Industrial-Economics-Module-4-Important-Topics

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- Q7 Estimate GDPMP ,GNPMP and National Income. Private consumption expenditure = 2000 , Government consumption = 500, NFIA= -300, Investment=800, Net exports=700, Depreciation=400 and Net-indirect tax=300.

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1. Circular Flow of Income

- Economic transactions generate two types of flows
  - Product flow or real flow
  - money flow.
  In the economy products and money flow in opposite directions in a circular manner. This is called **circular flow of income**.

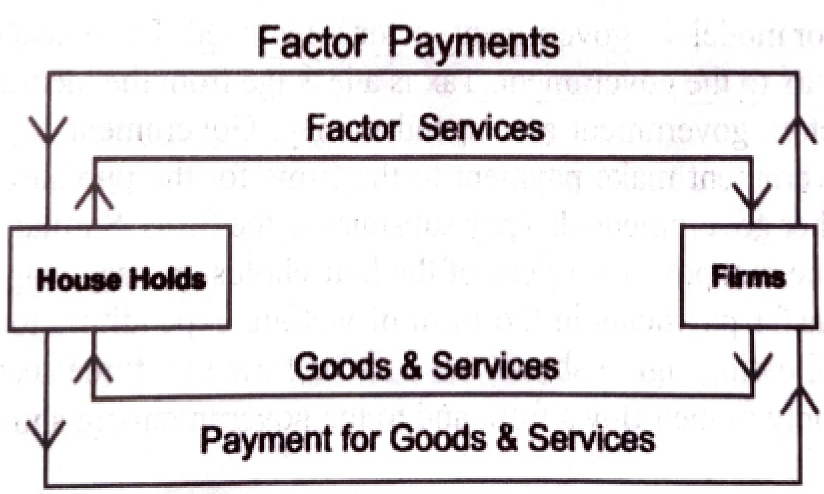
Product flow includes flow of goods and services, and factor services.

To illustrate the flows of income and expenditure, an economy is divided into four sectors

- i) Household sector
- ii) Business sector or firms
- iii) government sector
- iv) Foreign sector.

