

## Economics - ICom Part 2 Principles of Economics Chapter 1 Short Questions Preparation

Q1. When does national income increase.

**Ans 1:** National income increases when the quantity of goods and services is increasing in the country.

Q2. Define National income int he word of Prof. Pigou.

**Ans 1:** National Income is that part of material wealth of a nation whihc can be measured by the scale of money

Q3. What is meant by Average propensity to consume.

**Ans 1:** 1- Average propensity to consume

**Ans 2:** The ratio between consumption and income is called average propensity to consume. To find average propensity to consume consumption is divided by income average propensity to consume= Consumption/income

Q4. Write precautions of the product method to measure national Income.

**Ans 1:** 1- Avoid double counting. 2- Subtract depreciation allowance.

**Ans 2:** 3- Subtract indirect taxes.  
4- Value of free services should not be counted.

**Ans 3:** 5- Subsidies should be counted.

Q5. Explain the meanings of Gross Domestic Product.

**Ans 1:** Total Market value of allfinal goods and services produced within a country during a year is called gross domestic product. thus when we subtract foreign income from gross national product. We get gross domestic product.  $GDP = GNP - FPI$

Q6. Who did present the concept of equilibrium level of National income

**Ans 1:** Prof. J.M.Keynes presented the concept of equilibrium level of national income in 1936 in his famous book. " General theory of employment,interest and money".

Q7.

What is meant by circular flow of national income.

**Ans 1:** Circulation of national income between households and firms is called circular flow of national income.

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Q8. Explain the concept of National Income.

**Ans 1:** If indirect taxes are subtracted from Net National Product and subsidies are added in N.N.P get National income. It is the income which is the aggregate of net rewards of four factors of production e.g. rents + wages + interest + profits

**Ans 2:** National income = Net National Product - indirect taxes + Subsidies

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Q9. What is meant by Depreciation allowance.

**Ans 1:** We use machines and tools to manufacture goods. These machines often break down during the year owing to wear and tear. We have to repair these machines. The expenditures made on their repair are called depreciation allowance.

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Q10. Differentiate between personal income and disposable personal income

**Ans 1:** Personal income is the income which an individual earns in a year. After subtracting direct taxes from personal income, disposable personal income is obtained.