



ST. MARY'S CO-ED SCHOOL, HARDA (M.P)

ACADEMIC YEAR (2020-2021)

CLASS - XII

INTRODUCTORY MACROECONOMICS

CHAPTR – 2

BASIC CONCEPTS OF MACROECONOMICS

CHAPTER AT A GLANCE

- 1) **Domestic territory** refers to the geographical territory administered by a government within which persons, goods and capital circulate freely.
- 2) **Normal Resident** refers to an individual or an institution who ordinarily resides in the country for a period more than one year and whose centre of interest also lies in that country.
- 3) **Factor Income** is the income received by the factors of production for rendering factor services in the process of production.
- 4) **Transfer Income** refer to the income received without rendering any productive service in return.
- 5) **Intermediate Goods** refer to those goods which are used either for resale or for further production in the same year.
- 6) **Final Goods** refer to those goods which are used either for consumption or Investment.
- 7) **Consumption goods** are those final goods which satisfy the wants of the customers directly.
- 8) **Capital goods** are those final goods which help in the production of other goods and services.
- 9) Depreciation refers to the fall in the book value of fixed assets due to normal wear and tear, passage of time and expected obsolescence.

QUESTIONS AND ANSWERS FROM THE CHAPTER

Q.1 Define capital goods.

Ans. The goods which are repeatedly used in the process of production. They are the fixed assets of the producer, e.g. building, plant and machinery. They help to convert intermediate goods into finished goods.

Q.2 Define consumption goods.

Ans. Goods which are directly used for satisfaction of human wants and which are not used in production and for other purpose are known as consumer goods or consumption goods, e.g. ice-cream and milk used by the households.

Q.3. Give reason and identify whether the following are final expenditures or intermediate expenditure.

- (i) Expenditure on maintenance of an office building.
- (ii) Expenditure on improvement of machine in a factory.

Ans. (i) Expenditure on maintenance of an office building — Intermediate expenditure.

Reason: Expenditure on maintenance of office building is for production purpose.

Expenditure on improvement of machine in a factory — Final expenditure

Reason: Expenditure on improvement of machine in a factory is a kind of capital investment, so it should be considered as final expenditure.

Q.4. Giving reasons, classify the following into intermediate products and final products.

- (i) Computers installed in an office.
- (ii) Mobile sets purchased by a mobile dealer.

Ans. (i) Computers installed in an office — Final product

Reason: Offices buy computers as long-term durable products and are investment for them.

(ii) Mobile sets purchased by a mobile dealer — Intermediate products

Reason: A mobile dealer purchases mobile sets for reselling purpose. That's why it is considered as intermediate products.

Q.5. Giving reasons, classify the following into intermediate and final goods.

(i) Machine purchased by a dealer of machines.

(ii) A car purchased by a household.

Ans. (i) Machine purchased by a dealer of machines — Intermediate goods

Reason: A dealer purchases machines for reselling purpose, so it is an example of intermediate goods.

(ii) A car purchased by a household — Final goods

Reason: A household purchases a car for consumption purpose, so it is an example of final goods.

QUESTIONS FOR SELF ASSESMENT

Q.1 What do you understand by NIT(Net Indirect Tax) ?

Q.2 Explain broadly the reasons for depreciation?

Q.3 Differentiate between final goods and intermediate goods with the help of suitable examples.

Q.4 Differentiate between Gross Investment and Net Investment.

Q.5 What do you understand by factor Income and Transfer Income ?