I – B.Com

BANKING

Question Bank - Part A - Unit I,II and III

(Compiled by: R.Angayarkanni, Asst. prof.of commerce, UDC)

1.What is a Bank ?

The word bank comes from an Italian word ' banco' meaning a bench, since Italian merchants in olden days made deals to borrow and lend money beside a bench. They placed the money on that bench.

A bank is a financial institution where customers can save or borrow money. Banks also invest money to build up their reserve of money which is regulated by laws. Those laws differ in different countries. Certain banks deal directly with the public and other banks deal with investments and international currency trading.

2. Who is a Banker ?

Dr.Herbert L.Hart defined the term banker as, " one who in the ordinary course of business, honours cheques drawn upon the persons from and for whom he received money on current account".

3. What is Banking ?

Section 5(b) of Banking Companies Act defines banking as "accepting for the purpose of lending or investment of deposits of money from the public repayable on demand or otherwise, withdrawable by cheques, draft, order or otherwise".

4. State four important functions of Commercial Banks.

i) Accepting Time Deposits

ii) Accepting Current Account

iii) Issuing and Paying Cheques

iv) Collecting cheques crossed and uncrossed for its customers.

5. What is Home Banking ?

The practice of conducting banking transactions from home rather than at branch locations. Home banking generally refers to either banking over the telephone or on the internet.

6.Who is a Customer ?

A customer is someone who has an account with a bank or who is in such a relationship with the bank that the relationship of a banker and customer exist. The legal position implies that opening an account is the crucial element in establishing the banker-customer relationship.

Sir John Paget set two conditions for a bank customer:

i) A customer is one who deals with the bank

ii) The dealing of the customer must be in the nature of regular banking business.

7. What is a Savings Bank Account ?

A Savings account is the most basic type of account at a bank allowing to deposit money, keep the funds safe, and withdraw funds as needed. Savings accounts typically pay interest on deposits, which helps you grow your money, but rates are relatively low .

8. What is a Current Account ?

Current Bank account is opened by businessmen who have a higher number of regular transactions with the bank. It includes deposits, withdrawals, and contra transactions. It is also known as Demand Deposit Account.

9. What is a Fixed Deposit Account ?

A Fixed Deposit (**FD**) is a financial instrument provided by banks or NBFCs which provides investors a higher rate of interest than a regular savings account, until the given maturity date. It may or may not require the creation of a separate account. It is also known as Time Deposit account.

10. What is a Recurring Deposit ?

Recurring Deposit is a special kind of Term Deposit offered by banks which help people with regular incomes to deposit a fixed amount every month into their Recurring deposit account and earn interest at the rate applicable to Fixed Deposits.

11. What is a Clean Loan ?

Loan granted by the bank without accepting any security is called a clean loan. But the bank will safeguard themselves by checking the repaying capacity based on the salary certificate.

12. What is a Secured Loan ?

Secured loans are those loans that are protected by an asset or collateral of some sort. The item purchased, such as a home or a car, can be used as collateral, and a lien is placed on such item. The finance company or bank will hold the deed or title until the loan has been paid in full, including interest and all applicable fees. Other items such as stocks, bonds, or personal property can be put up to secure a loan as well.

13. Define Pledge.

Pledge is a bailment of a valuable as security for a debt or other obligation without involving transfer of title . The thing that is given as security for the fulfilment of a contract or the payment of a debt and is liable to forfeiture in the event of failure.

14. What is Mortgage ?

A legal agreement that conveys the conditional right of ownership on an asset or property by its owner (the mortgagor) to a lender (the mortgagee) as security for a loan. The loan is granted against fixed immovable property.

The borrower promises to repay the borrowed money on a certain date. The borrower transfers the property to the lender. The lender will re transfer the property when the money is repaid.

15. What is Hypothecation ?

Hypothecation is used for creating charge against the security of movable assets, but here the possession of the security remains with the borrower itself.

Example : Charge on a vehicle or machinery purchased with the help of bank loan.

