Date
06/08/20

Indian Economy KOL CLASS-3

Topics - Thinking beyound GDP, Gross National Happiness & Related Indicators.

Supply

The quantity of a commodity or service that a seller is willing and able to sell at a specific price. is called supply.

factors affecting supply

1. Price of Goods & services (P_x)
2. Price of related goods & services (P_{yz}) ↔ Complimentary, Competitive (substitutes)
   (Car + Petrol)
   (Tea + Coffee)
3. Availability of Inputs & Cost.
4. State of technology
5. Others

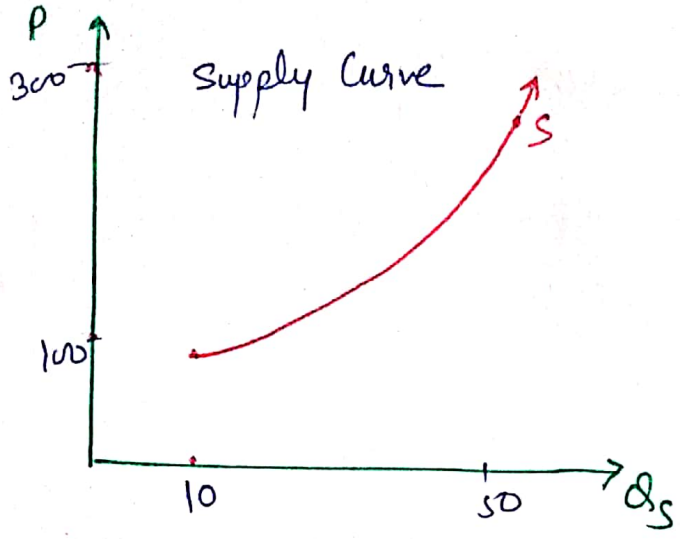
Law of Supply

Other things remaining same the price for goods and services is directly related to the quantity supplied which means increase in price leads to increased in quantity supplied and vice-versa.

$P \propto Q_s$

$\uparrow P \Rightarrow \uparrow Q_s$, $\downarrow P = \downarrow Q_s$

(2)



P	100	300 50	
Q_S	10	20	Units

Supply Schedule

Elasticity (Responsiveness)

$$e = \frac{\% \Delta Y}{\% \Delta X}$$

Δ = Change
Delta.

e.g $= \frac{-30\% \text{ (Demand)}}{+10\% \text{ (Price)}}$

$e = -3$ (-) shows inverse relationship.

The responsiveness of one variable with respect to other. it can be mathematically computed as the ratio of percentage change in dependent variable to the percentage in independent variable.

Elasticity of Demand is of various type for example price elasticity, income elasticity, gross elasticity etc. The elasticity of price can be calculated by the following formula.

$$e_p = \frac{\% \Delta Q_D}{\% \Delta P}$$

eg. $= \frac{-30\% \text{ (Demand)}}{+10\% \text{ (Price)}}$

$e = -3$ (−) Shows inverse

Income Elasticity

$$|e_y| = \left|\frac{\% \Delta Q_D}{\% \Delta Y}\right|$$

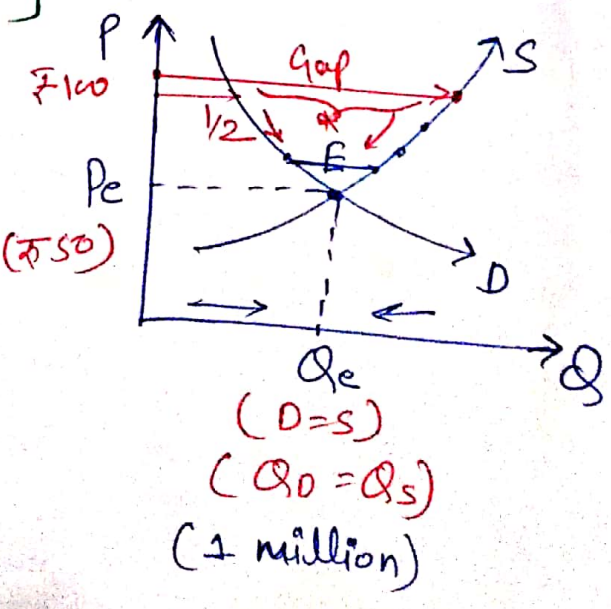
eg $= \frac{+30\% \text{ (Demand)}}{+10\% \text{ (income)}}$