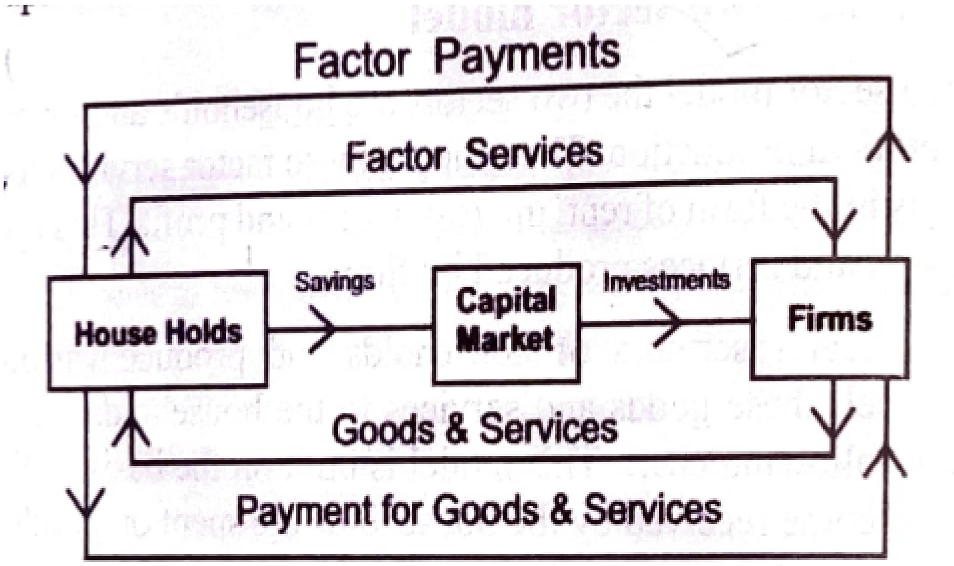
Two Sector Flow

- Two sectors are households and firms



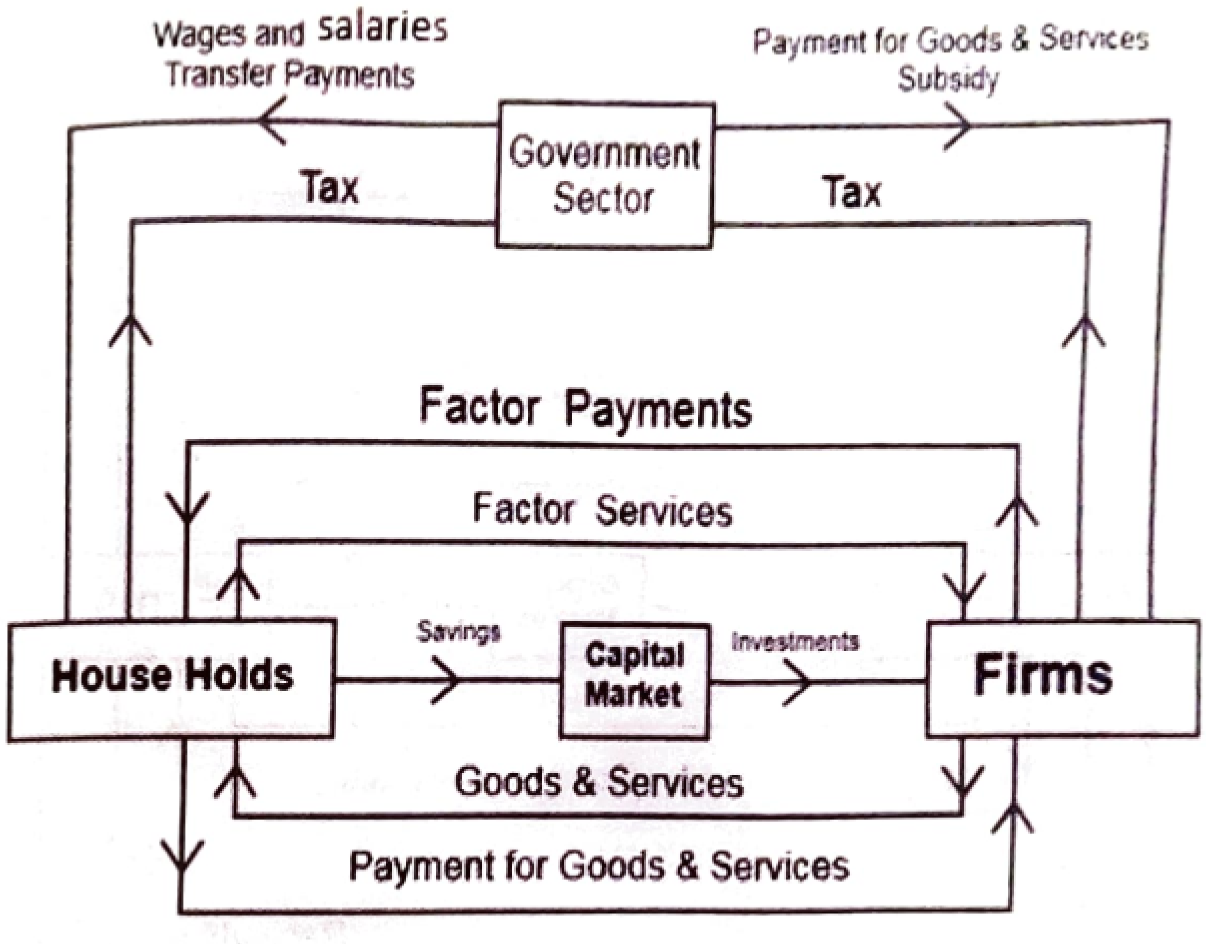
Two Sector model with capital market

- Households may not spend their entire income on goods and services
- They may save a part of their income, This saving is coming to the capital market