The document of title will have the mention of hypothecation. Eg. R C book of vehicle

containing hypothecation i.e " Hypothecated to .... Bank"

16. What is assignment ?

Assignment is a transfer of actionable claim. Assignment means transferring some or all property rights and obligations to another person through a written agreement.

Example: If the borrower of a bank has an insurance policy, he can transfer the policy in favour of the bank before its maturity and obtain a loan. The bank will adjust the loan amount from the policy when it matures.

17. What is bailment ?

Bailment describes a legal relationship in common law where physical possession of personal property, is transferred from one person (the "bailor") to another person (the "bailee") who subsequently has possession of the property.

For example, when a bank holds a borrower's asset as collateral for a secured loan, this is a form of bailment. In this case, the bank is the bailee and the borrower is the bailor.

18. What is a Lien ?

A lien is a legal right granted by the owner of property, by a law or otherwise acquired by a creditor. A lien serves to guarantee an underlying obligation, such as the repayment of a loan. If the underlying obligation is not satisfied, the creditor may be able to seize the asset.

For example a lien exists, , when an individual takes out an automobile loan. The lien holder is the bank that grants the loan, and the lien is released when the loan is paid in full.

19. What is General Lien of Bankers (or) Bankers Lien ?

A General lien is a right to retain the property of another on account of a general balance due from the owner. Bankers have general lien on all securities left with them by their customers. Lien is the right to retain property belonging to another until a debt due from the latter is paid.

Section 171 of the Indian Contract Act, 1872, confers the right of general lien on the bankers as follows:
“Bankers may, in the absence of a contract to the contrary, retain as a security for a general balance of account, any goods bailed to them.”

20. What is Particular Lien ?

A particular lien can be exercised by a craftsman or a person who has spent his time, labour and money on the goods retained. In such cases goods are retained for a particular debt only. For example, a tailor has the right to retain the clothes made by him for his customer until his tailoring charges area paid by the customer. So is the case with public carriers and the repair shops.

21. What is an overdraft ?

Overdraft is one of the facility given by the bank to companies, to withdraw money "more" than the balance available in their respective accounts.

Otherwise, it is a Loan arrangement under which a bank extends credit up to a maximum amount (called **overdraft** limit) against which a current account customer can write cheques or make withdrawals. Balance of a bank account in which funds withdrawn have exceeded funds deposited.

22. What is a Cash Credit ?

Cash Credit is a type of short term loan provided to companies to fulfil their working capital requirement. Cash Credit is a proper limit sanctioned by the bank to the borrowing manufacturing/trading unit against the value of the raw materials, semi-finished goods and finished goods including stores and spares; and also receivables hypothecated by the account holder with the Bank.

23. What is safe custody ?

Safe Custody is the safe keeping of important documents and valuables. Items commonly requested by customers to be held in safe custody by the bank include property deeds, a Will as well as other valuables and documents.

24. What is a Safe Deposit Vault ?

One of the main functions of Commercial Banks is to provide safe deposit vault to its customers.

A safe deposit vault is a 'Safety Locker" with different sizes provided to the customer for keeping their valuables like jewels, documents, title deeds etc.

25. What is an ATM ?

The full form of ATM is " Automated Teller Machine". It is an electro-mechanical device that is used for making financial transactions from a bank account. These Machines are used to withdraw money from personal bank accounts.

26. What is an ECS ?

The full form of ECS is "Electronic Clearing Service". ECS is an electronic clearing system that facilitates paperless credit/ debit transaction directly linked to a bank account and also provides a faster method of effecting periodic and repetitive payments.

27. What is Core-Banking ?

Core Banking is a banking service provided by a group of networked bank branches where customers may access their bank account and perform basic transactions from any of the member branch offices.

28. What is E-Banking ?

E-Banking also known as internet banking**, online banking**, or virtual banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website.

29. What is a Credit card ?

A credit card is a card issued by a financial company / bank giving the holder an option to borrow funds, usually at point of sale. Credit cards charge interest and are primarily used for short-term financing.

