Day-21

→ Value-added approach

2 kg

Farmer $\xrightarrow{₹x}$ Britannia $\xrightarrow{₹(x+y)}$ Student

z ↑ Inputs (seed, labour, fertilizer...)

wheat, water, machines, ...

₹$(x-z)$ is value added by farmer

₹y is value added by Britannia

So Final price = ₹$(z+x-z+y)$ = ₹$(x+y)$

If it was ₹$(2x+y)$ → double counting will occur.

→ GDP: Total market value of all final goods and services produced within a country in a given period of time.

- Eg: of when intermediate good is considered final good:

  If machine is bought and unused, it is a final good.

☆ GDP doesn't include: Poor healthcare, IMR*, illiteracy, black market, etc.

[* Infant mortality Rate]

Note: US, UK account for gambling in their GDP, but is illegal in India.

$$GDP = C + I + G + NX \quad \text{(Identity)}$$

- C → Consumption
- I → Investment
- G → Govt. purchases
- NX → Net exports = exports − imports

(Expenditure)

Note: Buying house → investment

Short run : 3–5 yrs
medium run : 5–7 yrs
Long run : >7 yrs
} macro

☆ Transfer payment is like you pay something without getting back anything. This is not counted in Govt. expenditure.

☆ Subsidy is like a freebie. Incentive can be linked to factors like production, etc.