$e = (+3)$ (+) Shows direct

- $e = 0$ Inelastic
- $e = 1$ Unit (Equal)
- $e = \infty$ Perfectly Elastic
- $e > 1$ Highly elastic
- $e < 1$ Low elasticity

Equilibrium

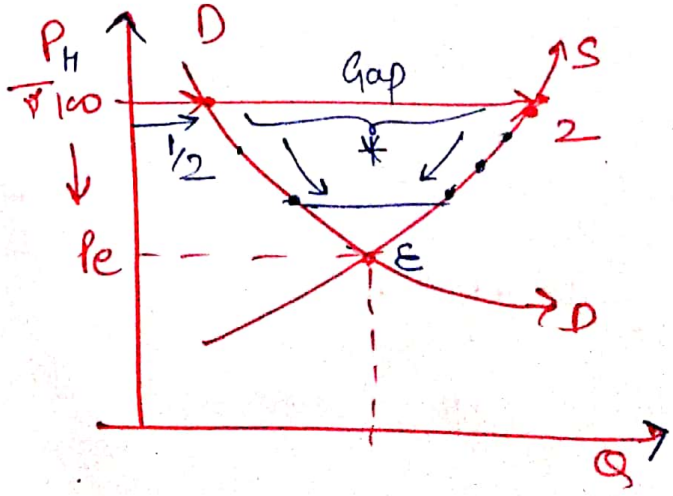
⊛ Deflationary Gap



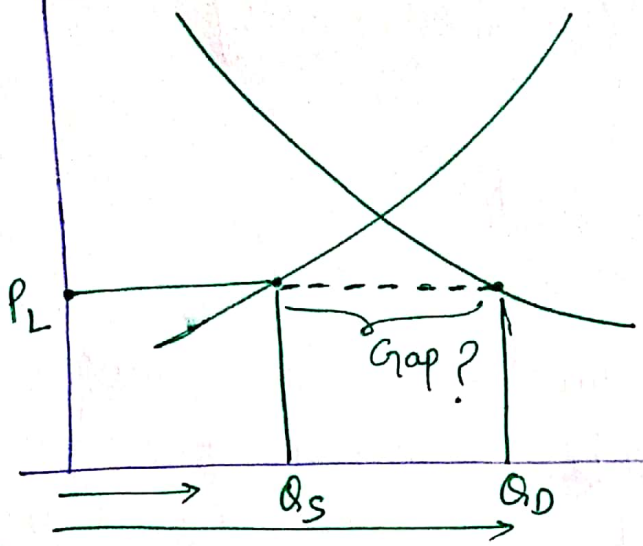
④

Equilibrium refers to the state of rest or balance. Irrespect of market equilibrium is a condition where the aggregate demand for goods & services in market is equal to aggregate supply. Graphically it is a point where demand and supply curve intersect. In otherwords quantity demanded is equal to quantity supplied.

When price is set higher than the equilibrium price than it would caused dis-equilibrium since quantity demanded is going to be less than quantity supplied. To reduce the gap between demand and supply price must be decreased which would caused expension in demand and contraction in supply reaching equilibrium point. graphically it can be shown as under



Home Work



(i) Deflationary gap
(ii) Disinflationary Gap
(iii) Stag Gap
(iv) Inflationary Gap

Price Mechanism

The forces of demand & supply are strong enough to determine price of goods, services and factors of production on their own (Invisible Hand) without government intervention and this is called price or market mechanism. In free market economies where government does not fix prices the market mechanism determines and regulates the market prices for goods & services etc.

Chap-3 National Income Accounting

National Income → ≡ (Income of Nation (People))

National Income is the sum total of factor incomes earned by normal residents of a country in the form of rent, wages, interest and profit during an accounting year.