30. What is a Debit Card ?

A debit card is a payment card that deducts money directly from a consumer's checking account to pay for a purchase. Debit cards eliminate the need to carry cash or physical checks to make purchases. Debit Cards usually also allow for instant withdrawal of cash, acting as an ATM card for withdrawing cash.

31. What is a Cash Certificate ?

Cash Certificates are a type of deposit that is purchased for a certain amount. The account holder purchases the cash certificate for a certain amount, but needs to make payments toward this amount only as long as the term of the certificate lasts.

32. What is an Annuity deposit ?

This is a deposit made for a year and the interest is payable along with the deposit at the end of the year. The customer has the option to either continue or withdraw the deposit. The deposit can also be renewed for the same period.

33. What is a Reinvestment Plan ?

This product is a variant of Term Deposits but instead of Interest being paid out at a regular frequency during the period of deposit; here it is paid out only at the time of maturity. Regular interest is added to the principal and compound interest calculated and paid thereon.

34. What is Perennial premium plan ?

Perennial premium plan is a scheme under which deposits are accepted in lump sum or in instalments for a specific period, on completion on which, interest at applicable rate on the corpus built is paid monthly (discounted) or quarterly (actual), as per terms of contract.

35. What is a NRE account ?

In India banking terminology, the term Non-Resident External or NRE account refers to funds deposited with a financial institution that allows for the efficient conversion and transfer of Indian and foreign currency both within and outside of India.

36. Define Minor (or) Who is a Minor customer ?

In law, a minor is a person under a certain age, usually the age of majority, which legally demarcates childhood from adulthood. The age of majority depends upon jurisdiction and application, but it is generally 18.

A savings /fixed / recurring bank deposit account can be opened by a minor of any age through his/her natural or legally appointed guardian. Minors above the age of 10 years may be allowed to open and operate savings accounts independently, if they so desire.

37. Who is a Lunatics ?

Persons of unsound and unstable mind are known as Lunatics. An account in the name of a person who is a Lunatic should not be opened by the bank. Whenever bankers learn that one of their customers is incapable of operating the account due to mental incapacity the operation in such customer's account shall be immediately stopped.

38. Can a Married Woman open a bank account in her name?

A married woman can enter into a valid contract, she can also open a bank account. The husband will not be liable with regard to debts taken unless the loan is taken with his consent and authority or it is for the necessaries of life.

39. Illiterate customer of a bank

Bank accounts can be opened in the name illiterate persons. As they cannot sign their thumb impressions are usually considered so. It should be attested by a person known to the bank. Normally illiterate persons are not given with cheque books. To withdraw money the account holder is expected to come in person to the bank and affix his thumb impression in the presence of a bank official for identification. There is no legal bar in two illiterate persons opening a joint account.

40. Pardanashin Women

A Woman, who by her custom, is barred from. Showing her face in public. For example, there are some communities in India where a married woman is not allowed to show her face to non family members even within her house.

A Pardanashin woman though secluded by their customs there is no legal impediment in opening accounts. The branch should also obtain photographs of the 'Pardanashin woman'.

41. What is a joint account ?

A joint account is a type of bank account that allows more than one person to own and manage it. There is no restriction regarding who can be an owner, which can include spouses, friends and business partners, among others.

42. Accounts of clubs and associations

While clubs, societies and charitable institution open accounts with banks, it must be ensured that they are incorporated. These organizations are directed by their byelaws or its constitution which will specify how they are to operate. To open a bank account a resolution of the managing committee is required. It should detail who are the signatories and the manner in which the account should be operated. Before permitting a society or club to borrow the bank should be ensured the borrowing is permitted.

43. Accounts of trust accounts

A trustee is a person on whom confidence is rested. Trusts are formed by a document called trust deed. Bankers should scrutinize the trust deed thoroughly and determine the powers vested in the trustees. Trustees are generally expected to act jointly; they are not permitted to delegate their powers to others unless the trust deed permits them to do so.