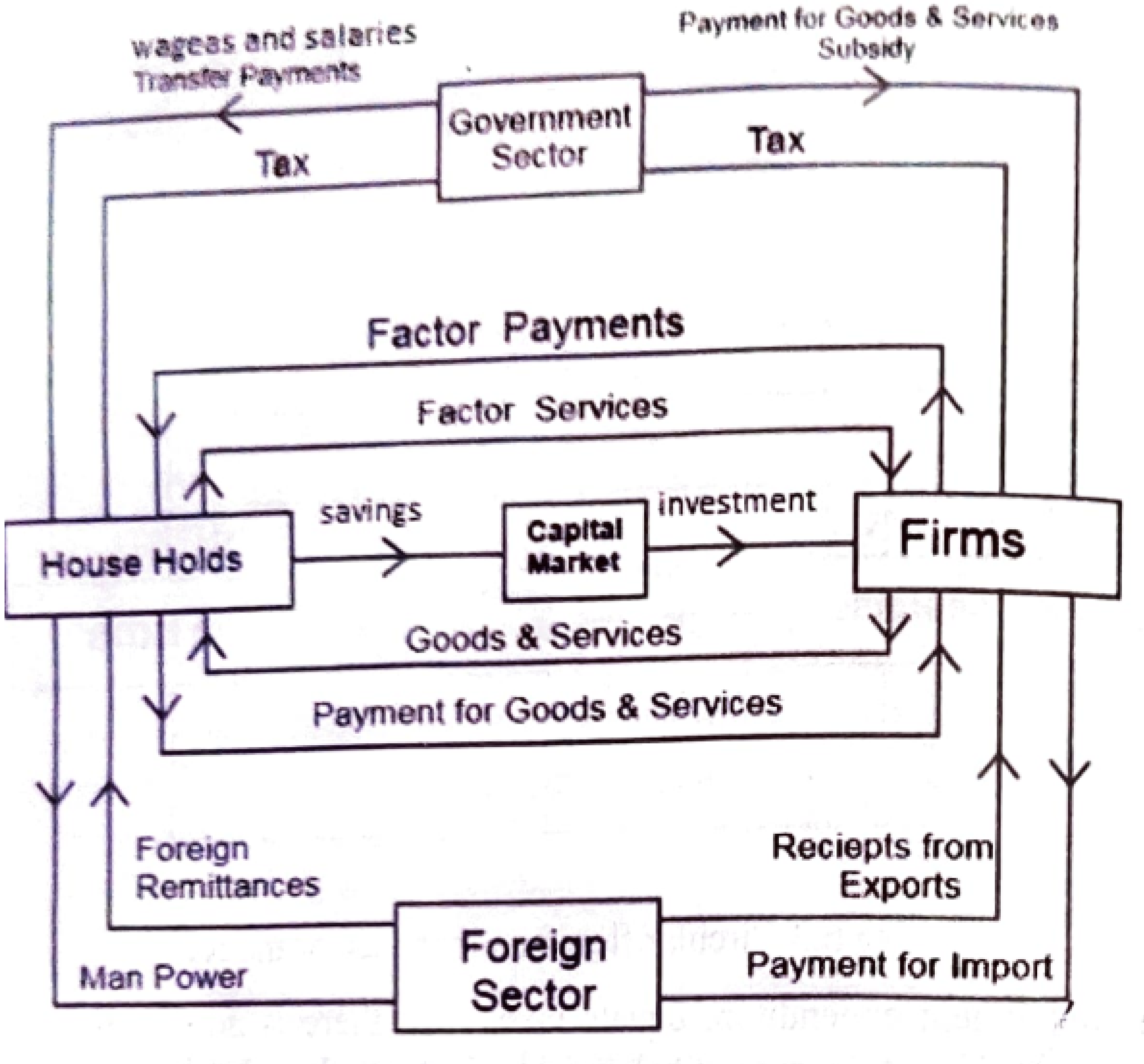
Three sector model

- In a three sector model, the government sector is included
- Household sector and firms pay tax to the government



Four sector model

- Fourth sector is the foreign sector
- Households
  - Household export manpower to foreign sector
  - In return they get foreign remittances (essentially money that people who work in one country send back to their home country)
- Firms
  - Firms export their goods and services to foreign sector, get receipts from exports
  - Imports raw materials, and make payment for imports



