

# Concept of GDP (Gross Domestic Product)

GDP is a macro concept. GDP refers to the market value of all final goods and services produced by all the producing units located in the domestic territory of a country during a period of one year.

When we talk about GDP, it is always calculated on Market price (called GDPmp).

It includes depreciation, net indirect tax and value of output produced within the domestic territory by all the producers (resident and non-resident).



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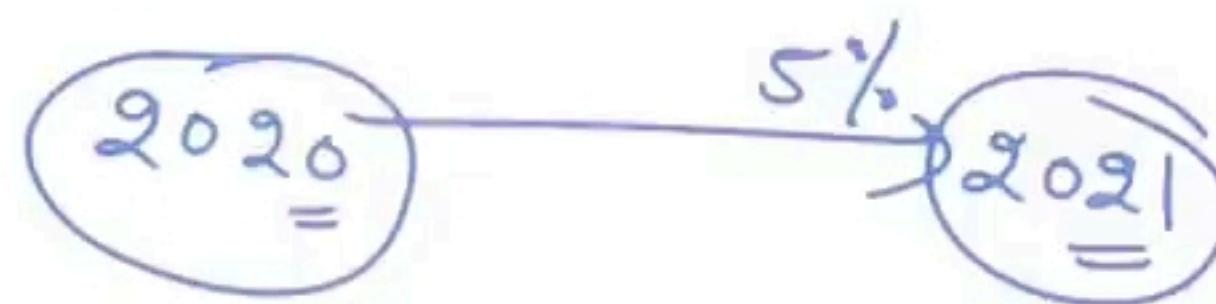
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GDP = 5% 2021



$$\text{GDP} = \underline{1000 \text{ Cr}}$$

$$\begin{aligned}\text{GDP} &= 1000 \\ &+ 50 \\ &\underline{\underline{1050 \text{ Cr}}}\end{aligned}$$

## Activities that are not included in GDP

- 1) Net factor income from abroad : GDP is limited to Domestic territory of a country and therefore it does not include NFIA.
- 2) Goods and services produced in the previous year : It includes only that goods and services which is produced within current year.
- 3) Value of Intermediate goods : It includes value of only final goods, it does not include value of Intermediate goods.
- 4) Transfer income : GDP includes only factor income, it does not include transfer payments because these are unilateral transfer.
- 5) Capital Gain : GDP doesn't include capital gains. Capital gain refers to income from sale of second hand goods and financial assets. Any income arising from these transactions are transfer income not a factor income. Therefore not added to GDP.
- 6) Income from illegal activities : Income from illegal activities like smuggling, black marketing, theft, decoy, gambling etc. should not be included in national income.
- 7) Sale of shares and bonds : sale of shares, debentures, bonds etc. will not be included in national income because such transactions do not contribute to current flow of



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8 May



# Components of GDP

- 1) Consumption Expenditure : It refers to expenditure incurred by households and non – profit institutions serving goods and service to households. For example, Expenditure on new car, food grains, clothes, school fees etc.
- 2) Government Expenditure : It refers to the expenditure incurred by government on various administrative service like defense, law and order, education etc.
- 3) Investment Expenditure : It refers to the ~~sum~~ of Gross fixed investment (like expenditure on ~~capital good and expenditure on construction of roads, dams and bridges~~) and Change in stock (refers to investment in stock during the year).  
*Inventory Investment*
- 4) Net Exports : It refers to expenditure made by outsiders on Goods and services made in India. It is calculated by difference between Export and import.

$$\text{GDP} = C + G + I + (X - M)$$

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# Diff. between GDP & GNP

GDP	GNP
<p>It refers to the <u>money value</u> of all final goods and services produced within <u>domestic territory</u> of a country.</p>	<p>It refers to the money vale of all final goods and services by the <u>normal resident</u> of a country.</p>
<p>It is a <u>territorial concept</u> as it is concerned with the domestic territory of a country.</p>	<p>It is a national concept because it is concerned with the normal resident of a country.</p>
<p>It does not include net factor income from abroad.</p>	<p>It includes net factor income from abroad.</p>

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It is a <u>territorial concept</u> as it is <u>concerned</u> with the <u>domestic territory</u> of a country.	It is a <u>national</u> concept because it is concerned with the <u>normal resident</u> of a country.
It does <u>not</u> include <u>net factor income</u> from abroad.	It includes <u>net factor income from</u> abroad.

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