44. Accounts in the name of Partnership firms

A partnership account should always be opened in the name of the firm and not in the name of the individual or partners. At the time of opening an account, the application form should be signed by all the partners or by those authorized by all the partners. In the second case there should be a resolution signed by all the partners. If a partner is out of the country the other partners can open an account but to be safe, operations should not be allowed until the partner returns and signs the account opening documents.

45. Accounts in the name of Joint Stock Companies

Limited companies are legal entities registered under the companies Act. They are viewed as artificial persons and are entitled to enter into contracts, own property, sue in their own name and do all acts that an individual can do.

The certificate of incorporation and certificate of commencement of business should be examined as these provide certain proof that the company is incorporated and is permitted to do business. A private limited company is not required to get a certificate of commencement of business.

BANKING

Question Bank - Part A - Unit IV and V

(Compiled by: R.Angayarkanni, Asst. prof.of commerce, UDC)

1. What is Garnishee Order ?

It is an **Order** of the court to attach money or Goods belonging to the judgment debtor in the hands of a third person.

The obligation of a banker to honour his customer's cheque is extinguished on receipts of an order of the court known as **garnishee order** issued under order 21 Rule 46 of civil procedure code.

2. Who is a Paying Banker ?

PAYING BANKER. The banker upon whom a cheque is drawn, or at whose office a bill is accepted, and who pays it, either to the holder or to a collecting banker, is called the ***paying banker***. It is the duty of a ***paying banker*** to pay the cheques of his customer so long as he has sufficient funds in the customer account. Any wrong payment will make the paying banker liable to the true owner of the cheque and also to the drawer of the cheque.

The right payment of the banker is called "payment in due course"

3. What is "Payment in Due Course" ?

According to section 10 of the Negotiable Instruments Act,1881 "***Payment in due course***" means ***payment*** in accordance with the apparent tenor of the instrument in good faith and without negligence to any person in possession thereof under circumstances which do not afford a reasonable ground for believing that he is not entitled to receive ***payment*** of the amount therein mentioned.

4. What are the conditions for payment in due course ?

i) Payment should in accordance with the "**Apparent Tenor**" of the Instrument / cheque

ii) Payment should be made in **'good faith'**

iii) Payment should be made "**without negligence**"

5. What is "Apparent Tenor" of a negotiable instrument / Cheque ?

A***pparent Tenor*** means ***apparent*** direction given in the instrument. Thus, a Crossed. Cheque will not be paid in cash. Directions are given on the face of the cheque regarding date of cheque, sum of cheque both word and figure, name of payee, drawer signatures.

The paying Banker should follow directions given on the cheque rightly.

6. What is "Good Faith" ?

Good Faith**. Honesty, a sincere intention** to deal fairly with others. ***Good faith*** is an abstract and comprehensive term that encompasses a sincere belief or motive without any malice or the desire to defraud others.

The paying Banker will make payment to a person whose ownership is certain. In other words, the person presenting the cheque creates absolute good faith in the minds of the banker regarding the ownership.

7. What is " Without Negligence" ?

Negligence is the fact of **not giving enough care** or attention to someone or something.

The paying Banker has to go through the contents of the cheque before making payment. If the Banker finds any mistakes on the cheque, he should not make payment. When he makes payment with utmost care it is called **payment without negligence.**

8. What is "Material Alteration" ?

The term '***material alteration***' indicates ***alteration*** or change in the ***material*** parts of the instrument. It may be defined as any change, which alters the very nature of the instrument. Any alteration in the original state of a cheque such as date, amount, payee's name, changing the word 'order' to bearer appearing after payee's name or in endorsement is called ***material alteration***.

All ***material alteration*** must have drawer's approval with his full signature (not initials) where the alterations are made.

9. What is "Mutilated Cheque" ?

If a **cheque** is torn into two or more pieces such **cheque** is **Mutilated Cheque**. If it presented for payment, such a **cheque** the bank will not make payment against such a **cheque** without getting confirmation of the drawer.