2. Methods of Measuring National Income

Product method / Output method

- GDP is estimated as sum of money value of all final goods and services produced in the domestic territory of a country during a financial year

Final expenditure method

- This method estimate GDP by adding the final expenditures in the economy
  - Private final consumption expenditure(C) - This is mainly the household expenditure on final goods and services to satisfy their wants
  - Investment Expenditure

- Expenditure for aquiring capital assets
- Government consumption expenditure
  - Government spends money for purchase of consumer goods like stationary petrol etc
- Net exports
  - Foreigners spend money for goods(export) and we purchase foreign goods(Import) , difference between these two is net foreign expenditure

Income method

- Income method takes the sum of the factor incomes in the economy
- Factor incomes are
  - Rent
    - Income earned by the people who supply land and building
  - Interest
    - It is the reward of capital. When money is borrowed for investment interest is paid as the reward.
  - Wages
    - Reward of those who supply labour power
  - Profit
    - Reward of entrepreneur
  - Mixed income of self employed

3. Inflation and types

- Inflation is a situation in which there is a persistent rise in the general price level
- Situation in which too much money chasing too few goods
- When there is inflation, value of money decreases persistently

Types of inflation are

Creeping inflation

- When rise in prices is very slow, less that 3% per annum, its called creeping inflation

Walking inflation

- When prices rise moderately and annual inflation rate is 3 to 10%

Running inflation

- Price rise rapidly, rate of increase is 10% to 20% per annum

Galloping or Hyperinflation

- When price rises between 20% to 100% per annum or even more, its called galloping or hyperinflation

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4. Inflation Causes

- Causes of inflation can be classified under demand side causes and supply side causes

Demand side causes

- Increase in money supply
  - Cash in hand with people increase, and hence they spend more money
- Increase in disposable income
- Increase in government expenditure
- Deficit financing
  - It means government spends more money than its revenue
  - the deficit may be met by printing more currency notes.
- Cheap money policy
  - When interest rates are low in the economy, incentives to save is less, people will spend more money and demand increases
- Increase in population
  - When population increases, number of buyers also increases and demand increases

Supply side causes

- Increase in wages

    - When wage rate increases, cost of production also increases. Supply falls and price level goes up
- Speculative hoarding
    - Traders hoard goods and create artificial scarcity, price will increase
- Natural calamities
- Increase in exports
- Industrtial disputes

5. Inflation Effects

- Effects on distribution of income and wealth
- Effects on investment and production
- Social and political impact

6. Measures to control inflation: monetary and fiscal policies

Monetary policy measures

- There are measures adopted by the central bank of a country to control credit and money supply of an economy
- Can be classified as
    - Quantitative credit control measures
    - Selective or qualitative credit control measures

Quantitative credit control measures

- Aims at regulating the overall volume of bank credit without considering purpose for which credit is used

Selective or Qualitative credit control measures

- Under this method, extension of credit to essential purposes is encouraged and non essential purposes is discouraged

Fiscal policy measures

- Measures taken by government to control aggregate demand in economy
  - Public revenue
    - Increasing taxes decrease disposable income and they spend less money
  - Public expenditure
    - Cutting down government expenditure on development
  - Public borrowing
    - Government delays repayment of public debt
    - Government also borrows more money from public

7. Business financing: Bonds and shares

- A share is a stake in owenership of a company
- When a company issues shares, they are selling a certain amount of ownership in their company
- Bonds are a loan agreement that a company enters into with investor
- By buying a bond, an investor is lending money to company for pre agreed period of time

Bonds	Shares
Investor lends money to company	Investor owns part of company
Issuers of bond are govt institutions, financial institutions, companies	Shares are issued by corporate enterprises
Risk is relatively low	Risk is very high
Bond holders get interest as a fixed payment	Shareholders get dividend, which is not guaranteed
Return is certain	Return is uncertain

8. Money market and Capital market

- A Financial market deals with financial assets such as stocks, bonds, treasury bills, currency etc.

