Economy

Chapter 02: National Income and GDP

Lecture 01: National Income and GDP

Topics to Study:

- *Concept of GDP, and GNP*
- *What is the meaning of Real, and Nominal GDP?*
- *The difference between different prices that is factor cost, Basic price, and Market price.*
- *Methods of GDP calculation that is income method, expenditure method, and production method.*
- *GDP as per Purchasing Power Parity (PPP)*
- *Concept of Saving and Investment.*
- *Concept of Growth and Development.*

National Income:

- *National income helps assess how a country's* ***resources are utilized to produce goods and services for its people.***
- ***MOSPI (Ministry of Statistics and Programme Implementation)*** *is an Indian government ministry responsible for the collection, analysis, and dissemination of statistical data. It oversees the generation of* ***National Income***, ***GDP***, ***Census***, *and other vital statistics to support policy-making and development planning.*

Gross Domestic Product (GDP) and Gross National Product (GNP):

- *The term GDP was* ***given by Simon Kuznets.***
    - ***Gross Domestic Product (GDP):*** *Gross domestic product means the* ***total amount of goods produced and services provided within the boundary of the country within one financial year.***
        - *In India, GDP is calculated by the* ***National Statistics Office (NSO)*** *which works under the* ***Ministry of Statistics and Programme Implementation***

(MoSPI) by following the concept of a financial year that starts in the month of **April and ends in the month of March.**

- GDP is a **territory-specific concept.**

- **Gross National Product (GNP):** The **total value of goods and services provided by the nationals of the country in a given period of time** is called Gross National Product (GNP).
  - GNP is a **citizen-specific concept.**
  - **GNP = GDP – Earnings of foreigners in India + Earnings of Indians outside India.**
  - Therefore, **GNP = GDP + Net factor income from Abroad.**
    i. Where, **Net factor income from Abroad = Earnings of Indians outside India - Earnings of foreigners in India.**

Nominal GDP and Real GDP:

- Real GDP means the **current year quantity multiplied by the base year price.** Real GDP is used in the country to know the **real growth or actual growth in the country.**
- On the other hand, **Nominal GDP means current year quantity multiplied with current year prices.** This GDP is used to know the current worth of the country.

Base Year Concept:

- It is the year whose prices are being used to **calculate the real Gross Domestic Product (GDP).**
- Changing the base year in GDP is essential to reflect **current economic conditions, prices, and trends accurately.** It includes new **industries and technologies, improves data accuracy, supports better policy-making, and ensures international comparability.**
- Updating the base year provides a realistic measure of growth and economic performance.
- One key criterion for the selection of a base year for the **calculation of economic data is that it should be a normal year** that has **not much disruptions at a domestic, and global level.**
- The government of India might choose **2022-23 as the new base year on the recommendations of advisory committee National Account Statistics which will be done in Feb 2026.**

Important Definitions:

- **Basic Price:** It is the price at which factor cost is **adjusted with production taxes and production subsidy.**
  - **Basic price = factor cost + Production taxes - Production subsidy**
- **Market Price:** It is the price under which the Basic price is **added with the product tax and product subsidies (at which consumers purchase the product).**
  - **Market Price = Basic Price + Product Tax - Production subsidy**
- **Factor Cost:** It is the cost that includes the cost of **production of Land, Labour, Capital, and Entrepreneur.**

The Problem of Double Counting:

- **Gross Domestic Product (GDP):** It is defined as the current value of all final goods and services produced in a nation in a year.
- **But what are the Final Goods?**
  - Individuals who calculate GDP must avoid the mistake of double counting, which is counting output more than once as it travels through the stages of production.
  - **For Example:** What would happen if government statisticians first counted the value of tires produced by a tire manufacturing company and then counted the value of a new car sold by an automaker that contains those tires? The value of the tires would have been counted twice because the price of the car includes the value of the tires.
  - To avoid this problem, which would overstate the size of the economy, government statisticians count just the value of final goods and services in the chain of production that is sold for consumption, investment, government, and trade purposes.
- **Intermediate goods,** which are goods **that go into the production of other goods, are excluded from GDP calculation.** This means that in the example above only the value of the car would be counted.
- The problem of double counting can be solved either by calculating the value of the final output or by taking the value added by each firm.