10. What is a "Stale Cheque" ?

When the date written on the cheque is three months prior to submission to the bank for payment, it is called ***Stale cheque***. ***Stale cheque*** is also called as 'expired dated cheque'. . As per RBI guidelines, with effect from April 1, 2012, the validity of the cheque is fixed as three months.

A bank may refuse to honour it unless its drawer reconfirms it payment either by inserting a new payment date or by issuing a new **cheque.**

11. What is a "post dated cheque" ?

P**ost-dated cheque** is a **cheque** written by the drawer (payer) for a date in the future. Whether a **post-dated cheque** may be cashed or deposited before the date written on it depends on the **country**.

12. What is called **"Dishonour of a cheque**" ?

The **cheque** should have been drawn by the drawer on an account maintained by him. The **cheque** should have been returned or **dishonoured** because of insufficient funds in the drawer's account. So, the

return of a cheque being unpaid by a paying banker for some valid reasons is called **"Dishonour of a cheque".**

13. What is "Specimen Signature" ?

Specimen signature : a signature to be compared to an original signature in order to verify someone's identity.

An example of your **signature** that you give to a bank when you first open an account so that the bank's employees can use it to check cheques etc which have been signed with your name.

14. What do you mean by **Countermanding ?**

Countermand' means Cancellation, revocation or reversal of an order that has been previously issued. **Countermand**, in the financial world, is specifically applicable to payments; it means a customer of a bank or financial institution revoking instructions to pay, or stopping payment to another party.

Example: **Stopping payment of a cheque** by its drawer before it is presented to the paying banker.

15. List the circumstances at which a paying banker can dishonour (or) return a cheque unpaid ?

i**) Insufficient Funds** in the customer account

ii**) Irregular Signature / Incorrect Signature** on the cheque as compared with the signature on the account opening form.

iii) **Material Alterations** found on the cheque without proper authentication of the maker of the cheque.

iv) **Post-dated cheque -** a cheque bearing a later date than the current date

v) **Stale Cheque -** a cheque which exceeded the validity period of it.

vi) **Countermanding -** When drawer of a cheque made "Stop Payment" of the same with the drawee / paying banker

vii) **Frozen Account -** If the Government or the Court has passed orders to freeze one bank account for some valid reason.

16. What is meant by an **"Inchocate Cheque"?**

A **cheque** signed by a drawer of **cheque** without completing the material particulars such as date, amount or name of the payee, it is known as an **inchoate** or incomplete **cheque**.

17. Define a **negotiable instrument**.

A ***negotiable instrument*** is a document guaranteeing the payment of a specific amount of money, either on demand, or at a set time, with the payer usually named on the document.

18. What is a **cheque ?**

"***Cheque*** is an instrument in writing containing an unconditional order, addressed to a banker, signed by the person who has deposited money with the banker, requiring him to pay on demand a certain sum of money only to or to the order of certain person or to the bearer of instrument."

19. What is an **Endorsement ?**

A signature authorizing the **legal transfer of a negotiable instrument** between parties is an ***endorsement.***

Signature included on the front or back of a **cheque** acknowledging that both parties have agreed to exchange the specified amount on the document. The signature or account information included on the back of a **cheque** acknowledges that the intended recipient received the document and deposited it.

20. What do you mean by **"Crossing of Cheque" ?**

Crossing cheque means putting two parallel transverse lines across the face of a cheque with or without additional words like “Account Payee Only” or “Not Negotiable”, It is an instruction to the paying banker to pay the amount of cheque through a banker only and not to the person presenting it at the counter of bank. This is a safer way of transferring money then an Uncrossed or open cheque as it prevents fraud and wrong payments. Both bearer and order cheques can be crossed.

21. Name the modes of "Crossing".

Modes of crossing :

There are two modes of crossing namely, **general crossing and special crossing**.