- Money market deals with short term financial assets, that is, assets upto maturity period of one year
- Functions of money makret
  - Financing trade
  - Financing industry
  - Profitable investment
  - Financial mobility
  - Economic growth
- Capital market deals with long term financial assets, a capital market is a finanical market in which long term financial assets are bought and sold
- The instruments traded in capital market include stocks, bonds debentures etc
- Functions of capital market
  - Encourages saving
  - Encourages investment
  - Promotes economic growth

9. Stock market

- Stock market refers to the collection of markets and exchanges where regular activities of buying, selling and issuance of shares of publicly held companies take place
- Stock market is an institution which provides a platform for buying and selling existing securities.
- Functions of stock market
  - Contributes to economic growth
  - Safety of transaction
  - Pricing of Securities
- NSE is the leading stock exchange of India, located in Mumbai. NSE was established in 1992 as the first dematerialized clectronic exchange in the country

10. Demat account and Trading account

Demat account

- Demat Account is used to hold the shares purchases in digital or electronic form
- A Demat Account holds all invesstments an individual makes in shares, govt securities, bonds, mutual funds etc.
- Its a storage space to hold the shares and securities purchases

Trading account

- Trading account is used to buy and sell shares and securities in the stock market.
- Trading account acts like a link between demat account and bank account of an investor
- When an investor wants to buy shares, he places an order through his trading account
- The transaction goes for processing in the stock exchange. The required number of shares get credited into his DEMAT account and proportionate sum gets deducted from his bank account

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11. SENSEX and NIFTY

Nifty

- Market index introduced by NSE
- NIFTY 50 is a benchmark based index, which showcases top 50 equity stocks trading in stock exchange out of a total of 1600 stocks
- These stocks span 12 sectors of indian economy
    - IT
    - Financial services
    - consumer goods
    - entertainment and media
    - metals
    - pharmaceuticals
    - telecommunications
    - cement and products
    - automobiles
    - pesticides, fertilizers

    - energy and other services

Sensex

- The BSE Sensex, is a stock market index of 30 well establishes and financial sound companies listed on BSE.
- These 30 companies are known as Blue chip companies

12. Final goods and intermediate goods

- Goods which are used in the production of other goods and services are called **intermediate goods**
- Goods which are ready for consumption or investment are called **final goods**

13. Gross Domestic Product (GDP)

- GDP is the the money value of **all final goods and services produced within the domestic territory of a country** during a financial year.

14. National Income

- Its the sum total of the factor incomes received by the residents of a country in the form of rent, interest, wages and profit over the period of one year

15. Stock and flow

- Stock is the quantity of a variable measured at a point of time
    - Water in reservoir at a point of time is a stock
    - In economics, wealth, capital etc are stocks
- Flow is the quantity of a variable measured over a period of time
    - Cash in hand is stock

- But monthly income is flow

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16. GDP, GNP, NDP, NNP, NI, Problems

Q1 How is GDP Calculated?

- Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.
- GDP = Consumption + Investment + Government Spending on Goods and Services + net export (Exports (x) – Imports(m))

Q2 Estimate GDPmp, GNPmp and National income

- **Private consumption expenditure = 2000 (crores)**
- **Government Consumption = 500**
- **NFIA = -(300) (Net Factor Income from Abroad)**
- **Investment = 800,**
- **Net=exports =700,**
- **Depreciation = 400,**
- **Net-indirect tax = 300**

Calculating GDPmp

- **Gross Domestic Product at market price (GDPmp)**.
    - It refers to the market value of final goods and services produced within the domestic territory of a country during the period of an accounting year.
    - **GDPmp:** Focuses on **production within the geographical borders** of a country, regardless of who owns the factors of production (companies, workers).
- **GDPmp = Private consumption expenditure + Government consumption expenditure + investment Expenditure + Net export.**
- Given
    - Private = 2000
    - Government = 500
    - Investment = 800
    - Net export = 700

- GDPmp = 2000 + 500 + 800 + 700
- GDPmpp = 4000

Calculating GNPmp

- **GNPmp stands for Gross National Product at Market Prices**.
    - It's an economic term used to measure the total market value of all final goods and services produced by a country's residents in a given year, regardless of their location.
    - **GNPmp:** Focuses on **production by a country's residents**, including both domestic production and production by its residents abroad.
- **GNPmp = GDPmp + NFIA**
- Given
    - GDPmp = 4000
    - NFIA = -300
- GNPmp = 4000 - 300 = 3700

