its national income.

Which of the following statements is/are incorrect?

- A. 1,3 & 5
- B. 1 only
- C. 2 & 5
- D. 1, 2 & 4

Answer- D

Explanation-

- **NNP = GNP – depreciation**
- **Per capita Income = NNP/Total Population**
- **DI = PI - Personal Income Taxes**

Q.6. Consider the following statements-

1. India calculates its national income at current prices.
2. Constant price is the price at base year.
3. GDP @ current price is known as real GDP.
4. Nominal GDP is calculated at constant price.
5. To calculate the national income of various years it is calculated with reference to a particular year referred to as base year.

Which of the following statement is/are correct?

- A. 1, 2 & 3
- B. 2 & 5
- C. 1 only
- D. All of the above

Answer- B

Explanation-

- India calculates its national income at **constant prices**.
- GDP @ current price is known **as nominal GDP**.
- Nominal GDP is calculated at **current price**.

Q.7. Consider the following statements-

1. GDP deflator considers only a limited basket of commodities, hence it is relatively less comprehensive to WPI and CPI.
2. It is the ratio of the value of goods and services an economy produces in a particular year at current prices to that of prices that prevailed during the base year.
3. This ratio helps show the extent to which the increase in gross domestic product has happened on account of higher prices rather than increase in output.
4. Nominal GDP will most often be higher than real GDP irrespective to the state of economy, be it contracting or expanding.
5. Nominal GDP differs from real GDP as the former does not include depreciation, while the latter does.

Which of the following statements is/are correct?

- A. 2 & 3
- B. 1, 3 & 4
- C. 5 only
- D. 3, 4 & 5

Answer- A

Explanation-

- Since the deflator covers the entire range of goods and services produced in the economy — as against the limited commodity baskets for the wholesale or consumer price indices — it is seen as a more comprehensive measure of inflation.
- Nominal GDP will most often be higher than real GDP in an expanding economy.

- Nominal GDP differs from real GDP as the former does not include inflation, while the latter does.

Q.8. Which of the following is not a method to calculate gross domestic product?

- A. Product method
- B. Income law
- C. Expenditure method
- D. Diminishing cost method.

Answer- D

Explanation-

There are 3 methods used for calculating national income namely, Income method, expenditure method, and Product method. The diminishing cost method is not a method to calculate national income.

Q.9. The total amount of income from economic activities across the country in a year is called.

- A. Disposable income
- B. National income
- C. Personal income
- D. Private Income

Answer: B

Explanation:

The total amount of income from economic activities across the country in a year is called national income. This income includes wages, interest, rent, and profit.

Q.10. Who releases data of national income in India?

- A. NSSO
- B. CSO
- C. NITI Aayog
- D. None of the following

Answer: B

Explanation:

The GDP figures in India are released by the Central Statistics Office (CSO), which comes under the Ministry of Statistics and Program Implementation (MOSPI).

Q.11. The value of which work is added in the calculation of GDP?

- A. Housewives' work.
- B. A teacher teaching his own child.
- C. The value of resale of old shares
- D. Construction of new house by an artisan.

Answer: D

Explanation:

The value of the construction of a new house is added in the calculation of the GDP because it is a new production work in the economy.

Q. 12. The value of NNP at production point is called as?

- A. NNP at factor cost
- B. NNP at market price
- C. GNP at market price
- D. GNP at factor cost

Answer: B

Explanation-

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

Q.13. The national income of a country for a given period is given by.

- A. Total value of goods and services produced by nationals.
- B. Sum of total consumption and investment expenditure.

- C. Sum of personal incomes of all individuals.
- D. Money value of final goods and services produced.

Answer- D

Explanation-

The GDP is a measure to calculate the national income which is the sum total of final goods and services produced.

Q.14. National Income differs from Net National Product at market price by the amount of:

- A. Current transfers from rest of the world
- B. Net Indirect Taxes
- C. National debt interest
- D. it does not differ.

Answer-B

Explanation-

Net National Income (NNI) is Net National Product (NNP) minus indirect taxes.

Q.15. If factor cost is greater than marker price, it means that.

- A. Indirect taxes < subsidies
- B. Indirect taxes > subsidies
- C. I.T = subsidies
- D. none

Answer: A

Explanation-

Factor cost is the total amount which the manufacturer had to invest in production. It does not include any taxes imposed on the final product.

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