General Crossing :

Generally, cheques are crossed when

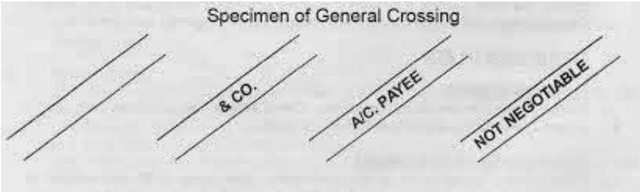
- There are two transverse parallel lines, marked across its face OR
- The cheque bears an abbreviation “**& Co.** “between the two parallel lines OR
- The cheque bears the words “**Not Negotiable**” between the two parallel lines OR
- The cheque bears the words “**A/c. Payee**” between the two parallel lines.

Special Crossing :

A special crossing is used in order to further **restrict the negotiability** of the cheque.

If two parallel lines are drawn across the cheque with the name of the bank, the lines are called special/restrictive crossing.

22. What are the types of Crossing ?



When a particular bank's name is written in between the two parallel lines the **cheque** is said to be specially **crossed**.The effect of **special crossing** is that the bank makes payment only to the banker whose name is written in the **crossing**. Specially**crossed cheques** are more safe than a generally**crossed cheques**.

23. What are types of cheques ?

i) **Bearer Cheque -** Bearer cheques are the cheques which withdrawn to the cheque's owner.These types of cheques normally used for a cash transaction.

ii) **Order Cheques** :Order cheques are the cheques which are withdrawn for the payee(the cheque withdrawn for whose person).Before withdrawn to that payee, banks cross check the identity of the payee.

iii) **Crossed Cheque -** On that type of cheques two parallel line made on the upper part of the cheques, then that cheques formed to crossed cheques. This type of cheques payment does not formed in cash while the payment of that type of cheques transferred to the payee account and the normal person's account who recommend by the holder on the cheque.

iv) **Accounts Payee Crossing -** When two parallel lines along with a crossed made on the cheque and the word 'ACCOUNT PAYEE' written between these lines, then that types of cheques are called account payee cheque. The payment of the account payee cheque taken place on the person, firm or company on which name the cheque issue.

v) **Stale Cheque -** If any cheque issued by a holder does not get withdrawn from the bank till three months, then that type of cheques are called stale cheque.

vi) **Post-Dated cheque -** a cheque bearing a later date than the current date

vii) **Ante-Dated Cheque -** A ***cheque*** bears a date earlier to the date on which the ***cheque*** is drawn. For ***example***, a ***cheque*** drawn on January 15 bearing date January 10 is an ***ante-dated cheque***. Bank generally pay an ***ante-dated cheque***. It is valid up to three months from the date of the cheque.

24. Who is a **Collecting Banker** ?

C***ollecting banker*** is also called as receiving banker who collects on instruments like a cheque, draft or bill of exchange lodged with himself for the credit of his customer s account.

25. Who is "Holder for Value" ?

A collecting banker is ***holder for value*** if he gives the value of the cheque in any form to its customer before collecting the proceeds of the cheque deposited by the latter. He does not remain an agent of the customer, but becomes the owner of the cheque in his own right since he has paid value for it.

26. Who is "Holder for due course" ?

According to Section 9 of the Negotiable Instrument Act, “a ***holder in due course*** is a person who possesses for some consideration a bill of exchange, promissory note or cheque payable to bearer or the payee or the endorsee in good faith, and without any reason to believe that there is any defective title in the same.

27. What are the dual roles of Collecting Banker ?

i) Agent for Collection and ii) Holder for Value

28.. What do you mean by **"Agent for Collection"** ? When the Banker undertakes to collect the cheques and credits the account of the customer only on realisation. Here there is no risk for the collecting banker.

29. When a Banker becomes a "Holder for Value" ?

i) When the collecting banker advances money to the customer before the realisation of the cheques given for collection.

ii) When the collecting banker settles the loan amount due from the customer with the cheque amount given for collection, even before its realisation.

iii) When the collecting banker reduces an overdraft with the amount for collection before its realisation.

iv) Where a part of the cheque amount is given by the collecting banker to the customer even before the realisation of the cheque.

v) By allowing the customer to draw the full amount of the cheque before its realisation.

