

## Economics Class 32

### THE CONCEPT OF GVA AT BASIC PRICES (09:10 AM)

- In 2015 it was decided by CSO the sector-wise estimates of GVA at basic prices will be released instead of factor cost.
- The concept of GVA at basic prices is different from GVA at factor cost or market prices.
- **GVA at basic prices is equal to GVA at factor cost + net production taxes.**
- Where net production taxes = production taxes minus production subsidies
- Production taxes and production subsidies are independent of the volume of production whereas product taxes and product subsidies are paid or received based on per unit of product.
- Examples of production tax include- land revenue, stamp and registration fees, etc.
- Production subsidies include - subsidies to railways, input subsidies to farmers, fixed amounts of subsidies to cooperatives, etc.
- Product taxes include taxes like GST, customs, etc. and product subsidies include food subsidies, fertilizer subsidies, etc.
- $\text{GDP at market prices} = \text{GVA at basic prices} + \text{product taxes} - \text{product subsidies}$ .

### DIFFERENCE BETWEEN PERSONAL INCOME AND NATIONAL INCOME (09:40 AM)

Personal Income(PI)	National Income(NI)
It includes both <b>factor income</b> and <b>transfer receipts/payment</b>	<b>Transfer receipts or payments</b> are not included under national income
Undistributed profit of companies and <b>corporate taxes</b> are not part of <b>personal income</b>	Undistributed profits of companies and corporate taxes are included in NI
Interest on the national debt is included in the PI	Interest in the national debt is not part of the NI

Because takes loan for bridging deficit or welfare.

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- **Personal Disposable Income:**
  - It is the income that remains with the individual or Household (HH) after the deduction of all direct taxes levied against their income and property by the government.
  - $PDI = \text{Personal Income}(PI) - \text{Direct taxes} - \text{Miscellaneous fees and fines paid by the HHs}$
  - **Per capita income(PCI):**
  - It indicates the average income per person earned in a given area at a particular period of time.
  - **For a nation, nominal PCI =  $\frac{NNP \text{ at current Prices}}{\text{Total population}}$**
  - Real PCI is then computed by adjusting inflation with the **Nominal PCI**.
  - Internationally, PCI may be compared based on the **Purchasing Power parity(PPP) method**.
  - The PPP method compares economic productivity and the **standard of living between countries**.
  - It compares different countries' currencies through a basket of goods approach where the prices of goods are compared.

## NOMINAL EXCHANGE RATE AND REAL EXCHANGE RATE (10:14 AM)

- The nominal Exchange rate is equal to the value of a foreign currency expressed in terms of **Domestic currency**.
- For example, the Value of one dollar is expressed in terms of Indian rupees.
- NER means how many rupees somebody will get when he sells one dollar in the exchange market that is NER depends on **market forces of demand and supply**.
- **Purchasing power parity exchange rate:**
- Let's consider an example where an ice cream costs 35₹ rupees in India and the same ice cream can be purchased at 1\$ in the US.
- The PPP exchange rate in the above case is arrived at by comparing prices of ice creams in both countries that is  $1\$ = 35₹$  is the PPP exchange rate which can also be written as ₹35 per \$ which implies whatever rupees 35 can be purchased in India, the same items can be purchased in the US for 1\$ that is Purchasing power of ₹35 in India is equal to purchasing power of 1\$ in the US.
- **PPP exchange rate = Domestic price/ Foreign price that is here ₹35/1\$**
- **The trade competitiveness of a country** is decided by **real Exchange rates**.
- **India's trade competitiveness = Price of ice cream in the US X nominal exchange rate/ price of ice cream in India** that is equal **Nominal exchange rate/( Price of ice cream in India/Price of ice cream in the US)** that is equal to **Nominal exchange rate/PPP exchange rate** which is equal to **the real Exchange rate**.
- **Real Exchange rate > 1**, USA will import from India.
- **Real Exchange rate < 1**, India will import from the USA.



