

Product (Value Added) Method

Product Method or Value added method is also called Industrial Origin Method or Net Output Method. Product Method is defined as that method, which measures the national income by estimating the contribution of each producing enterprise to production in the domestic territory of the country in an accounting year.

Step -1 : Identification and classification of Producing enterprise

All the producing enterprises of an economy can be classified under three section :

- a) Primary sector or Agriculture related sector
- b) Secondary sector or Manufacturing sector
- c) Tertiary sector or Service sector

Step ① Classification and Identification of Producing units

- Primary Sector
- Secondary Sector
- Tertiary Sector

Step ② Calculation of GVA



A man with a beard and glasses, wearing a dark shirt, is shown in profile from the chest up. He is pointing his right hand towards the text 'GIVA / G' written in red on a white background. The text is located in the upper right corner of the image.

Step ② Calculation of GVA / GDP_{mp}

$$\begin{aligned} \text{GVA} / \text{GDP}_{mp} &= \text{Value of output} - \text{Intermediate Consumption} \\ &= (\text{Sales} + \text{change in stock}) - \text{Int. Consumption or Purchase of Raw material} \\ &\quad \text{Domestic Sales (+) Export} \quad \text{OR} \quad \text{Inventory Investment [C.S - O.S]} \\ &\quad \text{Domestic Purchase (+) Import} \end{aligned}$$

Step ③ Calculation of National Income

$$\text{NNP}_{FC} = \text{GDP}_{mp} - \text{N.I.T} + \text{NFIA} - \text{Dep.}$$

Precautions involved in this Method

- 1) Problem of Double Counting = While estimating National Income by Value added method, sometimes the value of a product is counted more than once. It is called double counting.

There are two alternative method to avoid double counting:

- a) Value Added method
 - b) Final Product Method
- 2) Intermediate goods = **not included**
 - 3) Sale & Purchase of second hand goods. = **not Included**
 - 4) Sale & Purchase of Shares & Bonds = **not Included**
 - 5) Imputed value of owner self occupied house = **included**
 - 6) Goods Produced for self consumption = **Included**
 - 7) Services produced for self consumption = **Not included**
 - 8) Domestic Services in love & affection = **Not Included**