30. What is "Conversion" ?

C**onversion** as a distinct **act** of dominion wrongfully exerted over another's personal property in denial of or inconsistent with his title or rights therein, or in derogation, exclusion, or defiance of such title or rights, without the owner's consent and without lawful justification.

31. What is the ***Banking Ombudsman*** Scheme?

The ***Banking Ombudsman*** Scheme is an expeditious and inexpensive forum for ***bank*** customers for resolution of complaints relating to certain services rendered by ***banks***. The ***Banking Ombudsman*** Scheme was introduced under Section 35 A of the ***Banking*** Regulation Act, 1949 by RBI with effect from 1995.

32. What is a pass book ?

A book issued by a bank to an account holder, recording sums deposited and withdrawn. The Reserve ***Bank*** of India (RBI) has advised commercial ***banks*** to provide adequate transaction details in the ***passbooks*** of account holders.

33. What is MICR cheque ?

MICR (magnetic ink character recognition) is a technology used to verify the legitimacy or originality of paper documents, especially checks. Special ink, which is sensitive to magnetic fields, is used in the printing of certain characters on the original documents.

34. What is SWIFT ?

Society for Worldwide Interbank Financial Telecommunications. Global communication network that facilitates 24-hour secure international exchange of payment instructions between banks, central banks, multinational corporations, and major securities firms.

35. What is a NEFT ?

National Electronic Funds Transfer (**NEFT**) is a nation-wide payment system facilitating one-to-one funds transfer. Under this Scheme, individuals can electronically transfer funds from any bank branch to any individual having an account with any other bank branch in the country participating in the Scheme.

36. What is RTGS ?

Real Time Gross Settlement (***RTGS***) is an electronic form of funds transfer where the transmission takes place on a real time basis. In India, transfer of funds with ***RTGS*** is done for high value transactions, the minimum amount being Rs 2 lakh. The beneficiary account receives the funds transferred, on a real time basis.

<u>**I B.com : Business Economics**</u>

<u>**Unit – V**</u>

<u>**National Income**</u> **(PART- I)**

5.1.Meaning: The growth of an economy is measured by the rate at which its real national income grows over time. National income thus serves as an instrument of economic planning. Further, national income is one of the most significant macroeconomic variables.

National Income means the total money value of all final goods and services produced in a country during a particular period of time (one year).

5.2Concepts of National Income:

The purpose of national income accounting is to obtain some measure of the performance of the aggregate economy. The major concepts used in the national income calculation are Gross Domestic Product (GDP), Gross National Product (GNP), Net National Product (NNP), personal income and Disposable income.

Gross Domestic Product:

- Gross Domestic Product is the total market value of all final goods and services currently produced within the domestic territory of a country in a year.

- It measures the market value of annual output of goods and services currently produced and counted only once to avoid double counting.

- Gross National Product is the market value of all final goods and services produced in a year.

Net Domestic Product (NDP) : NDP is the value of net output of the economy during the year. Some of the country's capital equipment wears out or becomes outdated each year during the production process.

Thus Net Domestic Product = GDP - Depreciation.

Gross National Product (GNP) GNP is the total measure of the flow of final goods and services at market value resulting from current production in a country during a year, including net income from abroad.

GNP at Market Prices = GDP at Market Prices + Net Factor income from Abroad.

Net National Product (NNP) (at Market price) Net National Product refers to the value of the net output of the economy during the year. NNP is obtained by deducting the value of depreciation, or replacement allowance of the capital assets from the GNP. It is expressed as,

NNP = GNP – depreciation allowance. (depreciation is also called as Capital Consumption Allowance)

NNP at factor cost = NNP at Market prices – Indirect taxes + Subsidies.

National income (NI) is the sum of the wages, rent, interest and profits paid to factors for their contribution to the production of goods and services in a year.

Personal income (PI): Personal income is the sum of all incomes earned by all individuals/ households during a given year.

Personal income is the total income received by the individuals of a country from all sources before payment of direct taxes in a year.

