UPSC PRELIMS 2018

सत्यमेव जयते

UPSC

NATIONAL INCOME

Books	No. of pages
1. Shankar Ganesh	10
2. Sanjeev Verma	5
3. Ramesh Singh	9
	Total 24 pgs

24 pgs reduced to 4 pgs

YOUR BUDDY FOR PRELIMS - LAWXPERTSMV INDIA

INDIAN ECONOMY - SANKAR GANESH / SANJIV VERMA / RAMESH SINGH

NATIONAL INCOME

1. How do we say a country that it is a largest economy in the world?

- It is based on the output produced by an economy,

2. What is an output?

- Out put implies aggregation of **monetary value** of all the **Goods and Services** produced in an economy in a **given time period**.

Here we need to tread with caution; Let's see an example :

I have produced wheat and transferred it for sale to you for 50 rs. And you, an owner of mill, have sold the flour produced from my wheat to Mr. X, who is an baker, for 100 rs. X produces bread from it. 20 bread packets were produced and sold at 200rs.

Now as we defined output as "**aggregation of monetary value of all the Goods and Services…**"

- Should we add 50rs + 100rs + 200 rs = 350 rs as output produced in an economy ?

No. Because this amounts to *double counting* we should only add the **FINAL** goods, NOT INTERMEDIATE GOODS.

- Out put implies aggregation of **monetary value** of all the "**FINAL**" **Goods and Services** produced in an economy in a **given time period**.

METHODS OF MEASURING NATIONAL INCOME :

1. Income method : if we the calculate the income of the factors of production.

2. Output / Product /Value added Method : If we calculate the output produced **from the** factors of production .

GDP : GROSS DOMESTIC PRODUCT

- Gross Domestic Product (GDP) is the value of the all *final* goods and services produced within the boundary of a nation during one year period.
- For India, this calendar year is from 1st April to 31st March.
- It is also calculated by adding national private consumption, gross investment, government spending and trade balance (exports-minus-imports)

USES OF GDP :

- It shows the "growth rate" of the economy ;
- It indicates the volume/size of the economy i.e, "quantitative" it doesn't speak about "qualitative aspect" of the economy.
- Used by the IMF/WB in the comparative analyses of its member nations

Gross Domestic Product: GVA at basic prices + (product taxes including import duties – product Subsidies)

(*GVA concept will be explained in the later pages*)

Answer this question!

The national income of a country for a given period is equal to the
(a) total value of goods and services produced by the nationals
(b) sum of total consumption and investment expenditure
(c) sum of personal income of all individuals
(d) money value of final goods and services produced

Answer : d. UPSC 2013 Question.

GDP V. NDP

Net Domestic Product (NDP) is the GDP calculated after adjusting the weight of the value of 'depreciation'. This is, basically, *net form* of the GDP, i.e., GDP minus the total value of the 'wear and tear' (depreciation) that happened in the assets while the goods and services were being produced.

NDP = GDP - Depreciation.

GROSS NATIONAL PRODUCT (GNP)

Gross National Product (GNP) is the GDP of a country added with its 'income from abroad'. Here, the trans-boundary economic activities of an economy is also taken into account : which are *Private Remittances, Interest on External Loans, External Grants*.

GNP = GDP + Income from Abroad.

NET NATIONAL PRODUCT (NNP)

Net National Product (NNP) of an economy is the GNP after deducting the loss due to 'depreciation'.

NNP = GNP – Depreciation ; GDP + Income from Abroad – Depreciation

NEW BASE YEAR AND METHOD OF NATIONAL INCOME

Central Statistics Office (CSO), in January 2015, released the **new** and **revised** data of National Accounts :

1. *Base Year* was revised from 2004–05 to 2011–12.
2. Methodology* of calculating the National Accounts has also been revised in line with the requirements of the *System of National Accounts (SNA)-2008

CONSEQUENCES OF SUCH CHANGES :

1. **Headline growth rate** will now be measured by *GDP at constant market prices*, which will henceforth be referred to as 'GDP' (as is the practice internationally). Earlier, growth was measured in terms of growth rate in *GDP at factor cost and at constant prices*
2. Sector-wise estimates of Gross Value Added (GVA) will now be given at **basic prices** instead of factor cost.

EXPLANATION :

'factor cost' is the 'input cost' the producer has to incur in the process of producing something.

'market cost' is derived after adding the indirect taxes to the factor cost of the product, it means the cost at which the goods reach the market

GVA at basic prices :

- ✓ GVA - Gross Value added.
- ✓ Basic prices – Producer's price or cost of production.
- ✓ Buyer 's Prices : Price which includes cost of production/ Producer's price + Product taxes – Product subsidies.

GVA at basic prices = Output- Intermediate consumption. (take the same wheat example)

OR

GVA at basic Prices = CE + OS + CFC + Production taxes – Production Subsidies.

Let us see, how do we arrive at the above-mentioned formula.

1. **Output is produced by whom ?** Factors of production. As per government, 11 industries are included. (Not relevant)	**1. What is CE?** CE – Compensation of employees (salary / renumeration to employees) **2. What is OS?** Operating Surplus –in case of incorporated company / MI – mixed income in case of unincorporated company – **is the profit.**
2. **What is an output?** Output includes the set of inputs material & services and value addition. Output = Input material & Services + Value Added.	**3. What is CFC –** Consumption of fixed capital / depreciation. Simply means, wear & tear of machines and buildings used for the purpose of making the product. **4. Production Taxes : Taxes paid in relation to production. Eg : Land Revenue for the building, Tax on profession etc..** **5. Production Subsidies : Subsidies are received in relation to production.** **Eg : Input subsidies to farmers…** **NOTE : Production subsidies given by the government has to be subtracted from the production taxes given to the government by the producer to arrive at real value produced by the producer.**