



# ECONOMICS

**BOOKS - RADHA BHUGANA**

**ECONOMICS (HINGLISH)**

**CIRCULAR FLOW OF INCOME**

**Let Us Recapitulate**

**1.**

Classify the following as real flow or money

flow

Rent paid to the landlord by a tenant.



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2.

Classify the following as real flow or money

flow

A television set purchased by a consumer.



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3. Classify the following as real flow or money flow

Services provided by a teacher in a government school.



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4. Classify the following as real flow or money flow

Old age pension given to old people by the government.





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5. Classify the following as real flow or money flow

Purchase of cement for construction of a house.



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6. Classify the following as real flow or money flow

Payment made for goods and services to producer sector by the government sector.



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7. Classify the following as stock or flow

National income



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8. Classify the following as stock or flow

Wealth of a nation



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**9.** Classify the following as stock or flow

Loans taken by the country from rest of the world



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**10.** Classify the following as stock or flow

Depreciation of machines



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**11.** Classify the following as stock or flow

Closing stock of a firm



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**12.** Classify the following as stock or flow

Losses



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**13.** Classify the following as stock or flow

Profits



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**14.** Classify the following as stock or flow

Savings



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**15.** Classify the following as stock or flow

Capital



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**16.** Classify the following as stock or flow

Balance in bank account



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**17.** Classify the following as stock or flow

Production



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**18.** Classify the following as stock or flow

Money supply



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**19.** Classify the following as stock or flow

Gross domestic product



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**20.**

Classify the following as stock or flow

Bank deposits as on 31 Dec 2017



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21. There are \_ phases in the circular flow of income.

A. 2

B. 3

C. 4

D. 5

**Answer: B**



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1. Which of the following is a Basic economic activities?

- A. (a)production
- B. (b)capital formation
- C. (c)consumption
- D. (d)all of these.

**Answer: D**



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2. Flow of goods and services is

A. real flow

B. interest flow

C. money flow

D. none of these.

**Answer: A**



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### 3. Example of stock

A. income

B. monetary expenditure

C. capital formation

D. wealth.

**Answer: D**



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4. Circular flow is of \_\_\_\_\_ types

A. four

B. two

C. three

D. all of these.

**Answer: B**



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**5. An activity which results in value addition is**

A. consumption



B. investment

C. production

D. exchange.

**Answer: C**



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**6. A phase of circular flow of income :**

A. production

B. distribution

C. disposition

D. all of these.

**Answer: D**



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**7. The sector which owns factor services :**

A. (a)producer

B. (b)government

C. (c)household

D. (d)none of these.

**Answer: C**



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**8. Which of the following is a stock ?**

A. Wealth

B. Saving

C. Exports

D. Profits

**Answer: A**



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**9. Which of the following is not a flow ?**

A. capital

B. income

C. investment

D. depreciation

**Answer: A**



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10. Quantity measured at a point of time.

A. depreciation

B. stock

C. income

D. production

**Answer: B**



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11. Which one of the following is a stock variable ?

A. income

B. Saving

C. expenditure

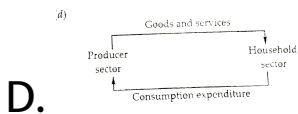
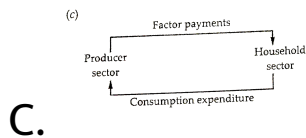
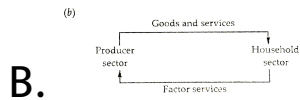
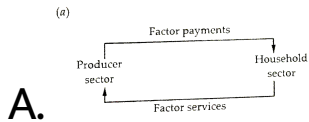
D. money supply

**Answer: D**



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12. Which of the following represent money flow :



**Answer: C**



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## Objective Type Question

1. Define circular flow.



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2.

Name three phases of circular flow of income.



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3. What are flow variables ?



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4. What are stock variables ?



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5. Name the sectors in which circular flow of income can be studied.



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6. Which of the following is a factor income?

A. Old age pension

B. Unemployment allowance

C. Interest received by a household from  
deposit in a bank

D. Pocket money

**Answer: C**



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## Conceptual Questions

1. What is circular flow of income ?



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2. Define the types of circular flow.



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**3.** What is the significance of circular flow models ?



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**4.** Define injections.



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**5.** From the macro point of view, an economy is divided into \_ sectors.

A. 2

B. 3

C. 4

D. 5

**Answer: C**



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**Hots**

1. "Flow of income is circular in a two-sector economy". Comment.



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2. The production phase of the circular flow of income involves :

A. Production of goods and services

B. Flow of factor income

C. Expenditure on goods and services

D. None of these

**Answer: B**



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3. Why is the flow of income and product called a circular flow ?



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**Value Based Questions**

1. Imports create leakages in the circular flow of income. Do you agree ? How in your opinion the leakages can be corrected ?



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2. Government provides subsidies to producers and transfer payments to the households. It increases government expenditure. How can this excessive expenditure be reduced ?





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## Guidelines To Ncert Question

1. Why should the aggregate final expenditure of an economy be equal to the aggregate factor payments ? Explain.



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2. What are the four factors of production and what are the remunerations paid to each of

these called?



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3. Distinguish between stock and flow.



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4. Describe the four major sectors in an economy according to macroeconomic point of view.



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## Very Short Answer Type Question

1. Name the two sectors in which real flow takes place in a simple economy.



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2. What is meant by stock variable ?



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**3. Define flow variable/flows.**



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**4. What is circular flow of income ?**



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**5. Define money flow.**



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6. Define the types of circular flow.



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7. What is the function of households in the circular flow (two-sector model) ?



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8. Is national income a stock concept or flow concept ?



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9. What is meant by real flow or physical flow ?



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10. Name three phases of circular flow of income.



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1. Discuss the concept of stock and flow. Why is national income a flow concept ?



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2. Explain the circular flow of income.



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3. "In a two-sector economy without financial market, the final consumption expenditure by households is equal to the factor income received by them". Defend or refute.



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4. What is meant by circular flow of income ?  
Distinguish between real flow and money flow.



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5. What are the different phases of a circular flow of income ?



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6. "Households and Firms depend on each other in the circular flow of income ." Justify the statement in case of a two - sector model.



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7. Differentiate between injections and leakages. Give two examples of each.



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8. Distinguish between stocks and flows. Give two examples of each.



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9.

Giving reasons categorise the following into stock and flow (i) capital (ii) saving (iii) gross domestic product (iv) wealth.



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## Long Answer Type Question

1. Briefly explain the money flow and the real flow of income.



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2. Explain the importance of circular flow of income.



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3. Describe the circular flow of income in a two-sector economy (without financial market).



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4.

Explain with diagram, the circular flow of income giving suitable example.



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