National income = NNPfc

- NNPfc = GNPmp - Depreciation - NIT (Net indirect tax)
- 3700 - 400 - 300

Q3 From the data given below estimate the NDP, using income method and expenditure method

Items	(Rs. Crores)
Consumption expenditure	3000
Investment expenditure	2000
Government expenditure	700
Exports	600
Import	300
Intermediate Consumption	2000
Wages and salaries	2000
Rent	500
Interest	500
Profit	1000

- **NDP stands for Net Domestic Product.**
- It's an economic measure that reflects the value of all final goods and services produced within a country's borders in a given year, taking into account the wear and tear on the country's capital goods (buildings, machinery, vehicles, etc.).

Income method

- NDP = Wages and salaries + rent + interest + profit
- 2000 + 500 + 500 + 1000
- NDP = 4000

Expenditure method

- **NDP = consumption expenditure + investment expenditure + government expenditure + (export – import) - intermediate consumption**
- NDP = 3000 + 2000 + 700 + (600-300) – 2000
- NDP = 4000

Q4 From the data given below estimate Gross National Product, Net National Product and National income. GDP 5000 (in 100 billion), NFIA -50, Indirect tax 70, Subsidies 20, Depreciation 30

Calculating Gross National Product (GNP)

- **GNP = GDP + NFIA**
- GNP = 5000 - 50
- **GNP = 4950**

Calculating Net National Product (NNP)

- NNP=GNP−Depreciation
- NNP=4950−30
- **NNP=4920**

National Income(NNPfc)

- National Income = NNP−Indirect Taxes+Subsidies
- National Income = 4920−70+20
- National Income=4870

Q5 Estimate NDP and NNP from the given data(all figures in Rs. Crores)

Wages and salaries = 800, Rent = 300, Depreciation = 200, Interest = 400, Net Indirect tax =

400, NFIA = 100, Profit = 400.**

- NDP = Wages and salaries + Rent + Interest + Profit
- = 800 + 300 + 400 + 400
- **NDP = 1900**
- NNP = NDP + NFIA
- = 1900 + 100
- NNP = 2000

Q6 Suppose the national income of a country is Rs1000 and depreciation equals Rs300. If NFIA equals Rs (-400) and Indirect Taxes equals Rs300, estimate NNP, NDP, GDP and GNP (all figures in Rs. Crores).

- National income means NNPfc. So NNP means NNPmp.
- **NNP** = Net National Product (total value of final goods and services produced in a country after accounting for depreciation and foreign sources)
- **NI** = Net Income (income earned by a country's residents from production within the country's borders)
- **Indirect Tax** = Taxes levied on goods and services (sales tax, excise duty, etc.)

NNP = NI + Indirect Tax = 1000 + 300 = 1300

- **NDP (Net Domestic Product):**
  - Represents the value of all final goods and services produced within a country's borders in a given year.
- **NFIA (Net Factor Income from Abroad):**
  - Represents the net income a country earns from its citizens or businesses working abroad,

NDP = NNP - NFIA = 1300 – (-400) = 1700

GDP = NDP + Dep. = 1700 + 300 = 2000

GNP = GDP + NFIA = 2000 + (-400) = 1600

Q7 Estimate GDPMP ,GNPMP and National Income. Private consumption expenditure = 2000 , Government consumption = 500, NFIA= -300, Investment=800, Net exports=700, Depreciation=400 and Net-indirect tax=300.

- **GDPMP = Private consumption expenditure + Investment + Government consumption + (Export - Import)**
- **GDPMP = 200 + 800 + 500 +700**
- **GDPMP = 4000 cr**
- **GNPMP = GDPMP + NFIA =4000+-(300) = 3700 cr**
- **NNPMP = GNPMP – Depreciation= 3700- 400= 3300 cr**
- **National income or NNPFC = NNPMP –NIT =3300-300 = 3000cr**