## CHANGES IN GDP CALCULATION 2015 (11:02 AM)

- The new series was mainly focused on upgrading our methodology in line with the UN standards.
- In 2015, CSO introduced a few changes in the GDP calculation:
- **1. Change of Base year from 2004-05 to 2011-12.**
- **The National Statistical Commission advised** revising the **Base year** of all economic indices **every five years**.
- **The base year** is generally stable years with fewer fluctuations and the availability of reliable data.
- Base years are generally recent years to facilitate easy calculations.
- Change in data used to measure manufacturing sector growth.
- The performance of the manufacturing sector was previously evaluated using data from an **annual survey of industries** which comprises over **two lakh** factories.
- Recently, the **Ministry of Statistics and Program Implementation(MoSPI)** has been considering changing of **base year** for GDP calculation from 2011-12 to 2017-18
- **2. Replacing Factor cost with Market prices:**
- CSO will measure GDP by the GVA method specifically GDP at basic prices instead of factor cost.
- The industry-wise estimates will be presented as Gross Value Added at basic prices while GDP at market prices will be referred to simply as GDP
- Basic prices include net production taxes only.
- **3. The new method was recommended by the UN System of National Accounts.**
- In 2008, for reasons like:
  - 1. This will make India's GDP growth numbers comparable with the developed nation
  - 2. This method was followed as international practice

Post 2015 the data of ministry of corporate affair (MCA-21) includes around 5 lakh companies.

- **4. Broadening of data pool:**
- Previous data was sampled from the **Annual Survey of Industries** which comprised about 2 lakh factories but the new database draws data from the **Ministry of Corporate Affairs(MCA 21)** where more than 5 lakh odd companies are registered.
- In simple terms, earlier data gave a picture of **factory-level output** and the new data looks at the enterprise level.
- **5. Improved coverage of financial corporations by including stock brokers, stock exchanges, asset management companies, mutual funds, and pension funds** as well as regulatory bodies like SEBI and IRDAI.
- **6. Changes in the calculation of Agricultural income:**
- Earlier data only included **value addition in farm produce** but the new data includes Value addition in the livestock as well.
- **7. Calculation of labour income**
- Before 2015, all labours used to be equal.
- In the new series after 2015, the concept of effective labour input is used i.e. different weights are assigned based on whether one is an owner, a hired professional or a helper.

## POTENTIAL GDP (11:44 AM)

- Potential GDP is the real value of Goods and Services that can be produced when a country's **factors of production** are fully employed.
  - It is the maximum sustainable level of output that an economy can produce.
  - Potential output is determined by **the economy's productive capacity** which depends on inputs like **available capital, labour, land, etc.**
1. **Technological efficiency** also plays an important role in increasing the potential output.
    - Potential GDP is also dependent upon factors like **political setup, Governance, infrastructure, health and education, utilisation of capital, etc.**
    - As per the economic survey, in 2016, the potential GDP growth of our country was between 8 to 10%.
  2. **Labour force**- The size and quality of the labour force is one of the most important determinants of potential GDP. A well-educated and skilled labour force can increase the economy's potential for growth.
  3. The availability of **natural resources** such as land minerals can impact the economy's potential for growth. If these resources are easily available the economy's potential for growth can increase.
  4. Political setup and governance
  5. Infrastructure

It is often used as benchmark to measure the actual level of output and to measure the extent to which an economy is operating above or below its potential it is determined by several key factors.

1. Technological efficiency:- Technological advancements can increase the potential for growth and productivity by improving the efficiency of production process.

2. Labour force

- 6• **Effective utilisation of capital-** Countries with lower capital-output ratios can expect higher potential GDP.
- 7• **Economic structure-** The composition of economic industries and the distribution of economic activity can impact the economy's potential for growth. Example- A country with a strong manufacturing sector can have a higher potential for growth than economies relying on agriculture.
- 8• **Demographic factors-** Population growth and ageing population can impact the potential for growth.
  - Actual GDP is subject to **business cycle swings** which are the cycles of upturn and downturn.
  - During the downturn, the actual GDP falls below the potential level and during the upturn, the actual GDP rises above the potential GDP.

**TOPIC OF THE NEXT CLASS- PUBLIC DISTRIBUTION SYSTEM**