

National Income Accounting

Three approaches:

- amount of output produced, excluding output used in the intermediate stages of production (**Product approach**);
- total income generated in the economy (**Income approach**);
- amount of spending by the ultimate purchasers of output (**Expenditure approach**).

All the three approaches give identical measurements of the amount of current economic activity.

National Income Accounting & Related Aggregates

Ref. Rudiger Dornbusch and Stanley Fischer

Some Important Concepts

GDP: a measure of all *currently domestically produced final goods and services evaluated at market prices.*

Market transactions such as exchanges of previously produced houses, cars, factories, and exchanges of stocks and bonds and other assets are not included in GDP.

Non-market productive activities and the underground economy are left out.

$\text{GNP} = \text{GDP} + \text{Net Factor Income from Abroad (NFIA)}$

NFIA = Factor Income Received from Abroad *minus* Factor Income Paid Abroad

GDP and GNP — *ownership and location*

- GDP \Rightarrow output based on location. If output produced in India, then it is included in the GDP of India.
- GNP \Rightarrow output based on ownership. If the resources that produce the economic output are owned by an American company, then the output is included in the GNP of USA.

GNP vs. GDP



Value of all goods & services made by a country's residents & businesses, regardless of production location

Sound indicator of financial well-being of Americans & U.S.-based multi-national corporations



Measures production inside of a country, no matter who makes it

Sound indicator of health of U.S. economy



If $\text{NFIA} > 0$, then $\text{GNP} - \text{GDP} > 0 \Rightarrow \text{GNP} > \text{GDP}$ UK

If $\text{NFIA} < 0$, then $\text{GNP} - \text{GDP} < 0 \Rightarrow \text{GDP} > \text{GNP}$ India

If $\text{NFIA} \approx 0$, then $\text{GNP} \approx \text{GDP}$ USA

NFIA is the net interest earnings, profits and dividends coming into India from our assets owned overseas matched against the flow of profits and other income from foreign owned assets located within India. Many foreign firms have set up production plants here whilst Indian firms have expanded their operations overseas and become multinational organisations.

Honda and Ford

Honda is the automotive manufacturer in Ohio. There are four Honda plants in the state. Because these plants are located in the USA, their output is included in the Gross Domestic Product (GDP) of USA. However, because these plants are owned by a corporation based in Japan, the output is not included in the Gross National Product (GNP) of USA.

Ford manufactures automobiles at its plant in Mexico. Ford is an American corporation, so the benefits from this plant is included in the GNP of America. Since the plant is outside the United States, the output is not added to the US GDP.



GDP as an Indicator

- GDP is the best single measure of the economic activity of a country.
- GDP per person tells us the income and expenditure of the average person in the economy.
- Higher GDP per person indicates a higher standard of living.
- GDP is *not* a perfect measure of the happiness or quality of life.



IS GDP A GOOD MEASURE OF ECONOMIC WELL-BEING?

Certain things/ activities that contribute to well-being are not included in GDP.

- The value of *leisure*.
- The value of a *clean environment*.
- The value of almost all activity that takes place outside of markets, such as the value of the time parents spend with their children and the value of volunteer work.

Limitations of GDP

Nonmarket Activities

GDP does not measure goods and services that people make or do themselves, such as caring for children, mowing lawns, or cooking dinner.

Negative Externalities

Unintended economic side effects, such as pollution, have a monetary value that is often not reflected in GDP.

The Underground Economy

There is much economic activity which, although income is generated, never reported to the government. Examples include black market transactions and "under the table" wages.

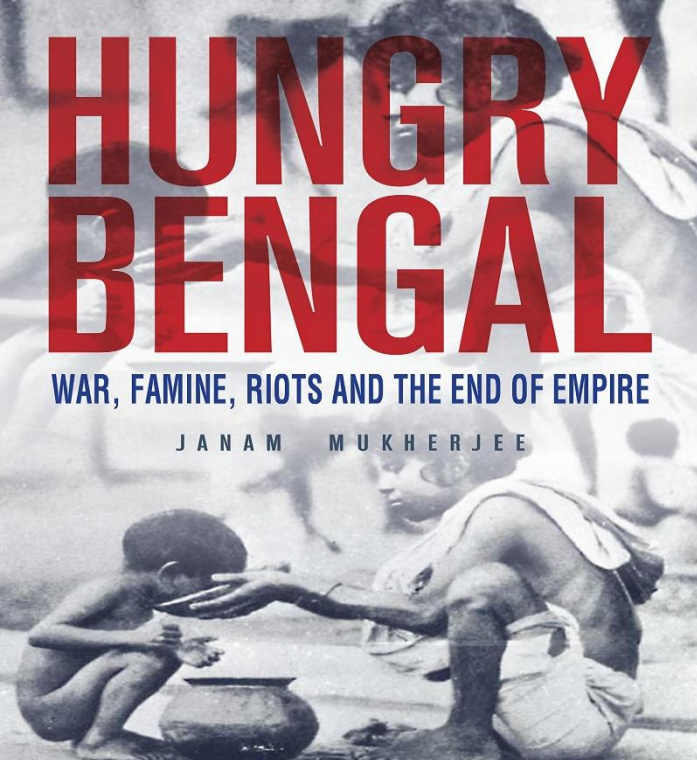
Quality of Life

Although GDP is often used as a quality of life measurement, there are factors not covered by it. These include leisure time, pleasant surroundings, and personal safety.

HUNGRY BENGAL

WAR, FAMINE, RIOTS AND THE END OF EMPIRE

JANAM MUKHERJEE



— BENGAL'S SUFFERING —



Children are probably the worst sufferers in the Bengal food crisis. Above—An emaciated child eats a scrap of food by the wayside. Left—A mute appeal for help—two Calcutta tragedies.—"Statesman."