[NI = R + W + I + P
(factor Income for Accounting Year)]

Computed

Stock → As on a date (6/7/2020) — eg wealth

vs

Flow → for a period (1/4/2020 – 31/3/2021) — Income

Source
↳ (NSO, MoSPI)
↓
(National statistics office)

Normal Residents are the people with economic interest or source of factor income in a country irrespective of their citizenship. for eg. many citizens of India working abroad contribute to national income of respective country they reside in. Similarly people born outside India may have citizenship of the other country but if having economic interest in India will contribute to national income of India.

National income includes only factor incomes earned from different economic activities and the non-factor incomes relating to non-economic activities are ignored. for eg. grants, gifts, donations, charities, subsidies, scholarship, old age pensions. domestic and foreign transfers etc.

Since Income is added at the time of earning to the national income hence it is ignored when income is transferred to someone without work which may otherwise lead to double counting.

(B)

Methods of Computing National Income

1. Production / Output / Value Added Method.
2. Income Method
3. Expenditure Method

Production Method

Under this method gross domestic product (GDP) is computed as the market value of final goods & services produced by Normal residents in one financial year. According to world Bank GDP is the sum of Gross value Added by all resident producer in the country. plus production taxes minus any subsidies not added in the value of production.

Producers	Output	Value of (O - I) = VA
A	Wheat ₹ 100	100
B	flour ₹ 200	100
C	Bread ₹ 300	100
D	₹ 300 (Bread)	X

Ans

300 being final

Is GDP = 600 (100 + 200 + 300) Σ = 300 = GVA
or A + B + C
300 (C) = ?

World Bank.

The value addition of all producer or sellers is added up to find GVA (Gross Value Added). Under value added method both final product and intermediate products as well as services are included unlike the production method where in we consider only final goods & services. for eg:-

Producers	Input	output	Value of (O-I) = VA
A	0	₹100	100
B	100	200	100
C	200	300	100
D (Customer)	300	0	(X)
	GDP	= GVA	Σ = 300

World Bank

Market Price Vs Basic Price

Market price of Goods & Services is the final price payable by a customer inclusive of indirect taxes like GST.

Indirect taxes can be classified as

1→ Production Taxes which are payable irrespective of quantity or value.

2→ Product Taxes which are charged on the basis of units or quantity. eg. GST

Basic Price

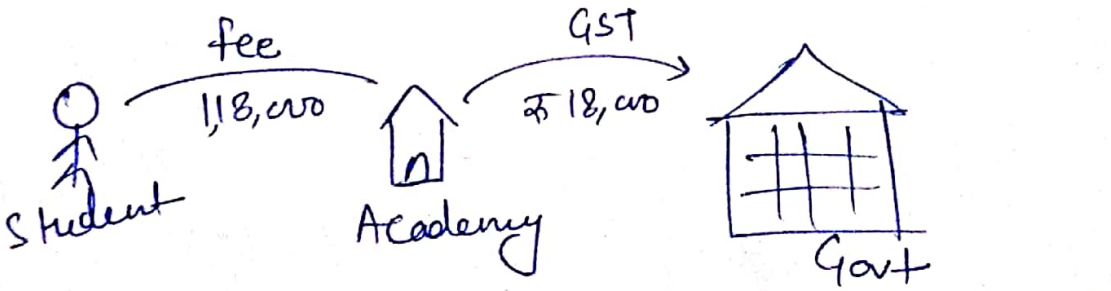
Basic Price is the net value of the product which goes to the seller after excluding the net product taxes. Mathematically it is equal to (market price − Net Product Taxes)

$$BP = MP - (\text{Net Product Taxes})$$

$$BP = MP - (\text{Product Taxes} - \text{Subsidies})$$

$$BP = MP - \text{Product Taxes} + \text{Subsidies}$$

(* Net = Difference)



MP = ₹ 1,18,000

BP = MP − (NPT)

= 1,18,000 − 18,000 = 1,00,000

* NPT = Net Product Taxes

	MP	Product Tax	Subsidy
A	1,00,000	1,0000	—
B	2,00,000	20,000	—
C	3,00,000	—	3000
Total	6,00,000	30,000	3000

$$BP = MP - (PT - S)$$
$$= 6,00,000 - (30,000 - 3000)$$
$$= 6,00,000 - (27,000)$$

$$\boxed{BP = 5,73,000}$$