



ECONOMICS

BOOKS - SANDEEP GARG ECONOMICS (HINGLISH)

CIRCULAR FLOW OF INCOME

Higher Order Thinking Skills Questions

1. ' In a two -sector , national product is equal to income. " Comment.



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



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3. How does real flow consist of factor flow and product flow ?



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4. Classify the following as Stock and Flow :

(i) Amount of bank deposits as on 31. 03. 2018

(ii) Losses

(iii) Production of cement in the year 2018

(iv) Profit

(v) Population of india as on 31st March, 2018

(vi) Number of literate people as on 31 . 03.
2018

(vii) Savings

(viii) National income of a country

(ix) Capital

(x) Number of persons employed during

December

(xi) Balance in a bank account

(xii) Raw material in a godown as 31st Jan, 2019

(xiii) Production

(xiv) Wealth

(xv) Gross domestic product



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5. Explain the circular flow of income.



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True And False

1. Capital formation is a flow



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2. Real flow is also known as nominal flow.



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3. Generation and distribution are the two phases in circular flow of income.



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4. In a two -sector economy, total production is always equal to total consumption.



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5. National income of a country is a stock concept.



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6. Circular flow of income does not take place in case of closed economy.



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[Guidelines To Ncert Questions](#)

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



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2. What are the four factors of production and what are the remunerations to each of these called?



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3. Distinguish between stock and flow.

Between net investment and capital which is a stock and which is a flow ? Compare net investment and capital with flow of water into a tank.



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Revision Exercise

1. Which of the following is a phase of circular flow of income ?

- A. Generation phase
- B. Distribution phase
- C. Disposition phase
- D. All of these

Answer: d



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2. Which of the following is not an example of flow variable ?

A. Number of births during a year

B. National wealth

C. National income

D. Wheat produced during a year

Answer: d



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3. Which of the following is not considered a factor income ?

A. Rent

B. Wages

C. Gifts from abroad

D. Profit

Answer: c



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4. Two - sector economy consists of :

A. Households, firms

B. Firms, Foreign sector

C. Households, Government

D. Firms, Government

Answer: a



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5. Stock variable is defined as a variable which is :

A. Measured over a period of time

B. Measured At a particular point of time

C. None of these

D.

Answer: b



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6. Losses are classified as:

A. Stock variable

B. Flow variable

C. Either (a) or (b)

D. Neither (a) nor (b)

Answer: b



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7. Real flow is also known as:

A. Nominal flow

B. Physical flow

C. Money flow

D. Both (a) and (b)

Answer: b



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8. Which of the following is the consumption sector?

A. Households

B. Firms

C. Foreign

D. Government

Answer: a



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9. Money flow involves exchange of :

A. Goods and services

B. Gifts

C. Money

D. None of these

Answer: c



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10. Real flow refers to the flow of factor services from ---- to ----.

- A. Firms to households
- B. Households to firms
- C. Firms to government
- D. Households to government

Answer: b



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11. In a closed economy,----- is not included.

- A. Households
- B. Firms
- C. Government
- D. Foreign sector

Answer: d



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12. Which of the following is a stock ?

A. Capital

B. Income

C. Investment

D. Depreciation

Answer: a



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13. Which of the following is a stock ?

A. Wealth

B. Saving

C. Exports

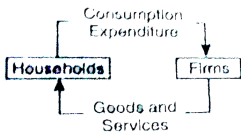
D. Profits

Answer: a

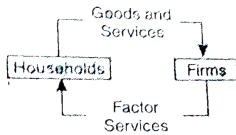


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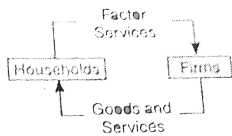
14. Which of the following diagram represents Real Flow?



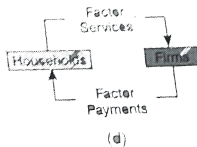
A. (a)



B. (b)



C. (c)



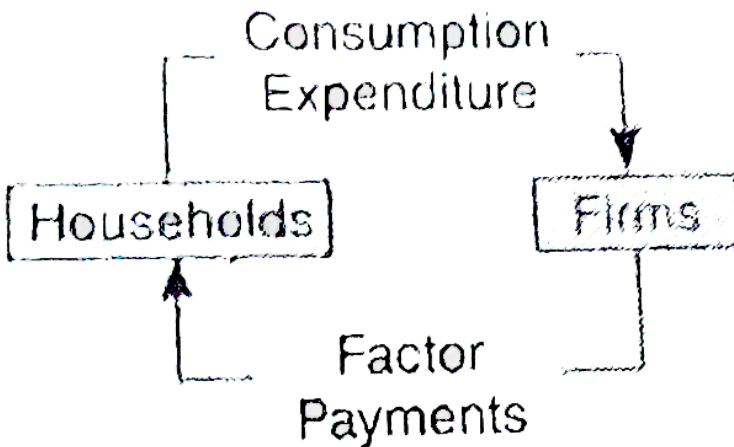
D. (d)

Answer: c



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15. What does the the following represent ?



A. Real Flow

B. Money Flow

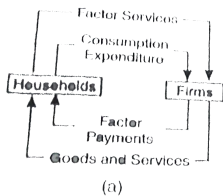
C. Nominal Flow

D. Both (b) and (c)

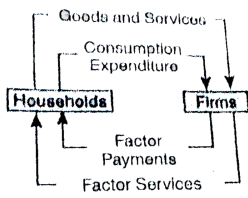
Answer: d

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16. Circular Flow of income is correctly represented in the diagram :

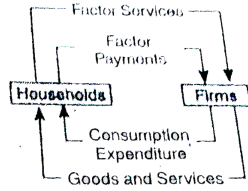


A.

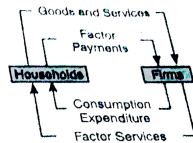


B.

(b)



C.



D.

(d)

Answer: a



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17. Which of the following is a flow ?

A. Deposits in a bank

B. Capital

C. Depreciation

D. Wealth

Answer: c



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18. Which of the following is a stock ?

A. Savings

B. Production

C. Consumption of fixed capital

D. Capital

Answer: d



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19. Flow of Goods and services and factors of production across different sectors in barter economy is known as :

A. Circular Flow

B. Real Flow

C. Monetary Flow

D. Capital Flow

Answer: b



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Very Short Answer Type Questions 1 Mark Each

1. What is ment by circular flow of income ?



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2. What are the three phases of circular flow of income ?



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



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4. What are stock variables ?



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5. Define flow variable.



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



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7. What are the two types of circular flows ?



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



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9. Define nominal flow.

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

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Short Answer Type Questions 3 4 Marka Each

1. Explain the circular flow of income.



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



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3. What is meant by circular flow of income?
Distinguish between Real Flow and Money

Flow.



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4. "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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5. Distinguish between stock and flow. Give an example of each.



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6. Discuss briefly, the circular flow of income in a two sector economy with the help of a suitable diagram.



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Long Answer Type Question 6 Marks Each

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



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