CHAPTER-2 | National Income Accounting

QUIZ PART-08

1. **Which is the remuneration for land as a factor of production?**
   A. Wages
   B. Profit
   C. Rent
   D. Interest (C)

Explanation : Land earns rent as its remuneration, just as labour earns wages, capital earns interest, and entrepreneurship earns profit.

2. **Why is aggregate final expenditure equal to aggregate factor payments?**
   A. Because expenditure is always higher than income
   B. Because of the Circular Flow of Income
   C. Because savings are always equal to investments
   D. Because expenditure excludes imports (B)

Explanation: In the circular flow, every payment for goods and services becomes income for factor owners, so expenditure equals factor payments.

3. **Which of the following is a Stock variable?**
   A. Net Investment
   B. Births during 2018
   C. Capital
   D. Cars manufactured in January 2019 (C)

Explanation: Capital is a stock measured at a point of time, while investment and production are flows measured over time.

4. **Which of the following is a Flow variable?**
   A. Capital
   B. Population of India on 31st March
   C. Net Investment
   D. Number of Maruti cars in Delhi (C)

Explanation : Net Investment is a flow as it is measured over a period of time, unlike capital which is stock.

5. **Planned inventory accumulation occurs when:**
   A. Firms face unexpected decline in sales
   B. Firms intentionally increase stock to meet expected demand
   C. Firms unintentionally overproduce goods
   D. Inventory builds up due to poor planning (B)

Explanation: Planned accumulation is a deliberate decision to raise stock in anticipation of future demand.

6. **Unplanned inventory accumulation occurs when:**
   A. Firms stockpile intentionally for higher sales
   B. Government directs producers to increase inventory
   C. Firms experience unexpected rise in unsold goods
   D. Firms deliberately reduce inventory (C)

Explanation: Unplanned accumulation results from unexpected circumstances like sudden fall in demand.

7. **Which method calculates GDP as the sum of value added by each firm?**
   A. Expenditure Method
   B. Income Method
   C. Production (Value Added) Method
   D. Inventory Method (C)

Explanation: The Production Method calculates GDP by summing value added by each producing unit.

8. **Which formula represents GDP using the Expenditure Method?**
   A. GDP = Σ(Value Added by Firms)
   B. GDP = Σ(Factor Incomes)
   C. GDP = C + I + G + (X – M)
   D. GDP = Consumption + Savings (C)

Explanation: The Expenditure Method measures GDP as total spending: consumption, investment, government spending, and net exports.

9. **Which method calculates GDP as the sum of factor incomes?**
   A. Expenditure Method
   B. Production Method
   C. Income Method
   D. Capital Method (C)

Explanation: The Income Method calculates GDP by summing the incomes of factors: wages, rent, interest, and profits.

10. **Why should GDP calculated by the three methods (Production, Expenditure, Income) be the same?**
    A. Because they measure different activities of the economy
    B. Because they all include depreciation
    C. Because they all measure total economic activity of a country
    D. Because government fixes the GDP value (C)

Explanation : All three methods capture the same economic activity from different perspectives—output, spending, and incomes—so GDP values must match.