Personal income is derived from national income by deducting undistributed corporate profit, and employees' contributions to social security schemes and adding transfer payment.

Personal Income = National Income – (Social Security Contribution and undistributed corporate profits) + Transfer payments.

Disposable income is calculated by deducting the personal taxes like income tax, personal property tax from the personal income (PI).

Disposable Income is also known as Disposable personal income. It is the individuals income after the payment of income tax. This is the amount available for households for consumption.

Disposable Income = Personal Income – Personal Taxes = Consumption + Saving

Per Capita Income The average income of a person of a country in a particular year is called Per Capita Income. Per capita income is obtained by dividing national income by population.

Per Capita income = National Income \ Population

5.3.Approaches To Calculate National Income/ Measurement of National income:

a. The Income Approach: The income of individuals from employment and business, the profits of the firms and public sector earnings are taken into consideration.

National Income is the income of individuals + self employment + profits of firms and public corporate bodies + rent + interest (transfer payments, scholarships, pensions are not included)

This includes the sum of the income earned by individuals from various input factors such as rent of land, wages and salaries of employees, interest on capital, profits of entrepreneurs and income of self employed people. This method indicates the income distribution among various income groups of people.

b. The Expenditure Approach: In this approach national income is calculated by using the expenditure of individuals, private, government and foreign sectors. i.e. the sum of all the expenditure made on goods and services during a year.

National Income = Expenditure Of Individuals + Govt. + Private Firms+ Foreigners

GDP = C + I + G + (X-M) Where,

C = expenditure on consumer goods and services by individuals and households

I = expenditure by private business enterprises on capital goods

G = government expenditure on goods and services (government purchase) X-M = exports – imports

X-M = exports - imports

c. The Products Approach: In product approach, national income is measured as a flow of goods and services. Value of money for all final goods and services is produced in an economy during a year. Final goods are those goods which are directly consumed and not used in further production process. In our economy product approach benefits various sectors like forestry, agriculture, mining etc to estimate gross and net value.

In this approach the value of output produced by firms and other organization in a particular time period.

National Income = income from agriculture + fishery + forestry + construction + transportation + manufacturing + tourism + water + energy

GDP At Market Price + Subsidies –Taxes

GNP At Factor Cost + Net Income From Abroad

5.4 Factors Determining National Income:

1. Quantity of goods and services produced by the country. Higher the quantity of production, higher shall be the national income.

2. Quality of products and services produced in the country will also determine the national income of a country.

3. Innovation of more technical skills will improve the productivity which will reflect on national income of the country.

4. Political stability strengthens the national income of an economy.

5.5 Difficulties in the Calculation Of National Income:

1. Any income earned abroad have to be included
2. To avoid double counting, value added method should be considered
3. Services rendered free of charges are not to be included
4. Capital gains, transfer payments are not to be included
5. Changes in price level will also affect the calculation
6. Value of military services will not be taken into consideration.

5.6. Problems In Measuring National Income In India:

1. Non monetized sector: there are number of sectors in which the wages and salaries are provided in kind, not in monetary measures.

2. Illiteracy: due to higher illiteracy rate the results may be biased.

3. Lack of occupational specification: we have difficulty in classifying the nature of the job existing in India.

4. Unorganized productive activities: people involved in unorganized productive activities are not fully covered in the calculation of national income.

5. Lack of adequate statistical data: Inadequate data leads to approximation of the calculation.

6. Self consumption: Farm products kept for self consumption are not considered for the national income calculation.

7. Unpaid Services: services of house wives are not reckoned as national income.

Questions:

SECTION – A (2 MARKS)

1. Define National Income.
2. What do you understand by Gross Domestic Product?
3. State the meaning of Net National Product.
4. What is Net Domestic Product?
5. Spell out the meaning of Per Capita Income.

SECTION – B (5 MARKS)

6. Bring out the factors influencing National Income.
7. What are the difficulties in calculation of National Income?
8. Indicate the Problems in Measuring National Income in India.

SECTION – C (10 MARKS)

9. Enumerate the different methods of measuring the national Income.