Economics Class 30

NATIONAL INCOME (09:06 AM)

- **Gross vs Net**
- **Net**= Gross minus depreciation
- **Depreciation or consumption of fixed capital**
- It refers to the loss in value of fixed assets that are in use due to wear and tear.
- In simple words, it can also be termed as an annual amount spent on wear and tear or maintenance of assets.
- NDP = GDP - Depreciation
- **Factor cost vs. Market Price**
- **Factor Cost:**
- It refers to the cost of a factor of production that is incurred by a firm while producing goods and services.
- It does not include indirect taxes like GST that are paid to the government, since payment of taxes is not directly related to the production process, but subsidies received are included in the factor cost as these are direct inputs into the production.

NOTE: Subsidies given to farmers for production or subsidies given to manufacturing processes are not seen as transfer payments as they are used in the production process.

- **Market price:**
- It is a price that the consumer pays for the product while purchasing it from the sellers.
- It is the price at which the units are sold in the economy taking into effect the indirect taxes and subsidies.
- Factor Cost = Market Price - Net Indirect Taxes
- Net Indirect Taxes = Indirect Taxes - Subsidies
- If the net indirect taxes are negative then the market cost will be less than the factor cost.

- **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 at market prices - net indirect taxes

CONCEPT OF NORMAL RESIDENT (10:15 AM)

- National income is defined as the sum total of factor incomes earned by normal residents of a country during a year (domestic incomes + Income from the rest of the world.
- A normal resident has special importance in national income accounting.
- A resident is said to be a person or institution who ordinarily resides in a country and whose centre of economic interest lies in that country.
- He is called a normal resident since he normally lives in the country of his economic interest.
- An individual is a normal resident of a country if he ordinarily resides in the country for more than one year and the centre of economic interest also lies in that country.
- Normal residents include both citizens and non-citizens.
- However, A foreigner is not a citizen of India as he does not hold citizenship of India which means a person can be a citizen of one country and at the same time a resident of another country.
- National income is the sum total of income of only normal residents of a country during a year.
- International bodies like the World Bank, WHO or IMF are not considered residents of the country in which they operate but are treated as residents of international territory.
- However, the staff of these bodies are treated as normal residents of the country in which the international body operates.

- **For ex-** An international body like the WHO located in India is not a normal resident of India but Americans working in its office for more than a year will be treated as normal residents of India.
- Local employees working in foreign embassies located in their country are treated as normal residents.
- For ex- Indians working in the US embassy located in India are residents of India.
- Workers moving across the border for work. For example, Indians working in Nepal and returning in the evening are not residents of the country where they work.
- GNP= GDP+ Net factor income from abroad

NET FACTOR INCOME FROM ABROAD (NFIA) (10:40 AM)

- Difference between factor income (Rent, wages, interest, and profit) earned by normal residents of India from abroad and factor income earned by non-residents temporarily residing in India.
- **NFIA** = Factor income from the rest of the world - factor income to the rest of the world.
- National income includes the income of only normal residents of India.
- While computing national income what matters is the resident status and not the citizenship status.
- **Component of NFIA-**
- Net compensation to employees
- Net retained earnings (Incoming-Outgoing)
- Net income from property and entrepreneurship
- NFIA is zero in a closed economy as such an economy does not deal with the rest of the world sector.
- National is the aggregate of factor incomes earned by normal residents of a country in an accounting year.
- It is a total of factor incomes such as wages, salaries, rent, interest, profit, etc.
- Received by factors of production.

METHODS OF COMPUTING NATIONAL INCOME OR GDP (11:15 AM)

- ***Income method***
- It is also known as the distribution method.
- Under this method factor incomes under the following three major heads are added to calculate NDP at factor cost.
- 1. Compensation to employees (wages and salaries, employer's contribution to social security net)
- 2. Operating Surplus (rent, interest, royalty, and profits)
- 3. *Mixed income of self-employed:*
- It refers to earning from farming enterprises, sole proprietorship, and other professions such as legal and medical practices.
- In these professions owners, themselves assume the role of entrepreneurs, finances, landlords, and workers.
- **Note:** Items not included in national income under the income method are:
- 1. Windfall gains (lottery income)
- 2. Transfer receipts
- 3. Income from the sale of second-hand goods
- 4. Income from the sale of shares, bonds, and debentures
- Items included in the national income under income methods:
- 1. Commission charged by a broker on selling proceeds of second-hand goods
- 2. The value of production for self-consumption is also included in national income

- ***Product method:***
- 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
- ***Expenditure method:***
- 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)
- **Note:** Items not to be included in the national income under the expenditure method:
- 1. Expenditure on the purchase of shares, bonds, and debentures
- 2. Expenditure on the purchase of second-hand goods
- 3. Expenditure on semi-finished goods
- Items included in national income under expenditure method:
- 1. Government purchase of goods and services
- 2. Net foreign investment i.e. spending by foreign nationals, firms, and governments for the country's goods and services.
- 3. Gross private domestic investment i.e. business spending on capital goods
- **National Statistical Office (NSO)-**

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- It is under the ministry of statistics and program implementation.
- Created through a merge of NSSO and CSO in 2019
- GDP is calculated quarterly or yearly.

NOMINAL GDP VS REAL GDP (11:57 AM)

- Real GDP is calculated at base year prices.
- Nominal GDP is calculated at current-year prices.
- GDP Deflator= (Nominal GDP/ Real GDP) * 100

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