Economics Class 31

DOMESTIC INCOME VS. NATIONAL INCOME (09:07 AM)

Domestic Income	National Income
It is a territory concept, as it includes the value of final goods and services produced within the domestic territory of a country.	It is a national concept as it includes the value of final goods and services produced in the entire world.
It considers all producers within the domestic territory of the country	It considers all producers who are normal residents of the country.
It does not include NFIA.	It includes NFIA.

DIFFERENT AGGREGATES OF CALCULATING NATIONAL INCOME (09:16 AM)

- **Gross domestic product at market price (mp) -** It refers to the gross market value of all final goods and services produced within the domestic territory of the country during one year.
- **Gross domestic product at factor cost (FC)-** It refers to the gross money value of all final goods and services produced within the domestic territory of a country during one year.
- GDP at factor cost= GDP at market prices - net indirect taxes
- **Net domestic product at market price-** It refers to the net market value of all final goods and services produced within the domestic territory of the country during one year.
- NDP @mp= GDP @mp - depreciation

- **Gross national product at market price -** It refers to the gross market value of all final goods and services produced by the normal residents of a country during one year.
- GNP@mp= GDP mp + net factor income from abroad (NFIA)
- **GNP at factor cost -** It refers to the gross money value of all final goods and services produced by a normal resident of a country during one year.
- GNP @fc= GNP @ mp- net indirect taxes
- **Net National Product @ mp-** It refers to the net market value of all final goods and services produced by the normal residents of a country during a period of one.
- NNP@mp= GNP@mp-Depreciation
- **Net national product at factor cost-** It refers to the net money value of all the final goods and services produced by normal residents of a country during one year.
- NNP@fc= GNP @mp-depreciation-net direct taxes

EXPENDITURE METHOD (09:29 AM)

- It is also called the total outlay method.
- In a country income earned is either spent on consumer goods and services or saved and invested.
- In this method, total national expenditure incurred in a particular year is taken into consideration to compute national income.
- GDP (at Market Price) = Personal consumption expenditure (C) + Investment (I) + Government expenditure (G) + Exports (X) - Imports(M)
- Change in inventory investment is calculated using the formula: Closing stock- Opening stock (Stock at the end of the year- Stock at the beginning of the year)
- In the above formula imported consumption has to be removed to arrive at final GDP at market prices. = (C-Ci) + (I-Ii) + (G-Gi) + X

Investment can be further divide into Gross Fixed Capital Formation i.e. investment into fixed asset that is plants and machinery and inventory investment which includes finished goods and raw materials and semi finished goods(work in progress).

- **Steps involved in the calculation-**
- Identification of economic units
- Incurring final expenditure. Example- Household or Consumption sector, Firm or producing sector and Government sector
- Classifying the final aggregate expenditure into the following components:
- a) Private final consumption expenditure
- b) Government final consumption expenditure
- c) Gross fixed capital formation (i.e. creation of fixed asset)
- d) Change in stocks
- e) Net exports
- Sum total of the above five items gives us the value of GDP at market price.
- By deducting depreciation and net indirect taxes, we arrive at NDP at factor cost.
- After estimating NFIA which is added to domestic income to arrive at NNP at factor cost.
- **Precautions**
- To avoid double counting, expenditure on all intermediate goods and services is excluded.
- E.g. Purchase of vegetables by a Restaurant, expenses on electricity by a factory.
- Expenditure on the purchase of second-hand goods is excluded from national income calculations as this type of expenditure is not currently produced goods.
- Gifts from abroad are also not included.
- Expenditure on the purchase of shares, bonds etc. is excluded because it is not payment for goods or services currently produced. It shows the transfer of property or assets from one person or another.

PRODUCT METHOD (10:45 AM)

- It is also called the output method.
- *Two methods of calculation:*
- 1. Using the concept of the final output
- It considers the value of all the finished product which is sold to consumers for consumption purposes.
- Intermediate goods which are consumed in some other stages of production are not considered.
- 2. Gross Value Added (GVA):
- GVA (at Market Price) = Value of output - Intermediate consumption
- The GVA of each stage of production is added to arrive at the final value.
- **Final product approach-** This approach calculates the national income on the output side.
- We measure the value of all that is produced in the domestic market. It is estimated by multiplying the goods produced by the market price to arrive at GDP at the market price.
- GDP at market price= P*Q+ P*S
- where P= Market Price
- Q= Quantity of goods
- S= Quantity of services
- **Value Added Approach**
- It measures the contribution of each producing unit in the domestic economy avoiding any possibility of double counting.
- Net Value Added at factor cost= Gross Output - intermediate consumption- depreciation

- **Steps involved in the calculation**
- Identify all the producing units in the domestic economy and classify them into three sectors such as primary, secondary and tertiary.
- **Note-**
- The primary sector produces goods by exploiting natural resources.
- The secondary sector produces manufactured goods by transforming one type of commodity into another type of commodity like construction, or electricity generation.
- The tertiary sector renders services like education, medicine, banking etc.
- Estimate the net value added at factor cost by each producing unit.
- Estimate the net value added of each sector (primary, secondary, tertiary) by summing up the net value added at the factor cost of all producing units in each sector.
- Compute domestic income by adding up NVA at the factor cost of all three sectors.
- Estimate net factor income from abroad which is added to the domestic income for driving NNP at factor cost.
- **Precautions:**
- **Items included-**
- Imputed rent of owner-occupied houses
- Value of own account production of fixed assets by enterprises, government and households.
- Only value-added and non-value of output by production units should be included to avoid double counting.
- Do not include the sale of second-hand goods as they are not fresh production activities. However, brokerage or commission paid to facilitate the sale is included as it is a fresh production activity.

- **Items excluded**
- Illegal activities such as smuggling, gambling
- Sale and purchase of second-hand goods
- Sale of bonds by a company- This is merely a financial transaction that does not contribute directly to the flow of goods and services.
- A dividend received by an Indian from his investment in shares from a foreign company is included in national income because it is a part of Net Factor Income from abroad.
- Capital gains are not included in National Income.

CONCEPT OF GVA AT BASIC PRICES (11:40 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.

TOPIC OF THE NEXT CLASS- NATIONAL INCOME (TO CONTINUE)